



2018 Annual Report



紅星美凱龍家居集團股份有限公司
Red Star Macalline Group Corporation Ltd.

(A SINO-FOREIGN JOINT STOCK COMPANY INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

STOCK CODE: 1528



Contents

Company Profile	2
Corporate Information	3
Financial and Operational Highlights	5
Chairman's Statement	7
Management Discussion and Analysis	11
Directors, Supervisors and Senior Management	55
Report of Directors	67
Report of Supervisors	100
Corporate Governance Report	104
Social Responsibility Report	124
Auditor's Report	127
Consolidated Balance Sheet	135
Consolidated Income Statement	138
Consolidated Statement of Changes in Equity	140
Consolidated Cash Flow Statement	142
Company's Balance Sheet	144
Company's Income Statement	146
Company's Statement of Changes in Equity	147
Company's Cash Flow Statement	149
Notes to the Consolidated Financial Statements	151
Supplementary Information	471
Five-Year Financial Summary	473
Definitions	474

Company Profile

The Company was founded in 2007, and its H shares were listed on the Main Board of the Hong Kong Stock Exchange in June 2015 (Stock Code: 1528) and its A shares were listed on the Shanghai Stock Exchange in January 2018 (Stock Code: 601828).

As a leading home improvement and furnishings shopping mall operator in China, the Group mainly engages in the business of offering comprehensive services to the merchants, consumers and partners of the home improvement and furnishings shopping malls under “Red Star Macalline” through the operation and management of both Portfolio Shopping Malls and Managed Shopping Malls. The Group is also involved in pan-home furnishings consumption, including internet home decoration, internet retail, as well as logistics and delivery services.

According to the statistics of Frost & Sullivan, the Group is a nationwide home improvement and furnishings shopping mall operator in China, which ranks first in terms of area of operational premises, the number of malls, and the geographic coverage. As at the end of the Reporting Period, we operated 308 shopping malls with a total operating area of 18,939,341 sq.m. in 199 cities in 29 provinces, municipalities and autonomous regions in China. The malls offer more than 24,000 brands in total. According to the statistics of 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 retail sales, owning the largest market share in China’s steadily growing home improvement and furnishings retail industry.

The Group has been committed to “building warm and harmonious homes and enhancing taste for consumption and home life”, and will continue to follow the operation and management mode of “market-oriented operation and shopping-mall-based management”. The Company will further strengthen its cooperation with home improvement and furnishings manufacturers and distributors, and persistently optimize the structure of brands operated by us in home improvement and furnishings shopping malls. We are able to provide consumers with better services and better understandings of the home culture philosophy.

In the future, the Group will continue to implement the two-pronged business model, with a focus on continuing development of our asset-light managed business model and strategically expanding our shopping mall network nationwide in order to further enhance our Group’s market share, and thereby persistently strengthening our market leadership in China’s home improvement and furnishings industry. Meanwhile, we will gradually expand the application of the Internet pan-home improvement and furnishings consumption business based on our online and offline shopping malls network and strengthen the “Red Star Macalline” brand as the expert of home living in the minds of consumers with integrated online and offline operations. As such, the Company aims at becoming China’s most professional and advanced “omni-channel platform provider in home improvement and furnishings industry”.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. CHE Jianxing (*Chairman*)
Mr. GUO Binghe (*Vice Chairman*)
Ms. CHE Jianfang
Mr. JIANG Xiaozhong

Non-executive Directors

Ms. CHEN Shuhong
Mr. XU Guofeng
Mr. Joseph Raymond GAGNON
Mr. ZHANG Qiqi

Independent Non-executive Directors

Mr. QIAN Shizheng
Mr. LEE Kwan Hung
Mr. WANG Xiao
Ms. ZHAO Chongyi

SUPERVISORS

Mr. PAN Ning (*Chairman*)
Ms. NG Ellen Hoi Ying
Ms. CHAO Yanping
Mr. ZHENG Hongtao
Mr. CHEN Gang

AUDIT COMMITTEE

Mr. QIAN Shizheng (*Chairman*)
Mr. LEE Kwan Hung
Mr. WANG Xiao

REMUNERATION AND EVALUATION COMMITTEE

Mr. QIAN Shizheng (*Chairman*)
Mr. CHE Jianxing
Mr. WANG Xiao

NOMINATION COMMITTEE

Mr. LEE Kwan Hung (*Chairman*)
Mr. CHE Jianxing
Ms. ZHAO Chongyi

STRATEGY AND INVESTMENT COMMITTEE

Mr. CHE Jianxing (*Chairman*)
Mr. GUO Binghe
Mr. JIANG Xiaozhong
Mr. ZHANG Qiqi
Ms. ZHAO Chongyi

COMPANY SECRETARY

Mr. GUO Binghe

ASSISTANT COMPANY SECRETARY

Ms. LEUNG Suet Lun

AUTHORIZED REPRESENTATIVES

Mr. CHE Jianxing
Mr. GUO Binghe

REGISTERED OFFICE

Suite F801, 6/F
No. 518, Linyu Road
Pudong New District
Shanghai, the PRC

HEADQUARTERS IN THE PRC

9/F Red Star World Trade Building
No. 598, Nujiang Road North
Putuo District
Shanghai, the PRC

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, Tower 2
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Room 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

LEGAL ADVISORS

As to Hong Kong and United States law

Davis Polk & Wardwell
Hong Kong Solicitors
18/F, The Hong Kong Club Building
3A Chater Road
Hong Kong

As to the PRC law

Llinks Law Offices
19/F One Lujiazui
68 Yin Cheng Road Middle
Shanghai 200120
The PRC

AUDITOR

Ernst & Young Hua Ming LLP
Level 16, Ernst & Young Tower
Oriental Plaza, No.1 East Changan Ave.
Dongcheng District
Beijing, the PRC

PRINCIPAL BANKS

Industrial and Commercial Bank of China

Shanghai Branch Banking Department
No. 24 Zhongshan Dongyi Road
Shanghai, the PRC

China Minsheng Bank Co., Ltd.

Shanghai Xuhui Branch
No. 1033 Zhaojiabang Road, Xujiahui
Shanghai the PRC

Bank of Communications

Shanghai West Branch
No. 350 Jiangning Road
Shanghai, the PRC

STOCK CODES

Hong Kong Stock Exchange: 1528
Shanghai Stock Exchange: 601828

COMPANY'S WEBSITE

www.chinaredstar.com

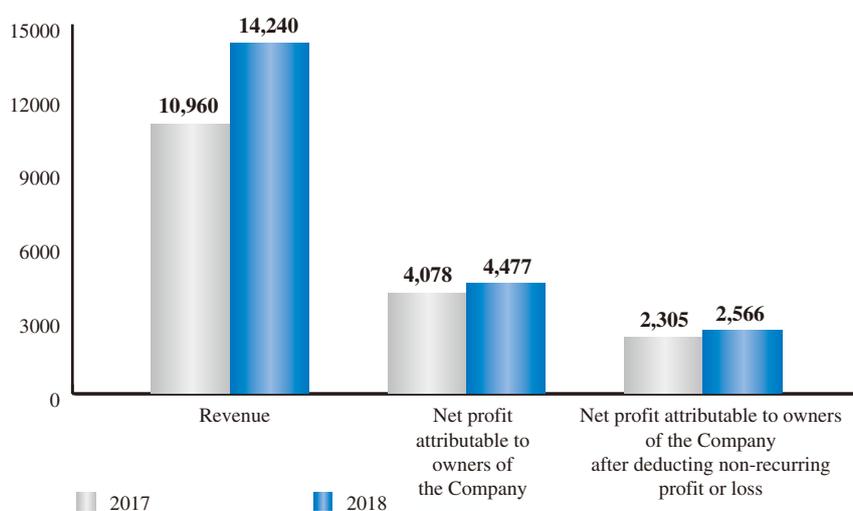
Financial and Operational Highlights

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2018	2017
	(Audited)	(Audited)
	(RMB'000, except otherwise stated)	
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 (basic)	RMB1.20	RMB1.13
Dividend per share (tax inclusive)	RMB0.27	RMB0.32

Key Financial Performance Indicators

RMB million



Financial and Operational Highlights

OPERATIONAL HIGHLIGHTS

	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 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%

Chairman's Statement



Dear Shareholders,

On behalf of the Board, I am pleased to present the annual result report of the Company and its subsidiaries for the year ended 31 December 2018 to all shareholders:

In 2018, the Group's operating revenue amounted to RMB14,240 million; net profit attributable to owners of the Company amounted to RMB4,477 million; and net profit attributable to owners of the Company after deducting non-recurring profit and loss amounted to RMB2,566 million. We are willing to share our development outcomes with shareholders while enjoying satisfactory financial results. It was pleased to announce at the 2018 Board meeting that the 2018 cash dividend per share was RMB0.27 (tax inclusive).

In recent years, with the continuous increase of China's national income, and people's higher requirements in the quality of life, the home improvement and furnishings industry has entered a material strategic period of steady and healthy development. We should capitalize on the development opportunities arising from the home improvement and furnishings industry, be committed to "building warm and harmonious homes and enhancing taste for consumption and home life", follow the operation and management mode of "market-oriented and shopping-mall-based management", continue to provide consumers with better and professional service, and strengthen the "Red Star Macalline" brand as the expert of home living in the minds of consumers, and, meanwhile, grow into a benchmark new retailer in the home improvement and furnishings industry to lead the industry in its evolution.

CAPITALIZING ON THE DEVELOPMENT OPPORTUNITIES ARISING FROM THE HOME IMPROVEMENT AND FURNISHINGS INDUSTRY

Home furnishing is closely related to people's daily life and standard of living. Along with the growth in disposable income, people's enhanced standard of living and higher requirement in the quality of life, the home furnishing market in China has experienced a steady and healthy development in the past five years. The economy steadily moved forward in general, making progress while maintaining stability, the quality and efficiency of economic growth continued to improve, and people's living standards continued to improve, hence, the healthy and sustainable development of the economy and the stability of society were ensured. The continuous promotion of the urbanization process and the increase of residents' income levels provide favorable conditions for the continuing development of the social consumer goods market; meanwhile, the second interior decoration, partial renewal, the constant consumption upgrade for home appliances and the pursuit of good home furnishings of citizens in Tier III and Tier IV Cities also bring room for continuous development for the industry.

Chairman's Statement

According to the independent authoritative market research institutions, in 2018, the total retail sales of home improvement and the furnishings industry reached a high level of nearly RMB5.0 trillion and the home furniture retail market in the PRC recorded rapid growth of CAGR of 10.5% from 2013 to 2018; however, when it comes to per capita consumption, there is still an obvious gap between China and developed countries, such as the United States and the United Kingdom. Along with the continued steady growth in China's macro economy and people's constantly enhanced taste and requirement in living, the industry will grow steadily in the coming five years.

CONSOLIDATING OUR LEADING POSITION IN THE HOME IMPROVEMENT AND FURNISHINGS INDUSTRY

According to the independent authoritative market research institutions, we are a nationwide home improvement and furnishings shopping mall operator in China which ranks first in terms of area of operational premises, the number of malls, the geographic coverage, and with the biggest relevant market share in China's rapidly growing home improvement and furnishings retail industry. As of the end of the Reporting Period, we have operated 80 Portfolio Shopping Malls and 228 Managed Shopping Malls in mainland China; in addition, the Company is authorized to open 22 franchise home improvement material projects⁽¹⁾, including 359 home improvement material stores/industry streets⁽²⁾ in total. The total operating area of our shopping malls amounted to approximately 18,940 thousand sq.m. However, compared with the home furnishing markets in the United States and other developed countries, the market concentration of the home furnishings industry in mainland China is significantly lower. As one of the most influential home furnishings enterprises in mainland China, we not only have absolute market superiority, but also have great room for growth and integration potential.

Notes:

- (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.
- (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 product categories sold.

BUILDING A BENCHMARK NEW RETAILER IN THE HOME IMPROVEMENT AND FURNISHINGS INDUSTRY, CONSTRUCTING A NEW LANDSCAPE OF RETAILS

In order to build the Group into a benchmark new retailer in the home improvement and furnishings industry, we will continue to expand our business scale through continuous applying the two-pronged development model of Portfolio Shopping Malls and Managed Shopping Malls, take advantage of the existing network layout and the influence of brand, and proactively explore various scalable businesses. At the same time, we integrate the use of the Internet, big data and other high-tech technologies, and develop a comprehensive pan-home service system to provide consumers with one-stop service and to explore the platform value of the Company.

In 2018, Red Star Macalline and Tencent have established a comprehensive strategic partnership with “smart retail” as the shared concept, to cooperate in the fields of creating digital and differentiated consumer experiences, building a “digital” operating system, and establishing a digital ecosystem in the home furnishings industry, building an IMP (Intelligent Marketing Platform) global home furnishings intelligent marketing platform and exploring the value chain reshaping of the home furnishings retail industry, so as to realize a leap-forward upgrade in respect of marketing of overall roles, scenarios, channels, chains and overall consumption life cycle of users in home living industry and truly let customers the ability make their own choices.

In order to enhance the self-traffic-driving capability of the integrated online and offline platform including Internet platforms and physical shopping malls, and to meet the personalized needs of high-end customers, we have expanded our business to front-end design and end-user sales based on the existing Internet retail and Internet home improvement business, and with the strategic goal of “one-stop service for high-end home improvement” in practice, providing consumers with one-stop solutions for design, home improvement, goods and services.

During the Reporting Period, we launched a series of innovative businesses such as the M+ top design competition, trade shows and the “Star Design” platform with design as the focus, and created marketing IPs in home improvement and design field, increased the connection between designers and Red Star Macalline home furnishings business platform and established a design service portal. At the same time, we introduced the scenarios of user design negotiation to the physical shopping malls, providing a common platform for contracted designers to import accurate traffic for the malls. In addition, driven by high-end services, we created the “Future Fit” (「未來適」), the new retail model store of Red Star Macalline, to establish a new home furnishings retail model with scenarios as the core, by utilizing the “design + technology” mode, with face recognition, customer traffic monitoring, interactive roaming desktop and other technical applications, as well as high-end design service capabilities.

Meanwhile, the Company has brought in excellent global brands with trade shows, and reserves tenant sourcing and business integration resources. The trade shows have connected excellent distributor resources nationwide to achieve accurate business matching, and have accumulated a lot of new resources for the Group's tenant sourcing management and business integration.

As one of the most influential home furnishings enterprises in mainland China, we have always been committed, with a view to truly understand and serve the demands from consumers, to providing consumers with a reliable circulation platform which may integrate sufficient home improvement and furnishings industry brands, providing professional shopping guide service and in-depth experience service, assuring the quality and eco-friendly attributes of products circulated on the platform, and offering reliable distribution, installation and after-sale services. Meanwhile, we gradually expanded the application of the internet-related products and services in home improvement and furnishings business on the basis of our physical shopping malls network, including one-stop high-end home decoration service, imported and designing product service, construction and design service provided to cooperative parties and other services, so as to address diversified demands of consumers in an integrated and close-loop manner and enhance the integrated O2O experience of consumers. All these measures are adopted to make our omni-channel circulation platform the most valuable one in the home improvement and furnishings industry. We will continue to promote cross-boundary integration, online and offline integration, as well as synergy in various scope, unification of domestic and foreign trading through new retail, and construct a new landscape of retails through integration and synergy.

Chairman's Statement

SEIZING THE OPPORTUNITIES AND PROMOTING FORWARD-LOOKING DEVELOPMENT TO LEAD THE INDUSTRY IN ITS EVOLVEMENT

Nowadays, the world has entered into a digital era, and the level of digitalization determines the long-term competitiveness of an enterprise or institution, the home improvement and furnishings industry is of no exception. We are implementing a digitalized strategy, aiming to realize accurate matching between upstream and downstream industries, enhance the Group's long-term competitiveness and embrace new development opportunities by virtue of internet, big data, cloud computing and other information technologies to continuously push forward targeted marketing, smart shopping mall construction, informatized construction and by further upgrading and reconstruction of optimization of management flow, transformation of financial functions, system research and development, information application and other aspects.

In 2019, we will continue promoting brand upgrading, creating a social media matrix, realizing branding rejuvenation, building and strengthening the brand image of "Home Service Expert and Platform" through in-depth promotion and operation. Meanwhile, under the enabling of an IMP global home intelligent marketing platform, we will have full access in the era of digitalization operation for users, which can benefit shopping malls, tenants, manufacturers and cross-industries to establish industrial word of mouth, and create commercial value.

Household intelligentization is another significant development trend of the home improvement and furnishings industry. In the previous year, we have actively carried out strategic layout in the smart household field. At the same time, we have attempted asset securitization in respect of properties of Portfolio Shopping Malls and deeply integrated upstream and downstream resources via investments in an effort to expand the business scale, reinforce the strength of the Group, and to lead the industry in its evolution.

Facing the reforms happening in the market, the management of the Company led us to bravely conduct reforms and innovations, which proactively advanced development of the Company. With the joint diligent efforts of all Red Star Macalline staff, we managed to achieve excellent results in our operation. I would like to take this opportunity to express my sincere gratitude, on behalf of the Board, to all our staff for their hard work and all our shareholders and stakeholders for giving us trust and confidence. In the coming year, we will always aim to develop to meet the increasing demand from customers for happy lives and we will consistently adhere to the "spirit of craftsman" and effectively implement various operating strategies to improve ourselves, as well as promote our national living quality and spread the culture of furnishings through diligence and care in the home improvement and furnishings industry, and to gain more returns to our shareholders.

CHE Jianxing

Chairman

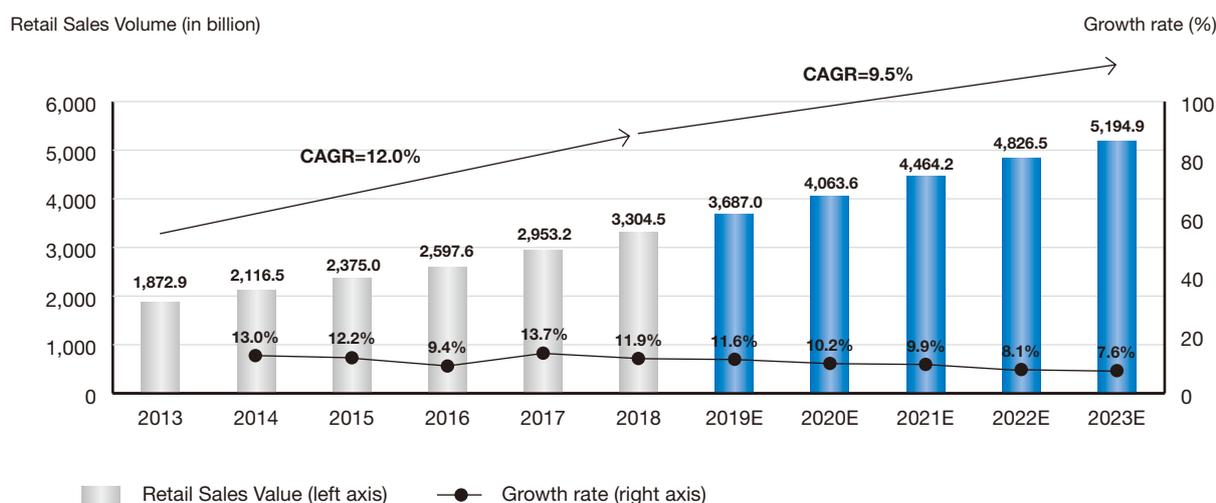
27 March 2019

Management Discussion and Analysis

INDUSTRY REVIEW

In 2018, as Chinese residents, what we faced was a graver and more complicated international environment and arduous and onerous reform, development and stability tasks. The country continued to pursue supply-side structural reform as its main task; strove to deepen reforms and expand opening-up; and firmly continued to conduct the three critical battles to forestall and defuse major risks, intensify targeted poverty alleviation efforts and to address pollution. In order to effectively respond to and handle the profound changes in the exterior environment, the country worked holistically to maintain stable growth, advance reform, make structural adjustments, improve living standards, and guard against risks, and it also worked to ensure stable employment, a stable financial sector, stable foreign trade, stable foreign investment, stable investment and stable expectation on works, it also maintained overall economic stability with steady progress, further improved quality and efficiency, constantly improved living standards, and developed a sustainable and healthy economy and maintained social stability, made major progress towards the aim of building a moderately prosperous society in all respects.

According to the statistics from the National Bureau of Statistics of the People's Republic of China, in 2018, the GDP of China grew by 6.6% compared to the comparable price in the same time last year, while the national disposable income per capita increased by 8.7% on a year-on-year basis, with an actual growth rate of 6.5% after deducting price factors. During the same period, the accumulative value of retail sales of social consumer goods increased by 9.0%, while the accumulative value of retail sales of the furniture category and construction and decoration material categories increased by 9.0%, comparing with the same time last year. According to the statistics of Frost & Sullivan, in 2018, the retail sales of the home improvement and furnishings retail market in China increased to RMB3,304.5 billion, grew by 11.9% compared with the same time last year. The CAGR in the coming five years is expected to be 9.5%, and the growth in the industry will be higher than that of China's macro economy.



Source: Frost & Sullivan

According to the statistics of Frost & Sullivan, in 2018, the Group had a 15.2% market share in the chain home improvement and furnishings shopping mall sector and a 6.0% market share in the whole home improvement and furnishings mall sector (including chain and non-chain), owning the largest relevant market share in China's home improvement and furnishings retail industry.

Management Discussion and Analysis

INDUSTRY REVIEW (CONTINUED)

The economy steadily moved forward in general, making progress while maintaining stability, the quality and efficiency of economic growth continued to improve, and people's living standards continued to improve, hence, the healthy and sustainable development of the economy and the stability of society were ensured. The continuous promotion of the urbanization process and the increase of citizens' income levels provide favorable conditions for the continuing development of the social consumer goods market; meanwhile, the domestic demand for home improvement and furnishings increased; the second interior decoration and the consumption upgrade for home appliances also bring room for continuous development in the industry.

BUSINESS REVIEW

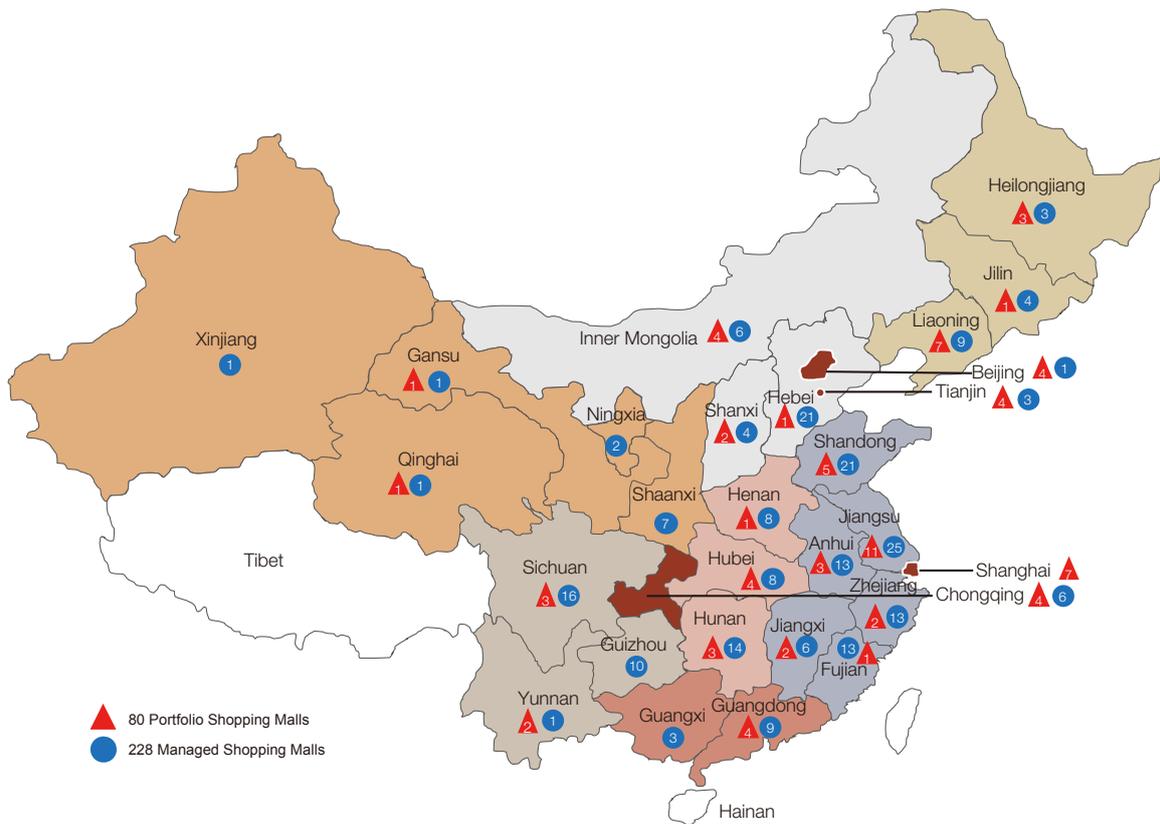
1. Business Development and Presence: Stable Development of Shopping Malls and Strategic Presence with a Nationwide Coverage

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 by way of franchising, including a total of 359 home improvement material stores/industry streets. 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, and at the same time accumulated extensive experience in operating shopping malls, constantly strengthened the brand value, and set a relatively high barrier to entry for other companies.

BUSINESS REVIEW (CONTINUED)

1. Business Development and Presence: Stable Development of Shopping Malls and Strategic Presence with a Nationwide Coverage (Continued)

The following map sets forth the geographical distribution of our shopping malls as of the end of the Reporting Period:



Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

1. Business Development and Presence: Stable Development of Shopping Malls and Strategic Presence with a Nationwide Coverage (Continued)

The following table sets forth the number and operating area of our Portfolio Shopping Malls and Managed Shopping Malls in operation by region as at the end of Reporting Period:

Color	Region ⁽¹⁾ ((Municipality/ Administrative Region)	Portfolio Shopping Malls		Managed Shopping Malls	
		No. of shopping malls	Sub-total of Operating Area (m ²)	No. of shopping malls	Sub-total of Operating Area (m ²)
	Beijing	4	324,545	1	89,710
	Shanghai	7	727,992	—	—
	Tianjin	4	427,238	3	170,228
	Chongqing	4	331,461	6	183,599
	Northeast China	11	1,037,004	16	734,107
	North China (excluding Beijing, Tianjin)	7	411,965	31	1,733,203
	East China (excluding Shanghai)	24	2,051,110	91	5,222,532
	Central China	8	808,833	30	1,433,364
	South China	4	246,817	11	554,016
	Western China	7	552,029	39	1,899,589
	Total	80	6,918,993	228	12,020,347

Note:

- (1) The information disclosed above is obtained according to the following statistic standards. The provinces, municipalities and autonomous regions of the PRC are divided into seven large regions and four municipalities (excluding Hong Kong, Macau and Taiwan regions), among which, Northeast China includes Heilongjiang Province, Jilin Province, Liaoning Province; North China (excluding Beijing and Tianjin) includes Shanxi Province, Hebei Province, Inner Mongolia Autonomous Region; East China (excluding Shanghai) includes Shandong Province, Jiangsu Province, Zhejiang Province, Anhui Province, Jiangxi Province, Fujian Province; Central China includes Hunan Province, Hubei Province, Henan Province; South China includes Hainan Province, Guangdong Province, Guangxi Zhuang Autonomous Region; Northwest China includes Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region, Xinjiang Uygur Autonomous Region, Yunnan Province, Sichuan Province, Guizhou Province, Tibet Autonomous Region; 4 municipalities are Beijing, Shanghai, Tianjin and Chongqing, respectively.

BUSINESS REVIEW (CONTINUED)

1. Business Development and Presence: Stable Development of Shopping Malls and Strategic Presence with a Nationwide Coverage (Continued)

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%⁽¹⁾. 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⁽²⁾ during the Reporting Period was 8.1%. Such growth was due to the aggregated factors of the increase in effective unit income from operation and the operating area of mature shopping malls during the Reporting Period.

During the Reporting Period, we opened six new Portfolio Shopping Malls. In addition, three 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 and 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 four Managed Shopping Malls. In addition, three 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:

- (1) The statistics of the occupancy rate of Hefei Yuxi Road shopping mall has not been taken into account, due to the suspension of tenant sourcing as a result of the adjustment to categories of tenants.
- (2) "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 associates and joint ventures) that were in operation for at least three financial years and were still in operation as at the end of the Reporting Period.

BUSINESS REVIEW (CONTINUED)

2. Business Management: Continuous Improvement of Shopping Mall Operation and Management

2.1 Tenant sourcing management

Cater to the consumption trend in the market, continuously optimize the layout of the brands and categories of merchandize in shopping malls and lead the home furnishings consumption trend

Based on our understanding of the home furnishings consumption trend, the research of all types of popular products and the analysis of the consumption trend in the home furnishings market of various cities, we continuously optimized the combination of brand and category of merchandize in shopping malls to cater to changing consumers' preference, market situation and competition landscape. We continuously endeavored to introduce flagship stores of major brands that meet consumers' demand and optimize the layout of shopping malls; meanwhile, we also continued to increase customized categories' coverage in line with the changing furnishing and decoration market, constantly explored and promoted the introduction of designed products, carried out image upgrading and scenario creation at special display zones of household products for children, increased the introduction of intelligent home categories and gradually created the intelligent home experience zone.

In addition, we continued to maintain diversified businesses to enrich category portfolio by combining the surrounding environment of the location of the shopping mall, property structure and characteristics of consumption needs; we continued to incorporate experiential categories such as soft decoration and catering; meanwhile, we established the "Home Decoration Experience Center" in 33 shopping malls all over the country so as to meet consumers' increasing demand of home decoration design, which provided design consultation service for consumers and enhanced consumer stickiness. At the same time, we have set up home life experience halls in 84 shopping malls in Tier I and Tier II Cities and further increased the consumption frequency of customers with access to the shopping malls by increasing the area of repurchased household items. As of the end of the Reporting Period, the operation area of new business initiatives including soft decoration, home decoration design and catering have increased by 25.1% compared with the corresponding period in 2017.

Constantly improve the standards of our refined rental management to achieve the sustainable growth of rental income

Based on the continuously updating and optimizing of rent pricing analysis mode on existing shopping malls, the Group put forward the management idea of "narrow the price gap between storeys" to boost the optimization of categories through the accurate connection between the Group and the marketing and development centers in respective provinces, By virtue of methodically carrying out booth classification and visual analysis of pricing, we guide the daily pricing and adjustment of the renewal price of shopping malls, and push forward an evident decline in the situations where the quality and the price of the display booth are negatively related.

BUSINESS REVIEW (CONTINUED)

2. Business Management: Continuous Improvement of Shopping Mall Operation and Management (Continued)

2.1 Tenant sourcing management (continued)

Constantly improve the standards of our refined rental management to achieve the sustainable growth of rental income (continued)

During the course of the renewal of contracts of nationwide shopping malls, with adjustments on the policies in respect of leasable areas, we realized an increase of over 1.67 million sq.m. in leasable areas, which in turn enabled us to constantly explore the growth possibilities of rental income. By constantly promoting area re-measurement, increases in the leasable areas of 22 shopping malls were realized. We also achieved breakthroughs in the construction of big-data system for rental management, making it more transparent and standardized. The system has also procured best-sell brands in the shopping malls to contribute rentals at a high level so as to lay a foundation for rental deduction. As a result of the above management measures, the occupancy rate of opened malls, leasable areas and rental income increased as a whole.

Constantly strengthen the management of brand resources and dealer resources to promote an accurate connection

In 2018, we constantly stepped up our efforts in the introduction of high-quality and leading categories and brands, during which the operating areas of imported brands, designing brands, smart home furnishings brands, soft home interior furnishings brands and home decoration design centers increased by 50%, 95%, 32%, 28% and more than 44%, respectively.

In the management work of categories of goods and brand resources, we optimized our organizational structure. By the establishment of business sectors for each of strategic categories, we constantly deepened the exploitation of our high-quality brands, expanded and optimized the data base for brand resources. In-depth research was conducted on consumption trend, market share, competitive situations, top brands, etc., of different categories and the results of the research were combined to provide value-added services to the brands and simultaneously promote the optimization and re-adjustment of the working priorities. For the core categories of goods, we provided preferential support thereto by taking measures including building of theme malls, giving suggestions on product innovation and expanding business channels. In the meantime, a data base for key dealers was established to provide support of dealer resources from high-quality dealers to the factories of core brands by means including trade shows and accurate business matching.

For the high-quality dealers, we offered a service system with more dimensions, including support for regular operations, training enhancement and information notice, to effectively cultivate and strengthen the loyalty of dealers and lay a foundation for the expansion of future businesses.

BUSINESS REVIEW (CONTINUED)

2. Business Management: Continuous Improvement of Shopping Mall Operation and Management (Continued)

2.1 Tenant sourcing management (continued)

Cater to the trend of consumption upgrading, step up our efforts in introducing global brand and continue to build the international pavilions

During the Reporting Period, following the trend of consumption upgrading, we stepped up our efforts in the introduction of global brands. In addition to the international pavilions established in Tier I and Tier II Key Cities, we also penetrated potential markets such as Changsha, Qingdao, Jinan and Zhengzhou to promote the introduction of global brands. Meanwhile, we constantly expanded the data base of dealers through extensive promotion of B2B product connection conference in domestic and overseas markets, conducted precise analysis and selection, and cultivated professional teams of dealers to help the Company capture the high-end consumption market. As at the end of the Reporting Period, the global brands we owned amounted to 4,200.

Gather global excellent brands, reserve business attraction and integrate business resources through holding exhibitions

In September 2018, we established strategic cooperation with China Foreign Trade Guangzhou Exhibition General Corporation, and jointly held the 42nd China International Furniture Fair (Shanghai), with a total exhibition area of 400,000 sq.m. 1,314 domestic and overseas brands joined the exhibition where 146,419 professional visitors attended, representing an increase of 37.06% compared with last year. Nationwide excellent dealer resources were connected during the exhibition, and specific business matching was realized; furthermore, we reserved plentiful new resources for the Group to attract investment and integrate business.

BUSINESS REVIEW (CONTINUED)

2. Business Management: Continuous Improvement of Shopping Mall Operation and Management (Continued)

2.2 Operational management

We comprehensively launched the “Word of Mouth Advertising” project, by setting high standards and strict requirements on shopping mall operation in respect of price, quality and service, etc.

In terms of pricing, we continued to devote ourselves to guiding factories and distributors to make reasonable pricing. Based on the Management Regulations for Price-clearly-marked Exhibition Room of Red Star Macalline (《紅星美凱龍明碼實價展廳管理規定》) developed jointly with the National Development and Reform Commission, we exerted active efforts in rolling out such regulations in our shopping malls nationwide, and interacted actively with local pricing bureaus in respect of price management.

In terms of quality, we worked with the China Quality Certification Centre and launched the “Official Enquiry Access to Chinese Home Furniture” in December 2015, and established a sound household products environmental protection traceability system. As at the end of the Reporting Period, we completed the system application training with approximately 1,000 major brands, with over 73 million units of products labeled accordingly. In addition, during the Reporting Period, we continued to run random tests on the commodities sourced from factories and evaluated their product quality control systems, and released the “2018 List of Green and Environmental Protection Home Furnishings Leading Brands”. On 7 June 2018, “Red Star Macalline Home Furnishing Shopping Mall Retail Service” was granted the certification of the first batch of “Shanghai Brand” by 24 committees led by Shanghai Municipal People’s Government, including Shanghai Municipal Bureau of Quality and Technical Supervision, Shanghai Municipal Commission of Economy and Informatization, Shanghai Municipal Development and Reform Commission, Shanghai Municipal Commission of Commerce together with 15 international and domestic well-known certification institutions such as French Bureau Veritas and China Quality Certification Centre. On 23 December 2018, the annual quality ceremony of “Beacon of Quality” in 2018 was held in Beijing. TANG Jun, Party member and Deputy Director of State Administration for Market Regulation attended the events and delivered a speech, and HAN Yi, Chief Engineer of State Administration for Market Regulation addressed the audience. ZHANG Xian, vice president and general manager of Operation and Management Promotion Centre of Red Star Macalline Group Corporation Ltd. was honored as the Spokesman of Quality of the Year.

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

2. Business Management: Continuous Improvement of Shopping Mall Operation and Management (Continued)

2.2 Operational management (continued)

In terms of services, we continued to improve the services in our shopping malls in multiple dimensions. During the Reporting Period, we launched a management on-site visit activity with 251 shopping malls nationwide and visited approximately 17,000 households and collected 13,731 effective feedback suggestions, established and implemented rectification and improvement measures, and achieved remarkable results in brand adjustment and upgrading, adding rest zones and engaging all staff acting as shopping guides. Meanwhile, we cooperated with over 5,000 brand merchants to offer home furnishings maintenance and repair services such as free maintenance and paid repair in the shopping malls all over the country. While providing consumers with home maintenance services, we also strengthened the interaction with consumers and promotion of home furnishing brands, which resulted in the improvement of consumers' satisfaction and sale conversion rate, enabling our shopping malls to better meet consumers' demands. As at the end of the Reporting Period, our 204 shopping malls nationwide had carried out this activity. Moreover, we launched "Miracle Shopping Mall" activity nationwide, selected 36 shopping malls with excellent performance, and produced experiences sharing videos of those Miracle Shopping Malls, which got a favorable evaluation from nationwide merchants. As a result, the sale conversion rate and satisfaction were further enhanced.

In terms of the credit system, we continued to optimize our tenant credit classification and evaluation system, and evaluate our tenants from six perspectives, namely quality, price, delivery, service, customer preference and performance of contract. During the Reporting Period, we comprehensively upgraded our tenant credit classification and evaluation system, and further examined the credit system in 35 trial shopping malls nationwide of credit classification according to the actual situation. Furthermore, our credit indicator query and application platform project, being the sole home furnishing brand, were supported by the Shanghai City Special Fund. We completed the evaluation for the phase I financial performance project in June 2018. After the completion of the overall evaluation, the full text will be published on the official website of the Shanghai Municipal Development and Reform Commission. In May 2018, at the invitation of the Tianjin Commission of Commerce, we attended the special training event on corporate integrity construction of "Integrity and Business Success" and shared the experience of the tenants' integrity management system construction with the participating representatives of corporations. In June 2018, our Company was elected as a member of Shanghai Municipal Commercial Credit Standardization Technology Committee. On 28 June 2018, our Company became one of the first batch of corporations signing and joining the anti-"credit manipulation" alliance of Shanghai.

BUSINESS REVIEW (CONTINUED)

2. Business Management: Continuous Improvement of Shopping Mall Operation and Management (Continued)

2.2 Operational management (continued)

In addition, we continued to implement the “Green Experience Center” program designed to provide consumers with systematic home decoration guidance, so that consumers will have an intuitive understanding about the decoration procedures, how to identify the merits and demerits of goods correctly and decoration inspection tips, so as to convey the green consumption concept to consumers, and thus promote the sales of green home furnishing brands. As of the end of the Reporting Period, the program has been adopted by 38 shopping malls nationwide.

As of the end of the Reporting Period, our “Word of Mouth Advertising” project had been successfully promoted in 277 shopping malls nationwide.

Improve operational management efficiency of shopping malls by means of digital space management

We consolidated the information of space and operation of shopping malls and converted complicated data into user-friendly charts by using digital space management, and we systematically managed the KPI indicators of our malls including occupation of exhibition space, rental rates, occupancy rates and collection rates of the shopping malls with our visualized space management platform, which improved the overall operation management efficiency of our malls.

Continuingly launch “Leading Green” campaigns to promote consumers’ green home life quality

In terms of environmental protection, we continued to promote the campaigns of “Leading Green” brand appraisal and initiated an omni-directional quality management system for pre-sales, sales and after-sales, to ensure the standard of healthy living of each consumer. Meanwhile, we continued to follow the principle of “inspection at the place of origin and tracking in the whole process” improve scientism and professionalism of the “Leading Green” Certification, and to optimize and set appraisal standards that better reflect and lead the industry development. During the Reporting Period, we continued to optimize and upgrade our green environmental management system, enhance the access threshold and leading threshold, establish a leading green big data, issue the first “Green Environmental Competitiveness White Paper” in the home furnishings industry and to promote green upgrading of the industry. As of the end of the Reporting Period, 700 well-known home furnishings brands were certified as 2018 Home Furnishings Leading Green Environment Brand.

BUSINESS REVIEW (CONTINUED)

2. Business Management: Continuous Improvement of Shopping Mall Operation and Management (Continued)

2.3 Marketing Management

I. Brand management

With continuous concern on expanding the brand positioning of Selecting Global Top-Notch Design Products, we are devoted to building high-end brand image.

In 2018, the Company adhered to the spirit of innovation with ingenuity, quality and taste, and comprehensively enhanced brand image in respect of brand events, graphic vision and space beautification.

We created the first online publishing of top-notch design products in the home furnishing industry, continuously expanded the influence of the Luban Top-Notch Design Products Festival as the big IP in terms of intellectual property in the home furnishing industry through multiple vertical channels of promotion, which achieved deep interaction with customers.

We successfully held the M+ China Top Interior Design Award, covering over 150 cities and more than 1 million designers, which made Red Star Macalline a link between designers and customers. We carried out the public welfare plan “Yulin Caves No.44 Cave of Dunhuang Caves” with Dunhuang, the World Cultural Heritage to transmit history with design and deeply spread the brand concept of “Design is Technology”.

We established a whole set of brand system of “Visual Hammer” with the capital letter “M” from the Company’s LOGO as the core element, forming a unique brand symbol and aesthetic recognition, which further strengthened the industry leading brand image and the Company’s image as the home furnishings expert.

Focusing on the mission of “Improving Home Furnishings Taste of Chinese” and comprehensively improving the dimensional display of furniture malls, we incorporated top-notch design products into malls to improve terminal visuals through furniture arts, as well as upgraded the overall image of malls around the country to provide consumers with unique shopping experiences in home furnishing malls.

II. Marketing management

We built the first integrated digital marketing system in the furniture industry, achieving a digital and commercial upgrade of marketing through IMP (Intelligent Marketing Platform) the global furniture intelligent marketing platform. We created a new marketing model of a group of top-notch products and a new field of on-line marketing in applet, built the first universal social marketing platform in the industry, a flow performance evaluation system that targeted individuals and a flow operating system with omni-channel and full consumption cycle.

BUSINESS REVIEW (CONTINUED)

2. Business Management: Continuous Improvement of Shopping Mall Operation and Management (Continued)

2.3 Marketing Management (continued)

II. Marketing management (continued)

Based on the deep thinking of the attributes of the home furnishing industry, the characteristics of home decoration consumers, our business models, and the development of contemporary new technologies, since February 2015, we have launched a digital marketing upgrade; in February 2016, we launched the novel marketing method of O2O (Online to Offline) “One Code, One Coupon”, and started the Digital Marketing Era 1.0 by getting through the closed loop of online and offline marketing; in 2017, we launched “Flow Lego” and launched Digital Marketing Era 2.0, realizing digital marketing upgrades with all employees, whole course and whole scenario.

In October 2018, we established a strategic cooperation with Tencent and launched the IMP (Intelligent Marketing Platform) for Global Home Furnishing, realizing the marketing upgrading in leaps and bounds characterising the whole feature, whole scenario, whole channel, whole link, and user’s whole consumer lifecycle in the home furnishing industry.

By the end of 2018, the IMP (Intelligent Marketing Platform) for Global Home Furnishing had launched 106 projects and more than 400 functions, completing the complete digital marketing system of marketing modules such as media matrix, SCRM (Social Customer Relationship Management) member management system, private DMP (Data Management Platform) advertising system, digital marketing tool system and social marketing system. The system consists of five main systems ultra-precision data system, full-scene flow system, one-stop content system, data-oriented tool system, and intelligent management system.

Thanks to the enabling of the digital marketing system, in 2018, we successfully realized the full cycle of consumption, personalized and refined operation of member marketing in the following four aspects.

1. Data marketing level:

We established an accurate and effective advertising system of the DMP (Data Management Platform) in the home furnishing industry and a product model that allows traffic to reach users accurately through using the statistics from the Company’s own membership system, Tencent system and other Internet data sources, which realized the new ecology of smart marketing in the home furnishing industry from “people looking for goods” to “goods looking for people”.

BUSINESS REVIEW (CONTINUED)

2. Business Management: Continuous Improvement of Shopping Mall Operation and Management (Continued)

2.3 Marketing Management (continued)

II. Marketing management (continued)

2. Social marketing level:

We established an applet for source top-notch products by groups, comprehensively upgraded the promotional online brand image, conversion of interactive loyalty and marketing, and a marketing system for a widely popular product in the home furnishing industry. We launched 12 major categories and 40,000 widely popular product group purchases throughout the year.

Meanwhile, with social platforms such as the applets and WeChat as main territories and group people who possess accurate traffic and have influence over consumers in the home furnishing industry (such as shopping guides, designers and property managers) as primary roles, we have also established the first national social marketing platform in the home furnishing industry to accurately insert the social scene of home furnishings consumers and achieve social marketing for national people.

3. Content marketing level:

We have initiated a creative ecosphere of content on home furnishings experts and traffic-attractive experts, and had the experts create content that drives the conversion. We have built the social matrix of the home furnishings industry, including 11 social platforms, i.e. TouTiao, Microblog, WeChat, Zhihu, Little Red Book and Bai Jiahao, etc., and produced output covering diversified forms such as high-end home decoration cases, home furnishings aesthetic, procurement strategy, question and answer on home furnishings, knowledge lecture and brand interaction with a total reading amount of 27,500 thousand throughout the year and activated 3,500 thousand fans.

4. Intelligent marketing level:

Focusing on improving the repurchase rate of members, we have achieved the automatic public screening, segmentation of scenario, accurate recommendation for relevant products by an intellectualized management system, which made the conversation rate of member marketing and repurchase rate of members increase by 27% and 45%, respectively.

BUSINESS REVIEW (CONTINUED)

2. Business Management: Continuous Improvement of Shopping Mall Operation and Management (Continued)

2.3 Marketing Management (continued)

II. Marketing management (continued)

4. Intelligent marketing level: (continued)

In addition, we have built the first intellectualized traffic performance appraisal system that was tailored to an individual level in the home furnishing industry, which achieved real-time flow operation and incentive mechanism based on a “piecework system”. The whole visual process statistic statements were also provided to shopping malls, brand owners and distributors through managing and controlling the work on 22 major items and 57 nodes, which continuously iterate the efficiency of flow operation on promotional activities.

2.4 Property Management

Strictly control safety in our shopping malls: implement standardized management, and prevent safety hazards through our staff and technology

During the Reporting Period, we continued to treat safety control as a significant task for the management of shopping malls. We implemented standardized management for the sources of risks. All shopping malls have created complete files of risks in which each of the security risks control of the relevant shopping mall is assigned to a dedicated responsible person. We took priority in the treatment and rectification for high-risk fields, such as food and beverage industries and warehouses. Meanwhile, we fully enhanced the technological prevention capabilities of our property security. We upgraded the firefighting and monitoring equipments and installed unmanned fire detection alarm equipments in key areas such as the fire control room, catering areas and renovation sites of shopping malls; meanwhile, we launched daily patrol inspection APP in shopping malls which greatly enhanced the efficiency and quality of patrol inspection. In addition, we comprehensively improved the prevention capabilities of our staff. The emergency drills based on the micro fire station have become our normal practice; 21 subjects of emergency drills formulated by the Group have been implemented effectively in all of our shopping malls; the effective combination of closed military training and daily military training substantially improved the practical ability and the mental outlook of our team. During the Reporting Period, we continued to maintain “zero accident” with respect to fire, personal injuries and key facilities and equipments throughout the year at all shopping malls in the country, effectively manage and control safety risks and continuously upgrade safety standards of shopping malls.

BUSINESS REVIEW (CONTINUED)

2. Business Management: Continuous Improvement of Shopping Mall Operation and Management (Continued)

2.4 Property Management (continued)

Continue to improve the environment of malls to enhance the experience of our customers

During the Reporting Period, we continued to strictly implement maintenance and repair and project renovation standards by controlling the hazard from the source, and to further improve the basic environment and normal operation of facilities and equipment at shopping malls by conducting monthly environment day activity and environment rectification and inspection activities. In addition, we adopted and promoted new technologies and measures such as unmanned parking lots, marble maintenance technology, treatment standards for water from air conditioning systems, new standards for green decoration, installing air purification devices for chlorine dioxide, etc., which ensured the long-time leading position of our shopping malls on environmental quality among industry peers.

Advocate energy saving and environmental protection and create green shopping malls

We advocated energy saving and environmental protection and devoted ourselves to constructing energy-saving and environmentally friendly properties and building green shopping malls. During the Reporting Period, electricity consumption in our 66 malls decreased by approximately 1.4% compared with last year; the finished product protection work in shopping malls achieved remarkable results with the rate of damage to floorings, walls, ceilings, lamps, doors and windows dropped to nearly zero.

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 the 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 and 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 resource sharing.

BUSINESS REVIEW (CONTINUED)

3. Expansionary Business: Robust Development (Continued)

3.1 Internet-based pan-home improvement and furnishings consumption

We have established the internet-based new retail platform building around the concept of “home”, which provides consumers with industry chain services for pan-home improvement and furnishings consumption ranging from design, home renovation, to purchase 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 online and offline interactive experience to our consumers. 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 demands, we expanded our business to front-end design and terminal services on the basis 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 for design, home decoration, and goods and services.

During the Reporting Period, with a focus on the design, 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. In December 2018, we successfully held the 1st M+ China Top Design Award, which attracted 10,726 designers from over 150 cities nationwide to attend the competition, and hence created a marketing IP for designing home decoration. In 2018, we built the “Star Design” platform with the aim to increase the linkage between designers and an online and offline integration platform. As of the end of the Reporting Period, 35,000 high-end designers have entered the “Star Design” platform, and the excellent design cases created by the designers have reached 17,500. In addition, we have built several M+ design creator spaces to get user-designer negotiation scenario settled down in the shopping malls to provide contracted designers with sharing office platform and to enhance their ability to promote products sales; meanwhile, we provide activity space for operation designer salons, three-year free services (三免服務) and home decoration lecture halls at each shopping mall, thus to attract accurate traffic for the shopping malls and enhance the operation efficiency of shopping malls. As of the end of the Reporting Period, the offline transaction amount driven by designers’ operation amounted to RMB203 million.

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

3. Expansionary Business: Robust Development (Continued)

3.1 Internet-based pan-home improvement and furnishings consumption (continued)

To cater to the trend of consumption upgrading and satisfy the personalized demands of high-end customers, during the Reporting Period, driven by high-end services, we created “Future Fit (未來適)”, the new retail model store of Red Star Macalline, to establish a new home furnishings retail model with scenarios as the core, making use of the “design + technology” mode, with face recognition, customer traffic monitoring, interactive roaming desktop and other technical applications, as well as high-end design service capabilities. As of the end of the Reporting Period, “Future Fit” has already been installed at the Shanghai Zhenbei Shopping Mall.

During the Reporting Period, we continued to expand the brands of internet-based new retail platform and merchant resources through both a mobile app user terminal and a Wechat applet, and further strengthened linkage with the merchant resources of offline real shopping mall, thus providing consumers with richer 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 already realized the connection between 81 offline Red Star Macalline shopping malls in 38 cities with goods and services on online platforms. At the same time, we rolled out discount coupons and held various discount and promotion activities on the internet new retail platform, stimulating customers’ consumption and shopping demands through those discount and promotion activities, and realizing the traffic guiding from online platform to offline shopping malls, which in turn increased the merchants’ business. During the Reporting period, the sales volume and sales amount of offline stores realized through the discount coupons on online platforms amounted to 269,000 orders and RMB8.16 billion, respectively.

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 which integrated customers, integrating decoration design, hard decoration construction, sale of materials, purchase of furniture and soft decoration. As of the end of the Reporting Period, our internet-based home improvement platform has signed agreements with 2,364 high-end home decoration companies and has received home decoration reservation appointments from 98,522 customers through the platform. During the Reporting Period, we continued to improve the internet-based home improvement platform with design as the major concept, and further enriched online design work display and a series of home improvement tool services, etc., following the business development and application scenario. Our subsidiary Shanghai Betterhome Decoration Engineering Co., Ltd. (“Betterhome”), has established an experienced design and construction professional team, setting up home decoration stores in our household decoration malls to provide consumers with integrated whole-package service of comprehensive design and decoration and creating synergy with businesses of home decoration malls, by which a unique business mode of customer and supply-chain sharing was created to reduce customer acquisition costs of home decoration and shopping malls,

BUSINESS REVIEW (CONTINUED)

3. Expansionary Business: Robust Development (Continued)

3.1 Internet-based pan-home improvement and furnishings consumption (continued)

increase re-purchase rate and prices of customer orders, and improve consumers' one-stop shopping experience and the sales efficiency of sales of merchants. As of the end of the Reporting Period, we had 40 offline self-operated home decoration stores, which were located in our shopping malls in cities including Beijing, Tianjin, Shanghai, Chongqing, Nanjing, Suzhou, Shenyang, Chengdu, Zhengzhou, Hefei and Shijiazhuang. In addition, we continue to strive for excellence in the process R&D of construction, and further obtained two national patents including Installation Structure of a Kind of Curtain Box and Installation Structure of a Type of Bathtub and two computer software copyrights of Decoration Management System V1.0 and Home Decoration EPR Software V1.0. Since then, our total number of patents has reached 19, and software copyrights 2; meanwhile, during the Reporting Period, we newly obtained special qualifications including general contractor for construction projects, professional contractor of steel structure engineering as well as professional contractor of construction mechanical and electrical installation engineer, etc., which further expanded and enhanced our ability of construction.

3.2 Providing home furnishings financial information services to retain and expand our consumer and tenant base

During the Reporting Period, we provided consumers and financial institutions with a consumer loan information service. Through our collaboration with financial institutions such as commercial banks and consumer financing companies, consumers are provided with household consumer loans which can only be used in our home furnishing shopping malls. During the Reporting Period, the amount of consumer loans issued by financial institutions through the above channels reached RMB1,250 million, and we realized relevant commission income of RMB13.2 million, which boosted the business of merchants of our shopping malls.

3.3 Comprehensive logistics service satisfying multiple needs on both ends of the platform and achieving resource sharing

In our terminal service system of home furnishings and furniture industry, the work of logistics distribution directly faces consumers, and the quality of logistics services will affect the word of mouth of our brands to a certain extent. To provide professional distribution and installation services to our tenants and consumers to facilitate the "Last Mile" distribution, installation and after-sales services, and to improve customer satisfaction and loyalty to the brands of our tenants as well as the brand of "Red Star Macalline", we have set up logistics centers in 17 cities to provide one-stop shopping professional services for customers from purchase to professional product distribution and installation. As of 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.

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

3. Expansionary Business: Robust Development (Continued)

3.3 Comprehensive logistics service satisfying multiple needs on both ends of the platform and achieving resource sharing (continued)

During the Reporting Period, a smart logistics system (“Home furnishings supply-chain technology center”) jointly developed by us and the University of Hong Kong, was completed, the Super-Link V3.0 system, as well as development of four functional modules, covering Warehouse Management, Distribution Management, Customer Services, and Fees and Settlement, Super-Link provides management of goods storage and whole-process tracking management of waybills, further enhancing the operation efficiency of our logistics system and reducing costs.

In addition, our Xinghe Zhaipei has been awarded as modern home furnishing supply-chain pilot enterprise by the Ministry of Commerce of PRC, namely “chain leader” enterprise in home furnishings industry, and obtained special research and development fund support of home furnishings supply-chain pilot by the Ministry of Commerce and the Ministry of Finance.

4. Upgrade and Restructure the Information Technology Infrastructure to Support the Development of Internet-based Platform

During the Reporting Period, focusing on the Company’s objective of “integration of online and offline businesses”, we continued to promote the construction of information infrastructure in the Group’s headquarters and shopping malls, thereby reinforcing strategic financial functions, expansion and upgrade of the Long Yi system and its full coverage in shopping malls, building data centers, intelligent shopping malls construction and other sectors.

We upgraded and optimized the comprehensive budget system, substantially promoted the system’s performance and greatly improved the efficiency of the filling process of business personnel. We further upgraded and promoted the cashier and pay-off settlement system by financial distribution, and launched an intelligent POS platform based on Red Star proprietary intellectual property and integrated payment technology. We broke down barriers between business, finance, capital and tax and other segments by means of informatization to facilitate consolidation and deepening of strategic financial functions.

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 achieving the milestone goal of using our self-developed system in all shopping malls. Meanwhile, we conducted continuous expansion of functions and iterative upgrade in the Long Yi system, and finished online application work of a property patrol inspection system, a new development system, and an internal control and compliance system.

BUSINESS REVIEW (CONTINUED)

4. Upgrade and Restructure the Information Technology Infrastructure to Support the Development of Internet-based Platform (Continued)

The monthly average number of users of the Dragon's Eyes mobile office platform, an APP platform developed for in-house employees and internal management of the Company, broke through 20,000, and basically achieved the set goal of a one-stop mobile office for all staff of our Group for use at any place and at any time.

Regarding the data center, we have preliminarily finished the establishment of a data center using 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 further broke through big member data of Red Star system and improved member images. We built a visualization platform, Red Star Data Centre, and provided a real-time data board covering various business lines of merchant, finance, planning, operation and property management for middle and high-level management and management personnel of offline shopping malls, in order to form a basis for providing data support to management to track operating status and make management decisions in a timely manner.

We began construction of intelligent shopping malls. We used advanced artificial intelligence technologies, such as machine vision and trajectory analysis, and initiated the use of guide service robots in shopping malls to further improve customer experience and raise the operating efficiency of shopping malls and their tenants. We finished the creation of the intelligent shopping malls operation and management platform version 1.0, and realized core functions such as accurate traffic counting, creating customers' files and users' portraits. Based on our intelligent reaction big screens and smart electronic guide video, some functions like one-click navigation based on facial identification and customization activity information notification were actualized; in addition, one-click setting of security surveillance and full-field interconnection were realized through intelligent systems in all shopping malls, which laid a solid foundation for the complete promotion and coverage of intelligent shopping malls in 2019. During the Reporting Period, we launched the fully self-developed online and offline unified infrastructure platform – the “Long Yi” platform, which integrates the functional modules such as tenant sourcing and management, commodity stores, transaction and promotion, payment and settlement, membership management, etc., forming a standardized and intelligent business process, and accumulating a large amount of business data.

5. Highly Efficient Human Resources Management Policies: Supporting Efficient Business Growth

During the Reporting Period, closely in line with our corporate strategies, our human resources policies promoted the implementation of strategic adjustments 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 the provincial level, achieved coordination of the Company's national resources, ensured smooth connection of each of the Company's businesses, and achieved success in a number of aspects,

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

5. Highly Efficient Human Resources Management Policies: Supporting Efficient Business Growth (Continued)

including system optimization, management of overall performance, talent development, business support, human resources operation and employee relations.

In terms of system construction and optimization, we have completed the establishment and optimization of multiple process systems, including the smart reminder system for induction materials, a license management system, strategic big data system for talent, expatriate benefit system, process reminder function, additional special deduction for individual income tax function, optimization of the PeopleSoft system and server upgrading function, etc. We also completed improvements in the internal recommendation and one-click publishing functions of the recruitment system and campus recruitment functions to improve efficiency of human resources operations and safety of the overall PeopleSoft system.

In terms of management of overall performance, all shopping malls under provincial center of operation and development nationwide have fully implemented the “External Loop Marketing Piece-Work System”, promoted incremental sales by attracting marketing traffic through extending service coverage and cooperating with various channels, including real estate companies, design / furnishing firms and companies in different industries, and strengthened customer loyalty to both merchants and the shopping malls through value-added services, such as free home measurement, free designing, free home inspection, partial alteration to second-hand apartment and repair and maintenance for major customers, contributing to the good reputation of the Company and helping maintain our leading position in the industry.

In terms of talent development, we have fostered and introduced 1,097 employees for core positions in locations based on the performance-oriented core competence standards and key training map so as to effectively support the enhanced operation of 256 shopping malls in operation and the rapid expansion of 75 shopping malls. We have introduced 373 excellent university graduates via the “Star Motivation” program, thus continuously cultivating a youthful culture in the Company. We have enhanced employer brand recognition and nurtured young talent for the industry by innovative cooperation with schools and enterprises and supporting activities such as college and university design competitions and showroom building.

In terms of business support, we recruited a total of 1,382 employees for business expansion and business development of the Company during the Reporting Period. We organized the development of talent review and case-study activities to lay a sound foundation for continuous expansion of our business through sharing and studying outstanding cases. We further optimized the assessment and incentive mechanism for employees for the purpose of developing business expansion and establishing a human resources system in line with the business characteristics of the Company.

BUSINESS REVIEW (CONTINUED)

5. Highly Efficient Human Resources Management Policies: Supporting Efficient Business Growth (Continued)

During the Reporting Period, we have successfully created an image of an employer widely recognized by the industry and have been granted six authoritative employer brand awards. We have been awarded the “Favorite Company of Employees” by the China Chain-Store & Franchise Association for six consecutive years, the “China Role Model Employer” and “Outstanding Human Resources Management Award” by 51job.com (前程無憂), the “Pioneer Employer of the Year” by Tophr.net (第一資源), the “Best Workplace in Asia” by HRoot and the School of Public Health of Peking University and the “Extraordinary Transformational Employer” by Liepin.com (獵聘網) and the Market and Media Research Center of the Peking University.

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 establishing a brand portfolio, in addition to the core brand “Red Star Macalline”, the Company also invested in new brands paralleling 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 our consumer base and further increase our market share. Moreover, since 2016, the Company has provided commercial consultation services in the stage of development and planning written consultation reports for operational properties to operational property owners and other than Portfolio and Managed Shopping Malls. The Company may grant such property owners the authorization to use the “Xingyijia” (星藝佳) brand in the way agreed to by the Company. In addition, since the Company obtained the concession right of “Jisheng Wellborn”, a high-end home improvement and furnishing retail brand, for a term of thirty years in 2014, the Company has the right to use the licensed trademarks in our Portfolio Shopping Malls and Managed Shopping Malls and in the business operation course related to those shopping malls, and to authorize any third parties to use the licensed trademarks within the properties of the shopping malls.

By the end of the Reporting Period, the core brand “Red Star Macalline” retains its leading position in terms of the number of shopping malls and revenue.

Management Discussion and Analysis

FINANCIAL REVIEW

The key financial performance indicators of the Company can generally be categorized into operating revenue, net profit attributable to owners of the Company and net profit attributable to owners of the Company after deducting non-recurring profit and loss. These indicators provide a measurement of our performance against the key drivers of the Company. For details of the financial performance indicators, please refer to “Revenue” and “Net profit attributable to owners of the Company, net profit attributable to owners of the Company after deducting non-recurring profit and loss and earnings per share” on pages 34 to 35 and page 40, respectively.

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 commercial consultation and tenant sourcing 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, which brought an increase in the related management revenue progressively. At the same time, the revenue from the 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

- Owned/Leased Portfolio Shopping Malls: Income rose from RMB6,394.5 million in 2017 to RMB7,168.0 million in 2018, representing an increase of 12.1%, mainly due to the steady increase of mature shopping malls and the revenue from newly opened shopping malls. As at the end of 2018, the number of Portfolio Shopping Malls opened by the Group was nine more than at the end of 2017; moreover, operating efficiency was improved through adjusting the layout of the opened shopping malls, and the total operating area was increased by 1,213,040 sq.m. At the same time, we adopted centralized management and scale effect to create a marketing synergy for all shopping malls,

FINANCIAL REVIEW (CONTINUED)

1. Revenue (Continued)

and offered tenants promotions and other value-added services, enhanced the operation and management level of the malls, to ensure that rental and related income could be increased when an already opened mall renewed its agreements with tenants. In 2018, the average operating income of real unit of Portfolio Shopping Malls opened by the Group was RMB107.1 sq.m. per month, which fell slightly compared with RMB108 sq.m. per month in 2017, mainly due to the favorable price to new stores and the equally shared coefficient adjustment by partial mature shopping malls. The same mall growth of mature shopping malls during the Reporting Period was 8.1%. Such growth was due to the aggregated factors of the increase in effective unit income from operation and operating area of mature shopping malls during the Reporting Period.

- **Managed Shopping Malls:** Revenue increased from RMB3,628.7 million in 2017 to RMB4,176.8 million in 2018, representing an increase of 15.1%. This was the result of a new revenue source from the Group's business expansion, providing commercial consultation and tenant sourcing services to property owners on one hand, and on the other hand, a year-on-year increase in the number of newly opened Managed Shopping Malls, which brought a substantial increase in related management revenue.
- **Construction and design:** during the Reporting Period, the Group recorded a total revenue of RMB1.48 billion from construction and design, representing an increase of RMB1.423 billion as compared to the corresponding period, mainly attributable to its industrial extension beginning in 2018. Leveraging advantages of its rich experiences, the Company proactively accept businesses of building installation and decorations in shopping malls from part of owners of Managed Shopping Malls and owners of external commercial properties.
- **Sales of merchandise and related services:** during the Reporting Period, the Group recorded a total revenue of RMB466 million from sales of merchandise and related services, representing an increase of RMB172 million, mainly attributable to the increase in size of the home decoration business and sales revenue from imported home-living products.
- **Others:** the additional revenue was mainly due to increased joint marketing business, strategic consultation services, the logistics business and internet on-line platform business, with a corresponding investment in human resources increasing the cost of sales.

2. Cost of Sales

The cost of sales of the Group mainly included staff salary that were directly related to the operation of Owned/Leased Portfolio Shopping Malls, rental expense of Leased Portfolio Shopping Malls and other expenses, the relevant staff salary and operating cost of Managed Shopping Malls and the cost of construction that occurred in the provision of construction services to owners of commercial properties and other cost. The cost of sales of the Group increased from RMB3,163.2 million in 2017 to RMB4,813.7 million in 2018, representing an increase of 52.2%, mainly due to the expansion of the shopping mall management business network and the size of construction business of the Group.

Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

2. Cost of Sales (Continued)

The following table sets forth our cost of sales by segments:

	2018 (Audited)		2017 (Audited)	
	(RMB'000)	%	(RMB'000)	%
Owned/Leased Portfolio Shopping Malls	1,607,276	33.4	1,460,261	46.2
Managed Shopping Malls	1,655,853	34.4	1,309,962	41.4
Construction and design	995,055	20.7	43,040	1.4
Sales of merchandise and related services	309,326	6.4	202,426	6.4
Others	246,190	5.1	147,505	4.7
Total	4,813,700	100.0	3,163,194	100.0

- Owned/Leased Portfolio Shopping Malls: the cost of sales increased by 10.1% from RMB1,460.3 million in 2017 to RMB1,607.3 million in 2018, mainly due to the increase in the number of shopping malls and the natural increase in staff salary.
- Managed Shopping Malls: the cost of sales increased from RMB1,310.0 million in 2017 to RMB1,655.9 million in 2018, representing an increase of 26.4%, mainly due to the increase in staff salary and administrative cost caused by the increase of newly contracted projects and newly opened Managed Shopping Malls.
- Construction and design: during the Reporting Period, since the size of business grew at a relatively fast speed, the cost increased significantly comparing with last year.

3. 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 the construction and design business during the Reporting Period increased substantially and the change in revenue structure caused a decrease in comprehensive gross profit margin.

FINANCIAL REVIEW (CONTINUED)

3. Gross Profit and Gross Profit Margin (Continued)

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

	For the year ended 31 December	
	2018 (Audited)	2017 (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%

- Owned/Leased Portfolio Shopping Malls: Gross profit increased from RMB4,934.2 million in 2017 to RMB5,560.7 million in 2018, representing an increase of 12.7%; gross profit margin in 2018 was 77.6%, representing an increase of 0.4 percentage point from 2017.
- Managed Shopping Malls: Gross profit increased from RMB2,318.8 million in 2017 to RMB2,520.9 million in 2018, representing an increase of 8.7%; gross profit margin decreased from 63.9% in 2017 to 60.4% in 2018, mainly due to the decrease in gross profit margin resulting from the increased cost of staff remuneration relating to the business expansion and the increase in the number of newly opened Managed Shopping Malls.

4. 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 revenue), representing an increase of 12.3% from RMB1,513.8 million (accounting for 13.8% of revenue) in 2017, which was primarily due to the increase in advertising and marketing fees resulting from brand publicity activities of the Company and promoting and marketing activities for newly opened shopping malls.

FINANCIAL REVIEW (CONTINUED)

5. 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 revenue), representing an increase of 9.5% from RMB1,361.8 million (accounting for 12.4% of revenue) in 2017 which was primarily due to increases in labor, office and administrative expenses resulting from the strengthening of centralized control of related expenses by Group headquarters and the increase in newly opened shopping malls.

6. Financial Expenses

During the Reporting Period, the Group's financial expenses mainly comprised interest expenses, interest income and foreign 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 comprised the 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 borrowing 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 external borrowing generated in coordination with the main business has generated more interest income during the Reporting Period.

Foreign 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.

7. Impairment Losses of Assets and Impairment Losses of Credit

According to the requirements of the New Standards for Financial Instruments, impairment losses of credit mainly includes impairment losses of accounts receivable, impairment losses of other receivables, impairment losses of entrusted loans and other expected impairment losses of credit; impairment losses of assets mainly includes impairment losses of fixed assets and impairment losses of intangible assets and other non credit impairment losses. In 2018, the Group made provision for impairment losses of credit of RMB247.5 million, among which provision for impairment losses of accounts receivable was RMB165.8 million and provision for impairment losses of other receivables was RMB78.3 million, mainly due to the provision for impairment after reviewing the expected credit loss of related receivables and other receivables on the basis of prudent standards.

FINANCIAL REVIEW (CONTINUED)

8. Investment Income

The investment income of the Group mainly includes long-term equity interest investment income calculated by equity method, as well as investment income incurred from disposal of investment on subsidiaries and other investments. The investment income in 2018 was RMB229.7 million, among which investment income calculated and recognized by equity method was RMB183.5 million.

9. Treasury Policies and Objectives

The Group adopted prudent liquidity risk management policies in order to maintain flexibility of fund utilization, which included maintaining sufficient cash and funding through an adequate amount of committed credit facilities.

10. 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 the actual controller.

11. 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.

Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

12. 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. This good performance was a comprehensive result of the Group's steady business growth, efficiency of the cost-scale effect, and extension of the industry chain to providing customers with high value-added quality services.

	For the year ended 31 December		Increase/ Decrease
	2018 (Audited)	2017 (Audited)	
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 percentage points
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 percentage points

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

13. 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 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 use of New Standards for Revenue and New Standards for Financial Instruments by the Group during the Reporting Period.

Per the transition requirement for the New Standards for Revenue and Financial Instruments, the Group will 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.

FINANCIAL REVIEW (CONTINUED)

14. Other Equity Instruments

As at the end of the Reporting Period, the book value of other equity-instrument 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 product manufacturing related to artificial intelligence, for strategic purposes, and planned to hold such equity investments for a long time.

Pursuant to the requirements of 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.

15. 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, 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.

16. 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.

17. 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 expenditures and the development expenditure of the construction of investment properties. Capital expenditure decreased significantly as compared with that in 2017, mainly attributable to the payment of RMB1,907.8 million for the purchase of an office premise in the Hongqiao Business District of Shanghai in 2017.

18. Cash and Bank and Cash Flow

As of the end of the Reporting Period, the balance of cash and bank 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).

Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

18. Cash and Bank and Cash Flow (Continued)

	For the year ended 31 December	
	2018 (Audited)	2017 (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 a government grant related to assets which was originally listed as cash flow from investment activities should be changed to cash flow from operating activities when preparing the 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. This was primarily due to promotion activities conducted mainly on weekends at the end of 2017 and more unsettled Union Pay payments generated during non working days that were paid at the beginning of this Reporting Period, resulting 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 during the same period in 2017. This 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, which type of business did not occur during the Reporting Period; (2) the equity investment of upstream and downstream enterprises in the home industry chain; which increased during the Reporting Period; and (3) the acquisition of commercial properties in Shanghai, Chongqing, Ningbo, Suzhou, etc., during the Reporting Period.

FINANCIAL REVIEW (CONTINUED)

18. Cash and Bank and Cash Flow (Continued)

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. This 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.

19. Debt Profile and Debt Ratio

As of the end of the Reporting Period, the total amount of debt of the Group was RMB36,313.3 million, of which banks and other borrowings were RMB21,810.6 million, bonds payable were RMB9,653.0 million and commercial mortgage-backed securities payables were RMB4,849.4 million.

The following table sets out our profile debt:

	As at 31 December 2018 (Audited) (RMB'000)	As at 31 December 2017 (Audited) (RMB'000)
Bank and other borrowings		
Secured	21,056,618	15,338,759
Unsecured	754,000	345,000
Total	21,810,618	15,683,759
Fixed-rate borrowings	4,683,610	1,965,363
Floating-rate borrowings	17,127,008	13,718,396
Total	21,810,618	15,683,759
The borrowings are repayable		
Within one year or on demand	7,504,256	3,906,594
More than one year, but not exceeding two years	2,767,248	1,749,666
More than two years, but not exceeding five years	6,015,593	5,613,257
More than five years	5,523,522	4,414,242
Total	21,810,618	15,683,759
Actual interest rate range		
Fixed-rate borrowings	4.28–7.36	3.15–4.46
Floating-rate borrowings	4.35–6.80	2.30–7.59

Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

19. Debt Profile and Debt Ratio (Continued)

	As at 31 December 2018 (Audited) (RMB'000)	As at 31 December 2017 (Audited) (RMB'000)
Bonds		
Unsecured medium-term notes		
— Bonds due in 2018	—	498,726
— Bonds due in 2019	1,000,000	—
— Bonds due in 2020	495,098	—
Corporate bonds		
— Corporate bonds due in 2020	168,002	4,987,988
— Corporate bonds due in 2021	4,474,788	1,490,868
— Corporate bonds due in 2023	1,486,703	1,482,044
USD-denominated bonds		
— USD-denominated bonds due in 2022	2,028,378	1,923,566
Total	9,652,969	10,383,192

	As at 31 December 2018 (Audited) (RMB'000)	As at 31 December 2017 (Audited) (RMB'000)
Commercial mortgage-backed securities payables		
— Securities due in 2020	2,368,173	2,378,400
— Securities due in 2021	2,481,250	—
Total	4,849,423	2,378,400

Among the total debt of the Group, the portion to be repaid in one year or on demand was RMB10,063.6 million; the portion to be repaid after more than one year but not more than two years was RMB7,361.8 million; the portion to be repaid after more than two years but not more than five years was RMB13,364.0 million; the portion to be repaid after more than five years was RMB5,523.5 million; the Group shall timely repay the above loans at the maturity date of the same.

The following table sets out our major debt ratio:

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

FINANCIAL REVIEW (CONTINUED)

19. Debt Profile and Debt Ratio (Continued)

	For the year ended 31 December	
	2018 (Audited)	2017 (Audited)
Interest expenses coverage ratio ⁽³⁾	3.20	3.20

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 borrowing, long-term borrowing, bond payables, financial lease payables, and commercial mortgage-backed securities payables) less cash and bank and then *divided by* total equity at the end of each period.
- (3) Interest expense coverage ratio is our adjusted EBITDA *divided by* our interest expenses before capitalization for each period. Adjusted EBITDA represents profit before tax, adding back finance expenses, depreciation, amortisation and impairment, further adjusted to exclude gains on fair value changes, Investment income, gains/(losses) from disposal of assets, other income, non-operating income and non-operating expenses.

20. Credit Rating

As at the end of the Reporting Period, the corporate credit rating of the Group was rated as BBB- by Fitch Ratings, Inc., with a stable outlook. Standard & Poor's Financial Services LLC rated the Group as BBB- and the outlook was rated as negative.

21. Collateralized and Pledged Assets

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

22. Contingent Liabilities

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

On 8 November 2016, the Company provided 25% a joint and several liability guarantee against the loan of RMB2.50 billion provided by Haier Consume Financing Co., Ltd. (海爾消費金融有限公司) to Haier Group Finance Co., Ltd.. As at 31 December 2017, the balance of the loan owed by Haier Consumer Financing Co., Ltd. was RMB1,600.0 million and was reduced to RMB0 as at the end of the Reporting Period.

FINANCIAL REVIEW (CONTINUED)

23. Material Acquisitions and Disposals

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

24. 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.

25. Future Plans for Major Investments

Our future major investments of the Group are primarily capital expenditures in respect of acquisition and construction of investment properties (including through acquisition of subsidiaries). We expect to capitalize on secular growth trends in the home improvement and furnishings industry by strategically opening new shopping malls in selected cities in China with attractive market attributes. As at the end of the Reporting Period, the amount of which the Group has contracted for but not provided 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. The capital commitment as disclosed in Note XI.1 to the Consolidated Financial Statements on page 420 was primarily in relation to the development of our Portfolio Shopping Malls. This is one of our strategies, and we expect to strengthen our market leadership through strategic expansion of our shopping mall network and brand portfolio.

The source of the Group's future major investment funds will mainly come from the cash of business operation, bank loans, issuing bonds and the equity capital contributed by the Shareholders. We will adhere to a prudent and rational financial management strategy, plan and arrange the investment and operating expenses based on the cash inflow, and expand financing channels while maintaining a reasonable financial condition and debt ratio level to provide better funding for business development in the future. Currently, we do not have detailed plans for material investments apart from opening new shopping malls in our ordinary course of business. Accordingly, we foresee that our major source of funding will be from our operating cash flow, revenue from our shopping malls, borrowing from banks and other financing activities of the Group.

FINANCIAL REVIEW (CONTINUED)

26. 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.

27. Human Resources

As of 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 regulations in the employees' locations. 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 the practicing business of the employees.

FINANCIAL REVIEW (CONTINUED)

28. Events after the Reporting Period

1. 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 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 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 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 mid-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.

FINANCIAL REVIEW (CONTINUED)

28. Events after the Reporting Period (Continued)

3. Results of the issuance of the 2019 first tranche of mid-term notes (continued)

On 12 September 2018, the Company received the Notice for Acceptance of Registration (Zhong Shi Xie Zhu [2018] No. MTN506) 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 for the amount of RMB500 million, at an interest rate of 5.75%. For detailed information, please refer to the announcement of the Company dated 26 January 2019 as disclosed on 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 mid-term notes of the Company, please refer to the website of Chinamoney (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 cumulative total number of shares held under the Employee Stock Ownership Plan shall not exceed 1% of the total share capital of the Company. The cumulative 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 employees who have indirectly held shares of the Company through a stock ownership platform and front-line management personnel of the Company and its subsidiaries. For further details, please refer to the announcement of the Company dated 27 February 2019 as disclosed on 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 to acquire ordinary A shares of the Company from the secondary market (the “Purchase”) and to entrust a professional institution with asset management qualifications to manage them (the “Placement Scheme”). The Placement Scheme shall have a total size of not more than RMB160 million.

FINANCIAL REVIEW (CONTINUED)

28. Events after the Reporting Period (Continued)

5. Related parties and affiliates plan to purchase company shares (continued)

The cumulative total number of shares held under the placement scheme shall not exceed 1% of the total share capital of the Company. The cumulative 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 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 seven years (seven 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>).

RISK FACTORS

There is no significant change in risk factors faced by the Company for current year as compared with that for the previous year, and the specific risk factors are as follows:

1. Risks Caused by Slackened Macro-Economy and Cyclical Fluctuation of Real Estate Industry

The recent years have witnessed China's persistent slackened macroeconomic growth trend. In 2018, China's GDP showed 6.6% year-on-year growth. The slowdown in macro economic growth may slow down the expected urbanization in China, and pose adverse effect to the improvement of residents' disposable income and standard of living. Meanwhile, the real estate industry, as the core industry subject to continuous regulation of China, is closely related to the country's macroeconomic development with the manifestation of the strong cyclical characteristics. The potential adverse changes caused by slower growth of the macro-economy and cyclical volatility of the real estate industry may weaken the demand for the home improvement and furnishings retail industry, and thus posing certain negative impact on the Company's operating performance.

According to the data of Frost & Sullivan, the sales amount achieved in China's home improvement and furnishings industry in 2018 was RMB5.0 trillion, representing an increase of 10.6% on a year-on-year basis. The Company will actively seize favorable opportunities of the rapid development in the home improvement and furnishings industry and increase the market share by the fast and steady expansion of the shopping mall network; while improving economies of scale and operational efficiency and strengthening the sustained stability of profitability, so as to better cope with and withstand the risks associated with macroeconomic and industry volatility.

2. Risks Associated with Talent Shortage and Loss

As our business scale is under continuous development and expansion, demand for high-level management talent and professionals increases continuously. If the Company's reserve of talent cannot keep up with the rapid development rate of the Group's business, then it will pose an adverse impact on the Company's operational stability.

We have set up different personnel training and reserve plans for the fresh graduates, excellent employees and supervisory employees, and have continued to contribute resources to provide various types of education and training opportunities so as to enhance their knowledge and technical level as well as the ability of practicing business. Meanwhile, the Company has been strengthening information construction so as to improve the efficiency of business, and thus providing guarantee for the building of our pool of talent required for business expansion.

Management Discussion and Analysis

RISK FACTORS (CONTINUED)

3. Risks Associated with Expanding Business Development

Based on the nationwide retail platform and the largest database of businesses and consumers in the Chinese home improvement and furnishings industry, we plan to further develop the attractive Internet-related products and services as well as the supply chain related products and services. Compared with our shopping mall business, the business model and risks of expanding business may vary, but we may not have enough experience to effectively manage such expanding business and the related risks. Such expanding business may bring us new challenges and risks. If the expanding business failed to achieve the expected results, then our business, financial condition, results of operations and prospects as a whole may be adversely affected.

By relying on a strong industrial influence in the existing business accumulation, rich management experience and national distribution network system, we will provide high-quality brand, market, customer and product resources support for the implementation of the above-mentioned expanding business. It will flexibly select and adjust the operating mode based on the market changes and business needs, so as to reduce the uncertainty of expanding business and other related risks.

OUTLOOK AND PROSPECTS

We have persistently adhered to the mission of “building a warm and harmonious homeland and enhancing consumption and lifestyle”. In 2019 and thereafter, we will continue to follow the operation and management model of “market-oriented management and shopping mall management”, provide better and more professional services for consumers, consolidate our market leadership and strengthen the brand image of “Home Furnishings Expert” of “Red Star Macalline” 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 the 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

In terms of shopping mall network construction, we will fully ride the tide of the thriving trend shown in the industry arising from the acceleration of urbanization, improvement in living standards and the increased population mobility, and continue to selectively expand our network of home furnishing malls in cities with attractiveness. We will further strengthen the market leading position in Tier I and II Cities through self-operation mode, and continue to selectively open new home shopping malls in the core cities; at the same time, by relying on the sound brand reputation, mature shopping mall development, tenant sourcing and operation and management capabilities in the home improvement and furnishings industry, we will quickly penetrate into the Tier III Cities and other cities through the asset-light managed business model, so as to further expand the operation coverage of companies in the country, and thus accelerate market penetration.

OUTLOOK AND PROSPECTS (CONTINUED)

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 (Continued)

Meanwhile, the Company will optimize the operation and management of shopping malls to further enhance the operational efficiency and performance of existing home shopping malls by means of upgrading and improving basic infrastructure of malls, analysis on applicable data, marketing, incentive mechanisms for shopping mall management team, etc.

In terms of construction of brand portfolio, we will extend our outreach to broader consumer bases and advance market segmentation to serve our merchants and in turn to further increase our market share leveraging on our diversification brand strategy.

2. To Establish a Comprehensive Service System, Striving to Become a New Retail Benchmark in the Home Improvement and Furnishings Industry

As one of the most influential brands in the home furnishings industry in China, we will, from the perspective of truly understanding and satisfying the needs of consumers, always provide consumers with better and more in-depth experiences, more professional and all-round value-added services, and more convenient and humanized service mode. We will provide a trustworthy circulation platform that can integrate a sufficient number of home improvement and furnishings industry brand commodities to satisfy the various needs of consumers, enhance the online and offline integration experience of consumers, establish the most valuable circulation platform in the home improvement and furnishings industry, and strive to become a new retail benchmark in the home improvement and furnishings industry.

3. To Strengthen the Brand Image of “Home Service Expert and Platform” by Deepening Promotion and Marketing

In 2019, we will continue promoting brand upgrading, creating a social media matrix, realizing branding rejuvenation, building and strengthening the brand image of “Home Service Expert and Platform” by deepening promotion and marketing. Meanwhile, under the enabling of IMP global home intelligent marketing platform, we will completely enter an era of digital user management, which empowers shopping malls, tenants, manufacturer and cross-industries, and establishes industrial word of mouth to create commercial value.

OUTLOOK AND PROSPECTS (CONTINUED)

4. To Enhance the Long-term Competitiveness of the Enterprise through Digital Strategies

We are implementing digital strategies that are aimed at promoting information construction on an ongoing basis, further upgrading and restructuring of management procedures optimization, financial function transformation, system research and development, data application and other aspects and enhancing the long-term competitiveness of enterprise to meet new growth opportunities by making use of internet, big data, cloud computing and other information technologies.

5. To Actively Make Innovations and Attach Importance to the Application of Capital Market and Financial Instruments

We will proactively explore new business models and integrate upstream and downstream resources of the home improvement and furnishings industry through investment, merger and acquisition and other means, and in particular look for opportunities to enter the smart household field and offer services for enlarging enterprise scale, improving corporate strength, preparing for the future and our leadership in the development of the industry.

6. To Continuously Improve Corporate Governance, Standardized Operation, and Fulfill our Social Responsibility

We will make continuous improvement in our corporate governance structure, organizational process and management mechanism, abide by national laws and business ethics and create the commercial atmosphere of “standardized operation” as well as proactively undertake and fulfill our social responsibility.

Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. CHE Jianxing, aged 52, the founder of our Group, has been the chairman, an executive Director, the chief executive officer and the general manager of our Company, since its establishment in June 2007. Mr. CHE is primarily responsible for the overall management, strategic development and business planning of our Group. Mr. CHE has over 29 years of industry experience. He started his career in furniture manufacturing in the late '80s. He then established Changzhou Red Star Furniture Store** (常州市紅星傢俱城) in December 1990 and served as its general manager from 1990 to 1994. He subsequently founded Red Star Furniture Group in June 1994 and served as its chairman of the board of directors and chief executive officer from 1994 to 2007. Mr. CHE is Ms. CHEN Shuhong's husband and Ms. CHE Jianfang's brother. Mr. CHE is a member of the executive committee of All-China Federation of Industry & Commerce (中華全國工商業聯合會). Mr. CHE was awarded as the "Shanghai Outstanding Star" by the Shanghai government, Shanghai Industry & Commerce (上海工商業聯合會) and Shanghai Outstanding Enterprise Promotion Association (上海光彩事業促進會) in February 2014, the "Changzhou Outstanding Entrepreneur" by the Changzhou government in January 2012 and the "Working Model of Jiangsu Province" by Jiangsu Provincial People's Government in April 2006. For Mr. CHE's interest in the shares and underlying shares of the Company, please refer to the section headed "Report of Directors" of this annual report.

Mr. GUO Binghe, aged 45, joined the Company in June 2007 and has been a vice general manager of the Company since October 2011. Since December 2013, he has been the secretary to the Board, and has also been serving as vice chairman since November 2018. He is primarily responsible for legal compliance, corporate governance, internal control, investor relations and information disclosure of the Company and providing support and assistance to the Board in the performance of its duties. Prior to joining the Company, Mr. GUO worked in the investment banking division of Shenyin & Wanguo Securities Co., Ltd. (申銀萬國證券股份有限公司) from July 2001 to March 2004. He then worked in Skyone Securities Co., Ltd. (天一證券有限公司) from March 2004 to October 2005. From 2006 to 2007, Mr. GUO served as assistant chief financial officer of Red Star Furniture Group.

Mr. GUO completed his studies in English education at Anhui Education College (安徽教育學院) (now known as Hefei Normal University (合肥師範學院)) in July 1998, and obtained a master's degree in economics from Fudan University (復旦大學) in July 2001 and a degree of executive master of business administration from Cheung Kong Graduate School of Business (長江商學院).

Directors, Supervisors and Senior Management

Ms. CHE Jianfang, aged 50, joined our Company in June 2007 and has been an executive Director and a vice general manager of our Company since then. Ms. CHE is primarily responsible for merchandising management of our Group. Prior to joining our Company, Ms. CHE worked as the general manager at the Changzhou Red Star Furniture General Factory** (常州市紅星傢俱總廠) from 1990 to 1993, mainly responsible for general operation of the business. She served as the general manager responsible for national investment operation at Red Star Furniture Group from 1994 to 2007. Ms. CHE is Mr. XU Guofeng's wife and Mr. CHE Jianxing's sister. Ms. CHE completed the "Senior Executive Program for China" jointly organized by China Europe International Business School (中歐國際工商學院) ("CEIBS"), Harvard Business School and the School of Economics and Management of Tsinghua University (清華大學經濟管理學院) in December 2007. She also completed the China CEO Program jointly organized by Cheung Kong Graduate School of Business (長江商學院), Columbia Business School, the International Institute for Management Development and London Business School in July 2011. Ms. CHE has completed the executive master of business administration program in PBC School of Finance, Tsinghua University in April 2018. Currently, Ms. CHE serves as the vice-chairman of Shanghai Entrepreneur Association (上海市企業家聯合會) vice chairman of the Federation of Industry and Commerce of Pudong New Area (浦東新區工商聯) and executive director of the enterprise committee of Shanghai Committee of the China National Democratic Construction Association (中國民主建國會上海委員會), and has always been committed to social welfare undertakings. She further established Red Star Bright Fund (紅星光彩基金). For Ms. CHE's interest in the shares and underlying shares of the Company, please refer to the section headed "Report of Directors" of this annual report.

Mr. JIANG Xiaozhong, aged 49, joined our Company in June 2007 and has been an executive Director and a vice general manager of our Company since December 2012. Mr. JIANG is primarily responsible for business development and operation of our Group. Prior to joining our Company, from June 1994 to June 2007, Mr. JIANG served in various positions at Red Star Furniture Group, including as secretary of the communist party branch committee, secretary of the communist party committee and as vice president, primarily responsible for business operation, administration and communist party committee related work.

Mr. JIANG completed a three-year correspondence course for cadre in administrative management at the Communist Party School of Jiangsu Province (江蘇省委黨校) in July 1992. He completed his studies in the executive master of business administration program at Cheung Kong Graduate School of Business (長江商學院) in September 2011.

NON-EXECUTIVE DIRECTORS

Ms. CHEN Shuhong, aged 46, joined our Company in June 2007 and has been a non-executive Director since then. Ms. CHEN is primarily responsible for overseeing our Company's management and strategic development. Prior to joining our Company, Ms. CHEN worked at the Changzhou Red Star Furniture General Factory** (常州市紅星傢俱總廠) from July 1992 to December 1993, and was mainly responsible for finance and accounting-related work. She then served as a manager of Changzhou Home Furnishing Wholesale Center** (常州建材傢俱批發中心) from January 1994 to June 1999. Ms. CHEN served as the chief financial officer of Red Star Furniture Group from June 1999 to June 2007. Ms. CHEN is Mr. CHE Jianxing's wife and Mr. CHEN Donghui's sister.

Ms. CHEN obtained a college degree for adult higher education in accounting from Industrial College of Jiangsu Province (江蘇省工業學院) (now known as Changzhou University (常州大學)) in 2003. She graduated with an executive master of business administration degree from the executive master of business administration program of The Hong Kong University of Science and Technology (香港科技大學) in June 2012. For Ms. CHEN's interest in the shares and underlying shares of the Company, please refer to the section headed "Report of Directors" of this annual report.

Mr. XU Guofeng, aged 52, joined our Company in June 2007 and has been a Director and a vice general manager of our Company since December 2010. He has been a non-executive Director of our Company since he resigned as vice general manager in November 2014. Mr. XU is primarily responsible for overseeing our Company's management and strategic development. Prior to joining our Company, Mr. XU served as a factory manager at the Changzhou Red Star Furniture General Factory** (常州市紅星傢俱總廠) from 1991 to 1994, where he was mainly responsible for production and business operation. He then served as a vice president of Red Star Furniture Group from 1994 to 2007, where he was mainly responsible for managing construction-related work and participating in the decision making for significant events. Mr. XU is Ms. CHE Jianfang's husband. Mr. XU completed a correspondence course in business administration at Beijing Business Management Correspondence College (北京經濟管理函授學院) in July 2004. He also completed the executive master of business administration program at Cheung Kong Graduate School of Business (長江商學院) in September 2011.

Directors, Supervisors and Senior Management

Mr. Joseph Raymond GAGNON, aged 41, joined our Company in December 2009 and has been a non-executive Director of our Company since then. Mr. GAGNON is primarily responsible for participating in formulating our Company's corporate and business strategies. He joined Warburg Pincus Asia LLC, an affiliate of Warburg Pincus LLC (美國華平投資集團), in September 2005 and currently serves as its managing director and the head of its real estate investment business in Asia. Mr. GAGNON previously worked for GE Capital from July 2000 to August 2005, where he last served as a business development manager with GE Capital Real Estate in Tokyo. Mr. GAGNON has been a director of Vingroup Joint Stock Company, a company listed on the Ho Chi Minh City Stock Exchange (stock code: VIC), since July 2013.

Mr. GAGNON graduated with a bachelor of science degree in mathematical economics from Wake Forest University in the United States in August 2000.

Mr. ZHANG Qiqi, aged 37, joined our Company in December 2010 and has been a non-executive Director of our Company since then. Mr. ZHANG is primarily responsible for participating in formulating our Company's corporate and business strategies. He joined Beijing Warburg Pincus Investment Consulting Co., Ltd., an affiliate of Warburg Pincus LLC in July 2009 and currently serves as its managing director. Mr. ZHANG previously worked as an auditor and successively a senior auditor at the Shanghai branch of PWC Consulting (Shenzhen) Co., Ltd. from August 2003 to July 2007. Mr. ZHANG graduated with a bachelor's degree in international economics and trade (English) from Shanghai International Studies University (上海外國語大學) in July 2003 and a master of business administration degree from the Booth School of Business, University of Chicago, in June 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. QIAN Shizheng, aged 66, joined our Company in April 2016 and has been appointed as our independent non-executive Director since then. He is primarily responsible for participating in the decision making for our Company's significant events and advising on issues relating to corporate governance, audit and the remuneration and assessment of our Directors and senior management. Mr. QIAN has over 30 years of experience in the theory and practice of finance and accounting. Mr. QIAN served as the Deputy Dean of the Department of Accounting at Shanghai Fudan University from August 1983 to December 1997. During the period from January 1998 to June 2012, he served as the executive director and vice president of Shanghai Industrial Holdings Limited (上海實業控股有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 363), and concurrently served as the vice chairman of Haitong Securities Co., Ltd. (海通證券股份有限公司), a company listed on both the Shanghai Stock Exchange (stock code: 600837) and the Hong Kong Stock Exchange (stock code: 6837). During the period from June 2014 to February 2017, Mr. QIAN served as an independent director at Shanghai Chengtuo Holding Co., Ltd. (上海城投控股股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600649). Mr. QIAN returned to Shanghai Fudan University (上海復旦大學) in July 2012 and is now a professor at the School of Management of Shanghai Fudan University. Mr. QIAN is concurrently acting as an independent director at Shanghai Lujiazui Finance and Trade Zone Development Co., Ltd. (上海陸家嘴金融貿易區開發股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600663), Shanghai Laiyifen Co., Ltd., (上海來伊份股份有限公司) a company listed on the Shanghai Stock Exchange (stock code: 603777), Spring Airlines Co., Ltd. (春秋航空股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 601021) and Asia Cuanon Technology Co., Ltd. (亞士創能科技股份有限公司)**, a company listed on the Shanghai Stock Exchange (stock code: 603378), Hanhua Financial Holding Co., Ltd. (瀚華金控股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 3903), Jingrui Holdings Limited (景瑞控股有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 1862), Lonking Holdings Limited (中國龍工控股有限公司)**, a company listed on the Hong Kong Stock Exchange (stock code: 3339), respectively. Mr. QIAN obtained his bachelor's degree in economics from the Accounting Department at Shanghai University of Finance and Economics in July 1983 and obtained his master's degree in economics and PhD in management from Shanghai Fudan University in January 1993 and July 2001, respectively.

Directors, Supervisors and Senior Management

Mr. LEE Kwan Hung, aged 53, has been appointed as our independent non-executive Director since February 2015. He is primarily responsible for participating in the decision making for our Company's significant events and advising on issues relating to the nomination of our Directors and senior management. From December 1992 to April 1994, Mr. LEE worked in the Listing Division of the Hong Kong Stock Exchange, where he later served as a manager and a senior manager, and was a partner of Woo Kwan Lee & Lo from April 2001 to February 2011. Mr. LEE is currently a consultant at Howse Williams. He has been an independent non-executive director of several companies listed on the Hong Kong Stock Exchange, including Embry Holdings Limited (安莉芳控股有限公司) (stock code: 1388) since November 2006, NetDragon Websoft Inc. (網龍網絡控股有限公司) (stock code: 777) since June 2008, Newton Resources Ltd. (新礦資源有限公司) (stock code: 1231) since December 2010, Tenfu (Cayman) Holdings Company Limited (天福(開曼)控股有限公司) (stock code: 6868) since August 2011, China BlueChemical Ltd. (中海石油化學股份有限公司) (stock code: 3983) since June 2012, Landsea Green Properties Co., Ltd. (朗詩綠色地產有限公司) (stock code: 106) since July 2013, China Goldjoy Group Limited (中國金洋集團有限公司) (stock code: 1282) since November 2015, Fse Engineering Holdings Limited (豐盛機電控股有限公司) (stock code: 331) since November 2015, and Ten Pao Group Holdings Limited (天寶集團控股有限公司) (stock code: 1979) since November 2015. Mr. LEE was also an independent non-executive director of Yuexiu REIT Asset Management Limited (越秀房託資產管理有限公司), which is the manager of Yuexiu Real Estate Investment Trust (越秀房地產投資信託基金) (stock code: 405), from November 2005 to October 2014, an independent non-executive director of Far East Holdings International Limited (遠東控股國際有限公司) (stock code: 36) from March 2012 to November 2014, an independent non-executive director of Walker Group Holdings Limited (盈進集團控股有限公司) (stock code: 1386) from February 2011 to March 2016, the shares of which or the units or shares of the said management funds are listed on the Hong Kong Stock Exchange, Futong Technology Development Holdings Limited (富通科技發展控股有限公司) (stock code: 465) from November 2009 to November 2017 and an independent non-executive director of Asia Cassava Resources Holdings Limited (亞洲木薯資源控股有限公司) (stock code: 841) from January 2009 to May 2018. Mr. LEE obtained his Bachelor of Laws (Honours) degree and Postgraduate Certificate in Laws from the University of Hong Kong in 1988 and 1989, respectively. He was admitted as a solicitor in Hong Kong in 1991 and in the United Kingdom in 1997.

Mr. WANG Xiao, aged 43, has been the partner of IDG Capital and responsible for the merger and acquisition business since December 2015. During April 2000 and March 2001, he served as manager in the head office of Bank of China. During March 2001 and March 2011, he served as senior manager in the Shanghai Stock Exchange. From March 2011 to April 2015, he served as an investigator of the CSRC. From April 2015 to December 2015, he served as a deputy general manager of Shanghai Lujiazui International Financial Assets Commodity Exchange Co., Ltd. and a member of executive committee of Ping An Insurance (Group) Company of China, Ltd. (listed on the Stock Exchange of Hong Kong, stock code: 2318 and listed on the Shanghai Stock Exchange, stock code: 601318). He also served as an independent director of Zhejiang Wanfeng Auto Wheel Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 002085) since May 2016 and an independent director of Long Yuan Construction Group Co, Ltd. (listed on the Shanghai Stock Exchange, stock code: 600491) since March 2017. Mr. WANG is a professor (part-time) of the China Insurance Actuarial Research Institute (中國保險精算研究院) of Central University of Finance and Economics (中央財經大學) and is also a columnist of Caixin.com. Mr. WANG is a certified public accountant of the PRC and a CFA charterholder, and has obtained his qualification as an independent director from the Shanghai Stock Exchange.

Directors, Supervisors and Senior Management

Mr. WANG obtained a master's degree in accounting from the Central University of Finance and Economics (中央財經大學) from September 1997 to April 2000, a master's degree in finance from the London Business School from September 2007 to June 2008. He obtained his PhD degree in management from Shanghai Fudan University (上海復旦大學) from September 2004 to June 2009.

Ms. ZHAO Chongyi, aged 44, has been the China regional chairman of Grand Parc Du Puy Du Fou since September 2013, director and senior deputy executive president of Puy Du Fou Asia Limited (Hong Kong) since July 2018, Asia regional partner and deputy president of Barnes International (France) since July 2016, and director and president of Barnes Asia Limited (Hong Kong) from March 2018 to present. She has also served as director and president of Tandem Partners Limited (Hong Kong) since April 2016, and as director of Chinaccessory Manufactory Co. Limited (Hong Kong) since October 2007. Ms. ZHAO served as the general brand manager of Chateau Medicis (France) from October 2003 to September 2007.

Ms. ZHAO obtained a master's degree in business administration in the Open University of Hong Kong from September 2001 to June 2003. Ms. ZHAO received executive education from The John F. Kennedy School of Government at Harvard University from August 2014 to December 2014 and The Cheung Kong Graduate School of Business (長江商學院) from June 2017 to June 2018.

SUPERVISORS

Mr. PAN Ning, aged 52, has been the chairman of the Supervisory committee of the Company since February 2012. He was previously a vice general manager of the Company from June 2007 to December 2011, mainly responsible for overseeing the audit and evaluating investment decisions of the Company. Prior to joining the Company, Mr. PAN worked as an officer at the Changzhou branch of the People's Bank of China, the Changzhou branch of Industrial and Commercial Bank of China and Changzhou Commercial Bank from November 1983 to March 2002. Mr. PAN served as a vice president of Red Star Furniture Group from 2002 to 2007, mainly responsible for corporate finance work.

Mr. PAN completed a part-time course in finance at Jiangsu Radio and Television University (江蘇廣播電視大學) (now known as Jiangsu Open University (江蘇開放大學)) in July 1991 and a postgraduate course in monetary banking at Suzhou University (蘇州大學) in June 1998. He completed the "Senior Executive Program for China" jointly organized by China Europe International Business School, Harvard Business School and the School of Economics and Management of Tsinghua University (清華大學經濟管理學院) in December 2009. Mr. PAN completed the finance executive master of business administration course in Shanghai Advanced Institute of Finance (上海交通大學上海高級金融學院) and obtained his master's degree in executive master of business administration in June 2016. Mr. PAN was accredited by the Jiangsu branch of Industrial and Commercial Bank of China as an economist in June 1992.

Ms. CHAO Yanping, aged 48, has been the employee representative Supervisor of the Company since December 2010. Ms. CHAO has been serving as a general manager of the Company's first development center since June 2007, mainly responsible for overseeing business development and operations of the Company. She has also been serving as an executive partner of Shanghai Hongmei Investment since February 2012. Prior to joining the Company, Ms. CHAO worked as the general manager of Shanghai region in Red Star Furniture Group from 2002 to 2007, mainly responsible for investment and development projects.

Directors, Supervisors and Senior Management

Ms. NG Ellen Hoi Ying, aged 38, has been the shareholder representative Supervisor of our Company since December 2010, mainly responsible for overseeing business development and operations of our Company. Ms. NG currently serves as a director and general manager of Warburg Pincus Asia LLC, an affiliate of Warburg Pincus LLC. Ms. NG served as an analyst in the investment banking division of Bank of America Merrill Lynch in Hong Kong from July 2003 to September 2005. She joined Warburg Pincus Asia LLC in October 2005 and was promoted to her current position in December 2015. Ms. NG graduated with a bachelor's degree in economics from the University of Pennsylvania in May 2003. She has been a CFA charterholder accredited by the CFA Institute since September 2005.

Mr. ZHENG Hongtao, aged 52, joined our Company in January 2016 and has been an independent Supervisor. He has been engaging in teaching and research work at Beijing National Accounting Institute (北京國家會計學院) as a director of corporate governance and risk control center. Mr. ZHENG was a teacher at Guangdong Zhongkai Technology and Economics College (廣東仲愷技術經濟學院) from July 1995 to December 1996. From January 1997 to October 1997, Mr. ZHENG was a researcher at the Rural Economics Research Center of the Ministry of Agriculture (農業部農村經濟研究中心). From October 1997 to September 1998, Mr. ZHENG served as an investment project manager at the investment banking division of Everbright Securities Company Limited (光大證券股份有限公司) (which was subsequently listed on both the Hong Kong Stock Exchange (stock code: 6178) and the Shanghai Stock Exchange (stock code: 601788)).

Mr. ZHENG participated in post-doctoral research in finance at Zhongnan University of Economics and Law (中南財經政法大學) from July 2002 to December 2006. He graduated from Huazhong Agricultural University (華中農業大學) with a doctoral degree in agricultural economics and management and a master's degree in agriculture in June 2001 and June 1995, respectively.

Mr. ZHENG is currently an independent director of SUFA Technology Industry Co., Ltd., CNNC, Beijing Tianli Mobile Service Integration, Inc., Hebei Changshan Biochemical Pharmaceutical Co. Ltd., Beijing Taikong Panel Industry Corp (北京太空板業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300334), Venustech Group Co., Ltd. (啟明星辰信息技術集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002439), and CNFC Overseas Fisheries Co., Ltd. (中水集團遠洋股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000798) since 2012, 2014 and 2017 respectively. In February 2010, Mr. ZHENG was named as a professor by the Ministry of Finance of the People's Republic of China. Mr. ZHENG was an independent director of Tangshan Jidong Cement Co., Ltd. (唐山冀東水泥股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000401) and Hengxin Mobile Business Co., Ltd. (恒信移動商務股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300081) during the three years prior to the date of this annual report.

Mr. CHEN Gang, aged 42, joined our Company in January 2016 and has been an independent Supervisor of our Company. Mr. CHEN served as the senior manager and business director of the headquarters of investment banking of Huatai United Securities Co., Ltd. (華泰聯合證券有限責任公司), formerly known as United Securities Co., Ltd. (聯合證券有限責任公司) and the general manager of its investment banking (4) division of Shanghai from July 2001 to August 2006. From August 2006 to February 2007, he served as an assistant general manager of the headquarters of mergers and acquisitions financing department of China Securities and the person in charge of the Shanghai branch of the company. From February 2007 to January 2010, he served as the vice general manager and the executive general manager of the headquarters of

Directors, Supervisors and Senior Management

investment banking of Zhongtai Securities Co., Ltd. (中泰證券股份有限公司), formerly known as Qilu Securities Co., Ltd. (齊魯證券有限公司). From February 2010 to December 2016, he acted as assistant to the president and general manager of the headquarters of investment banking of Zhongshan Securities Co., Ltd., vice general manager of the investment division and general manager of the new third board business division of Zhongshan Securities Co., Ltd. Since January 2017, he has been appointed as general manager of the investment banking division in LC Securities. Mr. CHEN graduated from Beijing University of Posts and Telecommunications (北京郵電大學) with a major in English for Science and technology and a bachelor's degree in engineering in July 1998. Mr. CHEN completed the finance courses (including insurance courses) of the Economics College in Fudan University and obtained a master's degree in economics in July 2001, completed the world economy courses of the Economics College in Fudan University and obtained a doctoral degree in economics in July 2009, and engaged in post-doctoral research on politics in the International Relationships and Public Affairs College in Fudan University and graduated in July 2012. Mr. CHEN is currently a part-time master tutor at the School of Economics at Fudan University and a master tutor in Shanghai Advanced Institute of Finance (上海交通大學高級金融學院). Mr. CHEN was accredited as a Chinese Certified Public Accountant by Shanghai Institute of Certified Public Accountants (上海註冊會計師協會) in November 2004, and was certified as Senior Certified Public Accountant (the 3rd batch) by The Chinese Institute of Certified Public Accountants in March 2018. In September 2009, Mr. CHEN was accredited by Jiangsu Office of Personnel (江蘇省人事廳) as a senior economist. Mr. CHEN was listed in the first batch of sponsors in the Chinese securities market in 2004, and was certified as an international registered auditor by The Association of International Accountants in 2017.

SENIOR MANAGEMENT

Mr. LIU Yuanjin, aged 64, joined our Company in June 2007 and has been a vice general manager of our Company. He is primarily responsible for the business development and operations of our Company. Prior to joining our Company, Mr. LIU worked at Changzhou Juqian Street Primary School (常州市局前街小學) from September 1971 to January 1977. Mr. LIU was a member and a deputy secretary of the communist youth league committee of Tianning District, Changzhou City from January 1977 to September 1981. From July 1985 to August 1997, Mr. LIU worked in the government of Tianning District, Changzhou City, where he served as head of the industry department, head of the planning economy department and the deputy district chief. From August 1997 to December 2003, Mr. LIU served as deputy head and deputy secretary of the central management committee and a member of the party committee of the Changzhou National High Technology Development Zone (常州市國家高新技術開發區), and concurrently served as the deputy district chief and deputy secretary of the communist party committee of Xinbei District, Changzhou City. Mr. LIU served as a vice president of Red Star Furniture Group from 2004 to 2007, mainly responsible for project development.

Mr. LIU completed his studies in engineering management at Tianjin University (天津大學) in July 1985. He completed the "Senior Executive Program for China" jointly organized by CEIBS, Harvard Business School and the School of Economics and Management of Tsinghua University (清華大學經濟管理學院) in December 2007. He completed the EMBA course of Cheung Kong Graduate School of Business (長江商學院) in 2014. Mr. LIU also completed his CEO course of China Europe International Business School in 2017.

Directors, Supervisors and Senior Management

Mr. XI Shichang, aged 44, joined our Company in July 2010 and has been the chief financial officer of our Company since December 2010. He is primarily responsible for overseeing corporate finance and financial management of our Company. Prior to joining our Company, from October 1999 to December 2002, Mr. XI worked at Shanghai Zhong Yong Xin Accounting Firm (上海中永信會計師事務所). From January 2003 to July 2010, Mr. XI worked at Deloitte Touche Tohmatsu CPA Limited.

Mr. XI graduated with a bachelor's degree in finance from Shanghai University of Finance and Economics (上海財經大學) in July 1995 and a master of business administration degree from the executive master of business administration program at CEIBS in October 2013. Mr. XI has been a Certified Public Accountant (non-practicing member) accredited by The Chinese Institute of Certified Public Accountants and a member of the Institute of Public Accountants, Australia since June 2011.

Mr. LI Jianhong, aged 45, joined our Company in February 2013 and has been a vice general manager of our Company since March 2013. He is primarily responsible for the investment and financing of our Company. Prior to joining our Company, Mr. LI worked as the head of the finance department of Xiamen Customs in the 1990s. Mr. LI joined Man Wah Holdings Ltd. (敏華控股有限公司), a company listed on the Hong Kong Stock Exchange (Stock Code: 01999) in September 2000 and served as its executive director, chief operating officer and vice president from April 2005 to October 2011.

Mr. LI graduated with a bachelor's degree in accounting from Xiamen University (廈門大學) in July 1994, and obtained a distance education degree in executive master of business administration from Peking University (北京大學) in January 2007. Mr. LI obtained a master of business administration degree from Booth School of Business, University of Chicago in March 2010. Mr. LI was accredited as a Chinese Certified Public Accountant (non-practicing member) by CICPA in June 2001.

Mr. ZHANG Peifeng, aged 47, joined our Company in October 2008 and has been a vice general manager of our Company since 30 December 2010. He is primarily responsible for the property management of our Company. Prior to joining our Company, Mr. ZHANG worked in Whirlpool Corporation (China) (美國惠而浦水仙公司(中國)), a company mainly producing household appliances, from September 1997 to March 1999. Mr. ZHANG then worked in Shanghai B&Q Decoration and Construction Material Co., Ltd. (上海百安居裝飾建材有限公司) from June 1999 to July 2005. From August 2005 to November 2006, Mr. ZHANG worked at the Home Depot (China) (家得寶(中國)), a company mainly selling home furniture and construction materials. From January 2007 to May 2008, Mr. ZHANG worked in Best Buy Commercial (Shanghai) Co., Ltd. (百思買商業(上海)有限公司).

Mr. ZHANG graduated with a bachelor's degree in English literature from Qufu Normal University (曲阜師範大學) in July 1994 and a master's degree in English language from Shanghai International Studies University (上海外國語大學) in February 1997.

Mr. XIE Jian, aged 48, joined our Company in March 2011 and has been a vice general manager of our Company since April 2011. He is primarily responsible for human resources, new retail, education industry, cultural marketing management and promotion management, administration and management of our Company. Prior to joining our Company, Mr. XIE served as a general manager responsible for human resources and service quality of New World Department Store China Ltd. (新世界百貨(中國)有限公司) from April 1995 to January 2011.

Directors, Supervisors and Senior Management

Mr. XIE completed his studies in politics and education at Wuxi Education College (無錫教育學院) in July 1990. He obtained a bachelor's degree in business management through self-study examination from Nanjing University (南京大學) in July 1995. Mr. XIE obtained his master's degree in the executive master of business administration from Shanghai Jiao Tong University in June 2015. Mr. XIE was awarded as the "Excellent Trainer of the Industry" by China Building Materials Circulation Association (中國建築材料流通協會) in November 2010 and was appointed as "First Thinktank – Human Resources Expert" and "China Pioneer HR" in October 2013 by First Thinktank (第一資源智庫). He entered the "2015 China Top 100 Individuals for Promoting the HR Reform" selected in April 2015 and was awarded the "Most Influential Person of Employer's Brand" by zhaopin.com in 2018. The team led by Mr. XIE has been awarded "Best Corporate University" for 7 years in a row since 2011 and "Best Employee-loved Company" for 6 consecutive years since 2012 and has been granted "China Best Employer Award" for 5 years in a row since 2013. Mr. XIE is the deputy director of CCFA, the chief member of human resources committee and deputy chief member of fashion retail committee.

Mr. WANG Wei, aged 49, joined our Company in June 2007 and has been a vice general manager of our Company since March 2013. He is primarily responsible for the business development and operation of our Company. Mr. WANG has held several positions since joining our Company, including the general manager of Chongqing Red Star Macalline Shibo Home Living Plaza Company Limited (重慶紅星美凱龍世博家居生活廣場有限責任公司) and Chengdu Red Star Macalline Shibo Home Living Plaza Company Limited (成都紅星美凱龍世博家居生活廣場有限責任公司) from June 2007 to August 2008, the general manager of our operating center in the southwest region and Shanghai from August 2008 to June 2009, the assistant president and the general manager of our operating center in the Beijing-Shanghai Southwest region from June 2009 to August 2012 and the general manager of our operating center in the Beijing-Shanghai Southwest region from September 2010 to August 2012. Prior to joining our Company, Mr. WANG served as the assistant general manager of Wuhan GOME Electrical Appliances Ltd. (武漢國美電器有限公司) from March 2004 to December 2005. From December 2005 to June 2007, Mr. WANG served as the assistant general manager of the development center of Red Star Furniture Group, mainly responsible for the operation of shopping malls in Changzhou and Xuzhou.

Mr. WANG graduated with a bachelor's degree in Chinese from Hubei University (湖北大學) in June 1992 and a master's degree in business administration from Wuhan University of Technology (武漢理工大學) in June 2005. He graduated from Renmin University of China with an EMBA in June 2015.

Mr. CHEN Donghui, aged 42, joined our Company in June 2007 and has been a vice general manager of our Company since March 2013. He is primarily responsible for the development of online business of our Company. Mr. CHEN has held several positions since joining our Company, including the general manager of the fourth operating center and the general manager of Shandong, Northeast and North China regions from June 2007 to June 2010, the assistant to the president and general manager of North China and Northeast regions from June 2010 to December 2013, the vice president from January 2014 to November 2017 and has concurrently served as the COO of the Internet Division since December 2017. Prior to joining our Company, Mr. CHEN held several positions successively in Red Star Furniture Group, including as its accountant from December 1994 to July 1996, the vice general manager in charge of business operation of its several operating subsidiaries from July 1996 to August 2006, and the general manager of its fourth operation center and Shandong, Northeast and North China regions from August 2006 to June 2007. Mr. CHEN is Ms. CHEN Shuhong's brother.

Directors, Supervisors and Senior Management

Mr. CHEN completed the advanced course of business administration at Shanghai Jiao Tong University (上海交通大學) in April 2005 and his studies in business administration through online education at East China Normal University (華東師範大學) in January 2014. He obtained his executive master of business administration degree at Shanghai Fudan University (上海復旦大學) in June 2016.

Mr. ZHANG Xian, aged 40, joined our Company in June 2007 and has been a vice general manager of our Company since March 2015. He is primarily responsible for the general operation of shopping malls and management of the pre-paid card, building materials collection and logistics businesses of our Company. Mr. ZHANG has held several positions successively since joining our Company, including the vice general manager of the fourth operating center, the vice general manager of Shandong and Northeast regions, and the general manager of Southern area of Jiangsu Province from June 2007 to December 2010, the assistant president and the general manager of operation and promotion center from December 2010 to January 2015. Prior to joining our Company, Mr. ZHANG held several positions in Red Star Furniture Group, including the head of its human resources department and the director of its president office from January 1999 to January 2005, the vice general manager of its fourth operation center, the vice general manager of Shandong and Northeast regions, and the general manager of the Southern area of Jiangsu Province from January 2005 to June 2007. Mr. ZHANG was awarded the honorable title of “Shanghai Youth 4th Medal” in April 2016.

Mr. ZHANG graduated with a master’s degree in business administration from Guangxi Normal University (廣西師範大學) in June 2013.

Report of Directors

The Board of Directors is pleased to present this annual report together with the audited Consolidated Financial Statements of the Company and its subsidiaries (the “Group”) for the end of the Reporting Period.

CORPORATE INFORMATION, GLOBAL OFFERING AND A-SHARE LISTING

The Company was incorporated in the PRC on 6 January 2011 as a sino-foreign joint stock company with limited liability. The Company’s H Shares were listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1528) on 26 June 2015. The A Shares of the Company were listed and commenced trading on the Shanghai Stock Exchange on 17 January 2018 with stock code 601828.

PRINCIPAL ACTIVITIES

The Group operates as a leading home improvement and furnishings shopping mall operator in China principally engaged in the operation of Owned/Leased Portfolio Shopping Malls, Managed Shopping Malls, construction and design, sales of merchandise and related services businesses. The principal activities of the Group are as follows:

- i. Owned/Leased Portfolio Shopping Malls including leasing floor areas to the tenants and providing comprehensive and continuous operation and management support to them;
- ii. Managed Shopping Malls including providing initiation, consultation and management services to the Group’s partners and the construction contractors to develop and manage the shopping malls under the Group’s own brand;
- iii. Construction and design including providing building installation and decorating services in shopping malls, which are held by owners of Managed Shopping Malls and owners of external commercial properties; and
- iv. Sales of merchandise and related services including retail sales of home furnishing merchandise and providing related decorating services.

Please refer to Note VII. 1 to the Consolidated Financial Statements on page 335 for details of the principal activities of the principal subsidiaries of the Group. There were no significant changes in the nature of the Group’s principal activities during the Reporting Period.

SUMMARY OF FINANCIAL INFORMATION AND OPERATING RESULTS

Please refer to the section headed “Management Discussion and Analysis” on page 11 for a summary of financial information and operating results of the Group for the end of the Reporting Period.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group’s future business development are provided in the section headed “Chairman’s Statement” on page 7 as well as the section headed “Management Discussion and Analysis” on page 11. Description of possible risks that the Group may be facing can be found in the section headed “Management Discussion and Analysis” on page 52. Also, the risk management objectives and policies of the Group can be found in the section headed “Corporate Governance Report” on page 118. Particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2018 are provided in Note XII to the Consolidated Financial Statements on page 421 and the section headed “Management Discussion and Analysis” on page 48. An analysis of the Group’s performance during the year using financial key performance indicators is provided in the section headed “Management Discussion and Analysis” on page 34.

ENVIRONMENTAL POLICIES AND PERFORMANCE

We are subject to certain environmental protection laws and regulations, including the Prevention and Control of Water Pollution Law of the People's Republic of China (《中華人民共和國水污染防治法》), the Prevention and Control of Atmospheric Pollution Law of the People's Republic of China (《中華人民共和國大氣污染防治法》), the Prevention and Control of Noise Pollution Law of the People's Republic of China (《中華人民共和國環境噪聲污染防治法》), the Prevention and Control of Environmental Pollution by Solid Waste Law of the People's Republic of China (《中華人民共和國固體廢物污染環境防治法》), the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》), the Administrative Regulations on Environmental Protection for Acceptance Examination upon Completion of Buildings (《建設項目竣工環境保護驗收管理辦法》) and the Administrative Regulations on Environmental Protection for Development Projects (《建設項目環境保護管理條例》).

Each of our property development projects is required under the laws of China to undergo environmental impact assessments. We must submit the relevant environmental impact study or report to the environmental authorities, along with other required documents, for evaluation and approval by the authorized environmental protection authorities. The approval from the relevant government authorities will specify the standards applicable to the construction project with respect to areas such as air pollution, noise emissions and water and waste discharge. Such measures are required to be incorporated into the design, construction and operation of the particular project. Upon completion of each project, the relevant government authorities will also inspect the site to ensure that all applicable environmental standards have been complied with.

We have taken and will continue to take specific measures to ensure our compliance with applicable environmental laws and regulations, including (i) strictly selecting construction contractors and supervising the process of construction; (ii) applying for review by the relevant government authorities in a timely manner after the project is completed; and (iii) actively adopting environmentally friendly equipment and designs. We also undertake voluntary environmental protection actions and make energy conservation and emission reduction our top considerations when designing our property projects. In 2018, we incurred environmental compliance costs of approximately RMB94.64 million for newly opened shopping malls. We expect the annual costs of compliance going forward to be substantially similar, assuming that there will not be any material changes in environmental protection rules and regulations.

As at the end of the Reporting Period, none of our shopping malls had received any material fines or penalties associated with any breach of any environmental laws or regulations since the commencement of their operations.

The Board has overall responsibility for our environmental, social and governance ("ESG") strategy and reporting. The Board is responsible for evaluating and determining our ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. A confirmation regarding effectiveness of these systems has been provided to the Board for the year ended 31 December 2018. A separate ESG report complying with the disclosure requirements under Appendix 27 to the Listing Rules will be published by the Group separately, in any event no later than three months after the publication of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group and its activities are required to comply with the requirements of laws and regulations of China, including but not limited to The Company Laws of the People's Republic of China (《中華人民共和國公司法》), The Law of the PRC on Protection of Consumer Rights and Interest (《中華人民共和國消費者權益保護法》), The Law of Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》), Construction Law of the People's Republic of China (《中華人民共和國建築法》), laws, regulations and other normative documents. The Group focuses on internal risk management and control. The independent financial management center, legal department, internal control compliance department are established and are responsible for conducting specific analysis and review of the laws and regulations applicable to each business of the Company within the internal approval process and assign a professional team to effectively conduct management, inspections and rectification, to ensure that the Group is in compliance with relevant laws and regulations in all major aspects.

As far as the Board is aware, the Group has complied with the relevant laws and regulations that have a significant impact on the Group in all material respects. The Group has adopted the Model Code.

DIVIDEND POLICY

The Articles of Association states that the Company may distribute dividends in cash or shares. The profit distribution of the Company should focus on the reasonable return for shareholders, and the profit distribution policy should maintain its continuity and stability; unless under special circumstances, the Company should distribute dividends mainly in cash if it records profit in the year and the accumulated undistributed profits are positive. The total profit distributed in cash for each year should not be less than 20% of the net profit that is available to distribute to shareholders of the Company.

The profit distribution policy of the Company is in compliance with the Articles of Association as well as the approval procedures. The policy, which has been reviewed by independent non-executive Directors, fully protects the legitimate rights and interests of medium and small investors and has clear standards on dividend distributions and dividend distribution ratio. The conditions and procedures of the adjustments and modification on the profit distribution policy are in compliance with relevant requirements and transparent.

RELATIONS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands well that employees are valuable assets and thus offers a competitive remuneration portfolio to attract and motivate employees. The Group reviews the employees' remuneration portfolio on a regular basis and makes necessary adjustments to align the market standards. The Group also understands that it is of great importance to maintain good relations with suppliers and customers for the realization of the short-term and long-term goals. For the purpose of maintaining the competitiveness of brands and the leading position, the Group is committed to providing premium products and services to customers. During the Reporting Period, the Group has no material and significant dispute with suppliers and/or customers.

KEY RISKS AND UNCERTAINTIES

For details of the Group's key risks and uncertain factors for the end of the Reporting Period, please refer to page 51 in the section headed "Management Discussion and Analysis".

BANK LOANS AND OTHER BORROWINGS

Please refer to Note V. 25, 32 and 34 to the Consolidated Financial Statements on page 287 for details of bank loans and other borrowings of the Group as of the end of the Reporting Period.

BONDS/DEBT INSTRUMENTS

On 18 July 2018, the Company has issued the 2018 first tranche of Super Short-term Commercial Papers with an issue size of RMB500,000,000 at a coupon rate of 5.95% according to the Notice for Acceptance of Registration (Zhong Shi Xie Zhu [2016] No. SCP400) published by the National Association of Financial Market Institutional Investors on 25 November 2016, indicating its consent for acceptance of the registration for the issuance of Super Short-term Commercial Papers by the Company with the amount for registration of Super Short-term Commercial Papers reaching RMB3 billion. The proceeds raised from this tranche of Super Short-term Commercial Papers were wholly used for repayment of the bank loans of the Company and its subsidiaries. The Super Short-term Commercial Papers were issued on National Interbank Bond Market. For further details, please refer to the announcements issued by the Company on 19 July 2018. The Super Short-term Commercial Papers are still outstanding as at 31 December 2018.

According to the above mentioned Notice for Acceptance of Registration, on 20 September 2018, the Company issued the 2018 second tranche of Super Short-term Commercial Papers with an issue size of RMB500,000,000 at a coupon rate of 5.00%. The proceeds raised from this tranche of Super Short-term Commercial Papers were wholly used for repayment of the bank loans of the Company, increasing the proportion of direct financing and optimizing financing structure. The Super Short-term Commercial Papers were issued on National Interbank Bond Market. For further details, please refer to the announcements issued by the Company on 26 September 2018. The Super Short-term Commercial Papers are still outstanding as at 31 December 2018.

On 12 September 2018, the Company received the Notice for Acceptance of Registration (Zhong Shi Xie Zhu [2018] No. MTN506) issued by the National Association of Financial Market Institutional Investors (the "NAFMII"), expressing its consent for acceptance of the registration for 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. On 22 October 2018 and 23 October 2018, the Company successfully issued the 2018 first tranche of mid-term notes with an issue size of RMB500,000,000 at a coupon rate of 6.18%. The mid-term notes were issued on National Interbank Bond Market. For further details, please refer to the announcements issued by the Company on 24 October 2018. The mid-term notes are still outstanding as at 31 December 2018.

On 19 October 2018, the Company received the Approval of Red Star Macalline Group Corporation Ltd. to Issue corporate bonds to Qualified Investors (Zheng Jian Xu Ke [2018] No. 1642) issued by the China Securities Regulatory Commission (the “CSRC”)(the “Approval”), expressing its consent for the issuance of corporate bonds of the Company to qualified investors, with a total amount of no more than RMB3 billion. The Company’s corporate bonds shall be issued in installments. The first issuance shall be completed within 12 months from the date of approval by the CSRC; the rest of the corporate bonds shall be completed within 24 months from the date of approval by the CSRC. The Approval will be valid for two years from the date of the Approval issued by the CSRC. On 6 November 2018, the issue of the 2018 first tranche corporate bonds of the Company was completed with an issue size of RMB3,000,000,000 at a coupon rate of 6.30%. The corporate bonds were issued on the Shanghai Stock Exchange. For further details, please refer to the announcements issued by the Company on 14 May 2018, 19 October 2018, 5 November 2018 and 7 November 2018. The corporate bonds are still outstanding as at 31 December 2018.

Please refer to Note V. 33 and 35 to the Consolidated Financial Statements on page 295 for details of bonds and other debt instruments of the Group for the end of the Reporting Period.

The Group issued commercial mortgage backed securities during the Reporting Period, please refer to Note V. 38 to the Consolidated Financial Statements on page 304 for details of commercial mortgage backed securities.

CONTINGENT LIABILITIES

Please refer to Note XI. 2 to the Consolidated Financial Statements on page 420 for details of contingent liabilities of the Group for the end of the Reporting Period.

INVESTMENT PROPERTIES

All investment properties we owned were for rental income, and they are subject to medium-term lease in the PRC. Set out below are investment properties that are considered material by our Directors.

No.	Property	Existing use	Fair value in existing state as at the end of the Reporting Period RMB'000
1.	Shanghai Zhenbei Phase II Mall No. 1058 Zhenbei Road Shanghai The PRC	Shopping Mall	4,332,000

Report of Directors

No.	Property	Existing use	Fair value in existing state as at the end of the Reporting Period RMB'000
2.	Shanghai Pudong Hunan Mall No. 518 Linyu Road Pudong New Area Shanghai The PRC	Shopping Mall	4,014,000
3.	Zhengzhou Shangdu Mall No. 1 Shangdu Road Zhengdong New District Zhengzhou City Henan Province The PRC	Shopping Mall	3,298,000
4.	Nanjing Kazimen Mall No. 29 Kazimen Street Qinhuai District Nanjing City Jiangsu Province The PRC	Shopping Mall	3,297,000
5.	Shanghai Wenshui Mall No. 1555 Wenshui Road Baoshan District Shanghai The PRC	Shopping Mall	3,238,000
6.	Beijing East Fourth-Ring Mall No. 193 East Fourth-Ring Middle Road Chaoyang District Beijing The PRC	Shopping Mall	2,841,000

No.	Property	Existing use	Fair value in existing state as at the end of the Reporting Period RMB'000
7.	Shenyang Tiexi Mall No. 35 Bei Er East Road Tiexi District Shenyang City Liaoning Province The PRC	Shopping Mall	2,743,000
8.	Shanghai Pudong Jinqiao Mall No. 100 Jinzang Road Pudong New Area Shanghai The PRC	Shopping Mall	2,441,000
9.	Beijing West Fourth-Ring Mall No. 113 West Fourth Ring Road Fengtai District Beijing The PRC	Shopping Mall	2,338,000
10.	Tianjin Hedong Mall No. 160 Jinbin Avenue Hedong District Tianjin The PRC	Shopping Mall	1,940,000

PROPERTY, PLANT AND EQUIPMENT

Please refer to Note V. 16 to the Consolidated Financial Statements on page 272 for details of movements in the property, plant and equipment of the Group for the end of the Reporting Period.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at the end of the Reporting Period amounted to RMB4,768.5 million.

Please refer to the statement of changes in equity on page 147 and the Company's balance sheet on page 144 for the change in reserves of the Company and information about the statement of financial position of the Company for the end of the Reporting Period.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARY, ASSOCIATES AND JOINT VENTURES

As at the end of the Reporting Period, the Group had no material acquisition or disposal of the subsidiaries, associates and joint ventures during the Reporting Period.

FINAL DIVIDEND AND TAXATION RELIEF

The Board resolved to propose to the Shareholders in the forthcoming annual general meeting on Thursday, 16 May 2019 for the distribution of a final dividend of RMB0.27 per share for the year ended 31 December 2018 payable to the Shareholders whose names are listed in the registers of members of the Company on Thursday, 27 June 2019. The proposal for the distribution of the final dividend above is subject to the consideration and approval of the Shareholders at the AGM.

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), other laws and regulations and relevant regulatory documents promulgated by the State Administration of Taxation of the PRC, the Company shall, as a withholding agent, withhold and pay individual income tax at the rate of 10% for the individual holders of H Shares in respect of the dividend for 2018 to be distributed to them. The individual holders of H Shares may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries (regions) in which the individual holders of H Shares are domiciled and the tax arrangements between mainland China, Hong Kong or Macau.

For non-resident enterprise holders of H Shares, the Company will withhold and pay enterprise income tax at the tax rate of 10% for such holders of H Shares pursuant to relevant regulatory documents of the State Administration of Taxation of the PRC.

For investors of the Shanghai Stock Exchange investing in the H Shares of the Company, the Company will distribute the cash dividend for 2018 to the Shanghai Branch of China Securities Depository and Clearing Corporation Limited which, as the nominee of the investors of H Shares of Southbound Trading, will then distribute the cash dividends to the relevant investors of H Shares of Southbound Trading through its depository and clearing system. Pursuant to the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Caishui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》), for domestic individual investors, the Company shall withhold and pay individual

income tax at the rate of 20% on behalf of the investors. For domestic securities investment funds, the tax payable shall be the same as that for individual investors. The Company will not withhold and pay the income tax of dividends for domestic enterprise investors which shall report and pay the relevant tax themselves. The record date and the date of distribution of cash dividends and other arrangements for the investors of Southbound Trading will be the same as those for the holders of H Shares of the Company.

Should the holders of H Shares of the Company have any doubt in relation to the aforesaid arrangements, they are recommended to consult their tax advisors for relevant tax impact in mainland China, Hong Kong and other countries (regions) on the possession and disposal of the H Shares of the Company.

RETIREMENT BENEFITS

Please refer to Note V. 29 to the Consolidated Financial Statements on page 290 for details of retirement benefits of the Group for the end of the Reporting Period.

FINANCIAL SUMMARY

The Group's financial summary for the last five financial years is set out on page 473 of this annual report. This summary does not form part of the Consolidated Financial Statements.

MAJOR SUPPLIERS AND CUSTOMERS

Purchases from the largest supplier of the Group for the end of the Reporting Period represented approximately 1.13% of the Group's total purchases. The total purchases attributable to the five largest suppliers of the Group accounted for approximately 4.35% of the total purchases of the Group for the end of the Reporting Period.

Sales to the largest third party customer for the end of the Reporting Period represented approximately 3.41% of the Group's total revenue. The total sales attributable to the five largest third party customers of the Group accounted for approximately 6.22% of the Group's total revenue for the end of the Reporting Period.

For the end of the Reporting Period, none of the Directors or their respective Close Associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interests in the five largest suppliers or customers of the Group.

CHARITABLE DONATIONS

The donations by the Group for the end of the Reporting Period amounted to approximately RMB10.6 million.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

Among the related party transactions disclosed in Note X to the Consolidated Financial Statements, the following transactions constitute continuing connected transactions and connected transactions for the Company and are required to be disclosed in this annual report in accordance with Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements of Chapter 14A of the Listing Rules for all the continuing connected transactions and connected transactions.

Save as disclosed in this annual report, during the Reporting Period, the Company had no connected transactions or continuing connected transactions which are required to be disclosed in accordance with the provisions under Chapter 14A of the Listing Rules in relation to the disclosure of connected transactions and continuing connected transactions.

Continuing Connected Transactions

(i) Changzhou RSHFC Lease Agreement

On 1 April 2011, the Company's wholly owned subsidiary, Changzhou Macalline entered into a lease agreement with Changzhou RSHFC, pursuant to which Changzhou Macalline will lease a piece of property from Changzhou RSHFC for the operation and management of Changzhou Decoration Mall.

The Changzhou RSHFC Lease Agreement has an initial term of ten years commencing from its signing date. Changzhou Macalline will pay annual rental and service fees in the fixed amount of RMB13.8 million per annum for the initial three years, followed by a 10% increase for the fourth year and a 3% increase for each of the remaining six years. Such pricing mechanism has been determined with reference to (i) the prevailing market prices of similar properties in the same area; (ii) costs of acquisition of the property by Changzhou RSHFC; and (iii) depreciation costs of the properties. During the term of the Changzhou RSHFC Lease Agreement, Changzhou Macalline has the exclusive right to use the leased property. Subject to applicable laws and regulations, the Changzhou RSHFC Lease Agreement may be renewed based on the parties' negotiation following the written notice from Changzhou Macalline at least two months before the expiry of the lease.

Since Changzhou RSHFC is an individual proprietorship enterprise established by Mr. CHE Jianxing in his personal capacity, transferring the property to our Group by way of asset transfer would give rise to tax implications for Changzhou RSHFC under the applicable PRC laws, which would ultimately be added to our purchase price for such property. Accordingly, we decided to lease the property from Changzhou RSHFC for our management and operation of Changzhou Decoration Mall.

As Changzhou RSHFC is wholly owned by Mr. CHE, the transactions contemplated under the Changzhou RSHFC Lease Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

For each of the years ended 31 December 2016, 2017 and 2018, Changzhou Macalline paid annual rental and service fees of RMB16.0 million, RMB16.4 million and RMB16.2 million, respectively, to Changzhou RSHFC pursuant to the Changzhou RSHFC Lease Agreement. The existing annual caps for the Changzhou Lease under the Changzhou Lease RSHFC Lease Agreement expired as of 31 December 2017, the Board approved to set the new annual caps for the Changzhou RSHFC Lease for the remaining term of the Changzhou RSHFC Lease Agreement on 20 November 2017. Based on the pricing mechanism as described above, the annual caps for the lease for each of the years ending 31 December 2018, 2019, 2020 and three months ending 31 March 2021 are RMB19.0 million, RMB19.5 million, RMB20.0 million and RMB5.0 million, respectively. For further details, please refer to the announcement of the Company dated 20 November 2017.

For the Reporting Period, the rental and service fees paid and payable by Changzhou Macalline pursuant to the Changzhou RSHFC Lease Agreement amounted to RMB16.2 million.

(ii) Contract Management Agreements with Xuzhou RSHFC, Xuzhou RSHFP, Yangzhou RSHFP, Jining Hongrui and Shaanxi Hongrui

The Company entered into a contract management agreement and the supplemental agreement (the “Contract Management Agreements”), as the case may be, with each of Xuzhou RSHFC, Xuzhou RSHFP, Yangzhou RSHFP, Jining Hongrui and Shaanxi Hongrui (the “Associated Business Partners”), pursuant to which the Company will manage and operate the home improvement and furnishings shopping malls owned by each respective Associated Business Partner. As such contract management agreements are of the same nature and have been entered into with parties connected with us by virtue of being the Associates of Mr. CHE Jianxing and Ms. CHE Jianfang, these agreements have been classified as aggregated under the Listing Rules.

As such, the contract management transactions contemplated under the Contract Management Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Under each of the contract management agreements, the Company initially charged our Associated Business Partners a fixed amount of the management fee ranging from RMB2.0 million to RMB6.0 million per annum, as the case may be, which was in line with our pricing policy for contract management arrangements entered into prior to 2013. In December 2013 and January 2014, the Company entered into supplemental agreements with Xuzhou RSHFC, Xuzhou RSHFP and Jining Hongrui, under which the Company and the relevant Associated Business Partners agreed to revise the pricing mechanism relating to the management fee from a fixed flat rate to a percentage of the total amount of rental received by each respective Associated Business Partner, subject to a minimum amount of the annual management fee. The adjustment was made after arm’s length negotiations between us and each respective Associated Business Partner to reflect current market conditions. The terms and conditions under our contract management agreements with Yangzhou RSHFP and Shaanxi Hongrui remain unchanged, except that the Company waived part of the management fee payable by Shaanxi Hongrui in 2014 on a one-off basis due to Shaanxi Hongrui’s special request. Each of these five contract management agreements is for a term ranging from seven to ten years commencing from its signing date.

Report of Directors

The amount of the management fee under the five contract management agreements was determined based on: (i) the local market conditions; (ii) our estimation of the future rental income level for each respective shopping mall; and (iii) our respective business partner's expectation of the future rental income.

For each of the years ended 31 December 2016, 2017 and 2018, the Company received management fees in the total amount of RMB12.5 million, RMB12.3 million and RMB13.1 million under the five contract management agreements with the Associated Business Partners. Each of the contract management agreements is for a term ranging from seven to ten years commencing from its respective signing date, while the contract management agreement with Yangzhou RSHFP was for a term ending on 31 December 2018. On 29 November 2018, the Company entered into a new contract management agreement with Yangzhou RSHFP for a fixed term of three years. As the Group will continue carrying out the transactions contemplated thereunder in its ordinary and usual course of business, the Board proposed to set the new annual caps for the contract management agreement with Yangzhou RSHFP which in turn also lead to changes to the overall annual caps for the contract management transactions for the years ending 31 December 2019, 2020 and 2021. The annual caps for the management fees for each of the years ending 31 December 2019, 2020 and 2021 is expected to be RMB17.5 million, RMB11.0 million and RMB9.8 million, respectively. For further details, please refer to the announcement of the Company dated 29 November 2018.

For the Reporting Period, the management fees received and receivable by the Company pursuant to these agreements and these supplemental agreements amounted to RMB13.1 million.

Most of the home improvement and furnishings shopping malls managed and operated by us under the five contract management agreements are located in Tier III Cities and other cities in the PRC. The Associated Business Partners intended to leverage our operational experience and reputation through cooperation with us. Our Directors believe that it is in our interest, and in line with our business strategy, to leverage the Associated Business Partners' knowledge and experience to expand our geographic coverage and improve our market share and brand awareness in these new local markets, with relatively low capital need.

(iii) RSED Framework Agreement

One direct wholly owned subsidiary of the Company, Xingyi Tonghui, entered into a pre-paid cards purchase framework agreement (the "RSED Framework Agreement") with RSED on 20 March 2015 and a supplemental agreement dated 3 June 2015, pursuant to which Xingyi Tonghui will sell our single-purpose pre-paid cards to RSED and/or its subsidiaries ("RSED Group") for its use as a promotion method in connection with its property sales business. The RSED Framework Agreement has a term of three years from its signing date to 20 March 2018.

Under the RSED Framework Agreement, Xingyi Tonghui and RSED Group will enter into separate pre-paid card purchase agreements on normal commercial terms which will set out the purchase price and the purchase volume. The purchase price shall be determined after arm's length negotiations by reference to the face value of the pre-paid cards, the actual purchase volume, and the then market conditions. Xingyi Tonghui shall provide facilities and services for cardholders to purchase products using the pre-paid cards.

RSED Group is primarily engaged in real estate development, operation and management of department stores, and the construction and management of multipurpose complexes. Our cooperation with RSED Group could promote the sales of our pre-paid cards and the performance of Xingyi Tonghui. It would also help to bring new customers to our home improvement and furnishings shopping malls and as a result increase the sales of our shopping malls.

RSED is an associate of RSM Holding, a Controlling Shareholder of the Company. As a result, RSED is a Connected Person of the Company. The RSED transactions contemplated under the RSED Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The annual caps for the RSED Framework Agreement for each of the years ended 31 December 2016 and 2017 are RMB150 million and RMB200 million, respectively, in terms of face value of the pre-paid cards. Such annual caps were determined based on (i) the pricing mechanism as described above; and (ii) an estimate of RSED Group's purchase volume of our pre-paid cards, which is expected to increase taking into account RSED Group's current estimate of its contracted sales amount for 2016 to 2017, which is RMB15,000 million and RMB20,000 million, respectively for each of the two years ended 31 December 2017.

For the Reporting Period, there is no actual amount that occurred with RSED Group.

The Company has not set the new annual cap for the RSED Transactions under the RSED Framework Agreement for the period commencing 1 January 2018 and ending on 20 March 2018 upon the expiry of the annual caps of the RSED Transactions and the RSED Framework Agreement expired on 20 March 2018 upon expiry of the existing term of the agreement.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of Listing Rules with respect to all of its continuing connected transaction.

The independent non-executive Directors, after taking into consideration of factors such as market environment, transaction amounts, corporate governance, have confirmed that the abovementioned continuing connected transactions and connected transactions for the year ended 31 December 2018 were entered into by the Group: (i) in the ordinary and usual course of its business; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreements governing them and on terms that were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company has assigned the finance department to monitor the continuing connected transactions. The finance department will prepare relevant information and materials in relation to the continuing connected transactions and submit the same to the Secretariat of the Board of Directors for compliance checking before submitting all relevant information and materials to the Board for consideration. All relevant information will be attached as appendices to the board resolutions. In relation to those continuing connected transactions conducted during the Reporting Period, the finance department and the Secretariat of the Board of Directors have reviewed and considered the relevant

Report of Directors

information and materials to ensure compliance with relevant requirements (such as not exceeding the annual caps and ensuring the transactions are carried out in accordance with their respective terms) so as to protect the interests of our Shareholders.

The auditor of the Company has issued its unqualified letter containing its findings and conclusions in respect of the abovementioned continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules, confirming that (i) nothing has come to their attention that causes the auditor to believe that the abovementioned continuing connected transactions have not been approved by the Board of Directors, (ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group, (iii) nothing has come to their attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the terms of the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of each of the transactions, nothing has come to their attention that causes the auditor to believe that the amounts have exceeded the maximum aggregate annual value disclosed in the Prospectus and the previous announcement dated 25 September 2015. A copy of the auditor's letter has been provided by the auditor to the Hong Kong Stock Exchange.

SHARE CAPITAL

Please refer to Note V. 39 to the Consolidated Financial Statements on page 305 for details of movements in the Company's total issued shares for the end of the Reporting Period.

EQUITY-LINKED AGREEMENT

There was no equity-linked agreement entered into by the Company for the end of the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

A Share Offering

On 3 January 2018, the Company issued RMB ordinary shares (A shares) with an issuance 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 were RMB172,442,150.37 and the net amount of funds raised was RMB3,050,007,849.63. The net amount raised per subscription share: RMB9.68 per share. For details, please refer to the announcements of the Company dated 2 January 2018, 16 January 2018 and 7 February 2018, respectively.

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 Hong Kong Securities Limited as the financial advisor and Davis Polk & Wardwell (“Davis Polk”) as the Hong Kong legal counsel for the transaction. On 13 March 2018, 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 from The Securities and Futures Commission of Hong Kong for the same of the Company were obtained on 15 March 2018. On 4 April 2018, The Securities and Futures Commission of Hong Kong officially approved the plan for the transaction of the Company and issued a no comment letter on the transaction of the Company under Rule 3.5 of the Takeovers Code. 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 of the Company disclosed on the designated media in China. On 17 July 2018, 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” below). All net proceeds have been utilized in a manner consistent with the disclosure set out in the section headed “Future Plans and Uses of Proceeds” in the Prospectus and Announcements on Change in Use of Proceeds of the Company. Unutilized amount is expected to be used in 2 years.

Report of Directors

Analysis of 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	Unutilized net
		proceeds for the year ended 31 December 2018 (RMB million)	proceeds for the year ended 31 December 2018 (RMB million)
Development of Portfolio Shopping Mall projects	1,928.5	1,928.5	—
Refinancing of existing debt	1,208.8	1,208.8	—
Investment or acquisition of other market participants in home furnishing industry, development funds for e-commerce business and information technology systems, and working capital and daily expenses	2,436.0	2,408.4	27.6

USE OF PROCEEDS FROM A SHARE OFFERING

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 new intelligent home furnishing shopping mall be assembled as an extension and effective supplement to the existing main business of the Company, and 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, the 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 2018, 16 January 2018 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 of 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 funds raised	3,222,450
Issuance expense	172,442
Net funds 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	

Report of Directors

BOARD OF DIRECTORS

The Directors of the Company during the Reporting Period are:

Executive Directors

Mr. CHE Jianxing (*Chairman*)

Ms. ZHANG Qi (*Vice Chairman*) (resigned on 10 October 2018)

Mr. GUO Binghe (*Vice Chairman*) (appointed on 28 November 2018)

Ms. CHE Jianfang

Mr. JIANG Xiaozhong

Non-executive Directors

Ms. CHEN Shuhong

Mr. XU Guofeng

Mr. Joseph Raymond GAGNON

Mr. ZHANG Qiqi

Independent Non-executive Directors

Mr. LI Zhenning (resigned on 28 November 2018)

Mr. DING Yuan (resigned on 28 November 2018)

Mr. QIAN Shizheng

Mr. LEE Kwan Hung

Mr. WANG Xiao (appointed on 28 November 2018)

Ms. ZHAO Chongyi (appointed on 28 November 2018)

Each of our Directors entered into a contract with the Company in December 2016, except for Mr. GUO Binghe, Mr. WANG Xiao and Ms. ZHAO Chongyi, whose contracts were signed in November 2018. In accordance with Article 90 of the Articles of Association, the Directors shall be elected at general meetings for a term of three years, which is renewable upon re-election when it expires.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the end of the Reporting Period, the interests and short positions of our Directors, Supervisors and chief executive in the shares, underlying shares or debentures of the Company or any of our associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, were as follows:

SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATIONS

(i) The Company

Name of Shareholders	Title	Class of Shares	Nature of interest	Number of underlying shares held	Approximate percentage in relevant class of Shares ⁽¹⁾	Approximate percentage in total Shares ⁽¹⁾
CHE Jianxing (車建興) ⁽²⁾	Chairman, Chief Executive Officer and Executive Director	A Shares	Interest of controlled corporation	2,480,315,772 (Long Position)	86.24%	69.87%
CHEN Shuhong (陳淑紅) ⁽³⁾	Non-executive Director	A Shares	Interest of spouse	2,480,315,772 (Long Position)	86.24%	69.87%

Notes:

- (1) As at 31 December 2018, the Company had 3,550,000,000 issued Shares in total, comprised of 2,876,103,969 A Shares and 673,896,031 H Shares.
- (2) Mr. CHE Jianxing indirectly holds 69.87% of the issued Shares in total of the Company through his 92.00% direct interest in Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司) ("RSM Holding"), a limited liability company incorporated in the PRC, and is deemed to be interested in the 2,480,315,772 A Shares held by RSM Holding for the purpose of the SFO.
- (3) Ms. CHEN Shuhong is the spouse of Mr. CHE Jianxing. Under the SFO, Ms. CHEN Shuhong is deemed to be interested in the same number of Shares in which Mr. CHE Jianxing is interested.

Report of Directors

(ii) Associated Corporation

Name of Director	Name of Associated Corporation	Nature of interest	Equity interest in the Associated Corporation	Approximate percentage in the Associated Corporation ⁽¹⁾
CHE Jianxing (車建興)	RSM Holding ⁽¹⁾	Beneficial interest	46,000,000 (Long position)	92%
CHE Jianfang (車建芳)	RSM Holding ⁽¹⁾	Beneficial interest	4,000,000 (Long position)	8%

Note:

- (1) RSM Holding is the investment holding company of the Company, which is held as to 92% by Mr. CHE Jianxing and as to 8% by Mr. CHE Jianxing's sister, Ms. CHE Jianfang and therefore an "associated corporation" of the Company within the meaning of Part XV of the SFO. As at 31 December 2018, RSM Holding held 2,480,315,772 A Shares of the Company which accounted for approximately 69.87% of the total issued Shares of the Company.

Save as disclosed above, as at the end of the Reporting Period, none of our Directors, Supervisors or chief executive has any interests or short positions in the shares, underlying shares and debentures of the Company or associated corporations (a) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or (b) which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or (c) which will be required to be further notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the end of the Reporting Period, the interests or short positions in the shares or underlying shares which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, and which will be required, pursuant to Section 336 of the SFO, to be recorded in the register referred to therein, as well as persons (other than the Directors, Supervisors or chief executive of the Company), or corporations deemed, directly and/or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings were as follows:

Name of Shareholders	Class of Shares	Capacity/nature of Interest	Number of Shares interested	Approximate percentage in relevant class of Shares ⁽¹⁾	Approximate percentage in total share capital ⁽¹⁾
RSM Holding	A Shares	Beneficial owner	2,480,315,772 (Long position)	86.24%	69.87%
Warburg Pincus & Co. ⁽²⁾	H Shares	Interest of controlled corporation	162,463,421 (Long position)	15.28%	4.58%
Warburg Pincus Partners GP LLC ⁽²⁾	H Shares	Interest of controlled corporation	162,463,421 (Long position)	15.28%	4.58%
Warburg Pincus Partners, L.P. ⁽²⁾	H Shares	Interest of controlled corporation	162,463,421 (Long position)	15.28%	4.58%
Warburg Pincus Real Estate I GP, LLC ⁽²⁾	H Shares	Interest of controlled corporation	105,776,016 (Long position)	9.95%	2.98%
Candlewood Investment SRL ⁽²⁾	H Shares	Other	105,776,016 (Long position)	9.95%	2.98%
Warburg Pincus Real Estate I L.P. ⁽²⁾	H Shares	Interest of controlled corporation	105,776,016 (Long position)	9.95%	2.98%
Springwood Investment SRL ⁽²⁾	H Shares	Other	56,687,405 (Long position)	5.33%	1.60%
WPRE Redstar Manager LLC ⁽²⁾	H Shares	Interest of controlled corporation	56,687,405 (Long position)	5.33%	1.60%
WPRE I Redstar, L.P. ⁽²⁾	H Shares	Interest of controlled corporation	56,687,405 (Long position)	5.33%	1.60%
Wong Man Li ⁽³⁾	H Shares	Interest of controlled corporation	35,509,400 (Long position)	5.27%	1.00%
Man Wah Investments Limited ⁽³⁾	H Shares	Beneficial owner	35,509,400 (Long position)	5.27%	1.00%
Hui Wai Hing ⁽³⁾	H Shares	Interest of the spouse	35,509,400 (Long position)	5.27%	1.00%
Wong Luen Hei ⁽⁴⁾	H Shares	Interest of controlled corporation	60,442,281 (Long position)	8.97%	1.70%
UBS Trustees (B.V.I.) Limited ⁽⁴⁾	H Shares	Interest of controlled corporation	60,442,281 (Long position)	8.97%	1.70%
New Fortune Star Limited ⁽⁴⁾	H Shares	Interest of controlled corporation	60,442,281 (Long position)	8.97%	1.70%
Fuhui Capital Investment Limited ⁽⁴⁾	H Shares	Interest of controlled corporation	60,442,281 (Long position)	8.97%	1.70%

Report of Directors

Name of Shareholders	Class of Shares	Capacity/nature of Interest	Number of Shares interested	Approximate percentage in relevant class of Shares ⁽¹⁾	Approximate percentage in total share capital ⁽¹⁾
China Lesso Group Holdings Limited ⁽⁴⁾	H Shares	Interest of controlled corporation	60,442,281 (Long position)	8.97%	1.70%
UBS Group AG	H Shares	Interest of controlled corporation	23,587,462 (Long position) 13,848,830 (Short position)	5.56%	1.05%

Notes:

- (1) As at 31 December 2018, the Company had 3,550,000,000 issued Shares in total, comprised of 2,876,103,969 A Shares and 673,896,031 H Shares.
- (2) Warburg Pincus Real Estate I, L.P. is the sole quota-holder of Candlewood Investment SRL ("Candlewood"). Warburg Pincus Real Estate I, L.P. is wholly-controlled by Warburg Pincus Real Estate I GP, LLC.
- WPRE I Redstar, L.P. is the sole quota-holder of Springwood Investment SRL ("Springwood"). WPRE Redstar Manager LLC is the general partner of WPRE I Redstar, L.P.. Warburg Pincus Real Estate I GP, LLC is the managing member of WPRE Redstar Manager LLC.
- Accordingly, Warburg Pincus Real Estate I GP, LLC is deemed to be interested in the shareholding interest of each of Warburg Pincus Real Estate I, L.P., Candlewood Investment SRL, WPRE Redstar Manager LLC, WPRE I Redstar, L.P. and Springwood Investment SRL in the Company pursuant to the disclosure requirements under the SFO.
- Warburg Pincus Partners, L.P. is a managing member of Warburg Pincus Real Estate I GP, LLC. Warburg Pincus Partners GP LLC is a general partner of Warburg Pincus Partners, L.P.. Warburg Pincus & Co. is the managing member of Warburg Pincus Partners GP LLC.
- Accordingly, Warburg Pincus & Co. is deemed to be interested in the shareholding interest of each of Warburg Pincus Partners GP LLC, Warburg Pincus Partners, L.P., Warburg Pincus Real Estate I GP, Warburg Pincus Real Estate I, L.P., Candlewood Investment SRL, WPRE Redstar Manager LLC, WPRE I Redstar, L.P. and Springwood Investment SRL in the Company pursuant to the disclosure requirements under the SFO.
- (3) Mr. WONG Man Li is indirectly interested in the 35,509,400 shares through Man Wah Investments Limited, which was 80%-controlled by Mr. WONG Man Li. Therefore, Mr. WONG Man Li is deemed to be interested in the 35,509,400 shares through Man Wah Investments Limited.
- Ms. HUI Wai Hing is the spouse of Mr. WONG Man Li. Under the SFO, Ms. HUI Wai Hing is deemed to be interested in the same number of shares in which Mr. WONG Man Li is interested.
- (4) UBS Trustees (B.V.I.) Limited who is the trustee and sole shareholder of Xi Xi Development Limited ("Xi Xi Development") which in turn is the sole shareholder of New Fortune Star Limited ("New Fortune Star") which in turn holds 68.28% of China Lesso Group Holdings Limited ("China Lesso") which in turn is the sole shareholder of Fuhui Capital Investment Limited ("Fuhui Capital"). The trust was established by Mr. WONG Luen Hei on 22 March 2017.
- Accordingly, UBS Trustees (B.V.I.) Limited is deemed to be interested in the shareholding interest of each of Xi Xi Development, New Fortune Star, China Lesso and Fuhui Capital in the Company pursuant to the disclosure requirements under the SFO.

Save as disclosed above, as at the end of the Reporting Period, the Company is not aware of any other person (other than the Directors, Supervisors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Please refer to the section headed "Directors, Supervisors and Senior Management" for biographical details of the Directors, Supervisors and senior management of the Company.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACT OF SIGNIFICANCE

The re-election of each Director was approved by Shareholders at the 2016 third extraordinary general meeting of the Company held on 30 December 2016. Each of our Directors entered into a contract with the Company in December 2016, except for Mr. GUO Binghe, Mr. WANG Xiao and Ms. ZHAO Chongyi, whose service contracts were signed in November 2018. The principal particulars of these service contracts comprise:

- (a) a term of three years commencing from the date on which the relevant Shareholders' approvals for the appointment were obtained; and
- (b) termination provisions in accordance with their respective terms.

Each independent non-executive Director shall be subject to retirement by rotation for every two sessions, while other Directors shall be subject to retirement by rotation for every three sessions.

No Director has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than normal statutory obligations).

Ms. NG Ellen Hoi Ying, the shareholder representative Supervisor, Mr. PAN Ning and Ms. CHAO Yanping, the employee representative Supervisors as well as Mr. ZHENG Hongtao and Mr. CHEN Gang, the independent Supervisors, entered into service contracts with the Company in December 2016.

The principal particulars of these service contracts comprise:

- (a) a term of three years commencing from the date on which the relevant Shareholders' approvals for the appointment were obtained (save as from the date on which the third session of the supervisory committee commences for the employee representative Supervisors); and
- (b) termination provisions in accordance with their respective terms. The Supervisors may be re-appointed for successive reappointments.

No Supervisor has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than normal statutory obligations).

Save as disclosed in this annual report, as at the end of the Reporting Period, none of the Directors and the Supervisors or entities connected with the Directors and the Supervisors was materially interested, either directly or indirectly, in any transaction, arrangement or contract of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party.

CONTRACT OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

Save as disclosed in this annual report with regard to those connected transactions entered into with our Controlling Shareholders, as at the end of the Reporting Period, there is no other contract of significance entered into between us and our Controlling Shareholders.

MANAGEMENT CONTRACTS

For the year ended 31 December 2018, other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the reporting period.

DIRECTORS' PERMITTED INDEMNITY PROVISION

At no time during the year ended 31 December 2018 and up to the date of this annual report, there was or is, any permitted indemnity provision being in force for the benefit of any of the Directors and Supervisors of the Company (whether made by the Company or otherwise) or of an associated company (if made by the Company). The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and senior officers of the Group as of the end of the Reporting Period.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

As disclosed in the Prospectus, Mr. CHE and his Close Associates continue to hold interests in certain businesses (the "Restricted Business"), which are in competition, or are likely to compete with the core operations (i.e. the business of operating and managing home improvement and furnishings shopping malls in the PRC) of the Group (the "Core Operations").

1. Greenland Jinniu Shopping Mall

Mr. CHE, through Chengdu Property (an indirect wholly owned subsidiary of RSED), holds 50% equity interest in Greenland Jinniu, which in turn holds Chengdu Jinniu Shopping Mall and its corresponding assets and liabilities. Such 50% equity interest was disposed by the Company to Chengdu Property in the process of disposal of our equity interest in companies engaging in real estate development business in 2011 considering Greenland Jinniu primarily engages in real estate development business and Chengdu Jinniu Shopping Mall was then at the stage of construction-in-process. In order to consolidate the Group's Core Operations and minimize potential competition and conflict of interests with the Controlling Shareholders, the Company entered into a repurchase framework agreement in December 2011 (as supplemented by two supplemental agreements), pursuant to which the Company was granted an option to repurchase, among others, Chengdu Jinniu Shopping Mall. In anticipation of the opening of Chengdu Jinniu Shopping Mall, our Group entered into a contract management agreement with Greenland Jinniu in November 2013, pursuant to

which our Group would operate and manage Chengdu Jinniu Shopping Mall under our own brand, pending repurchase of the shopping mall. In view that Greenland Jinniu Shopping Mall has commenced operations for more than two years since August 2014, our Directors considered that its business operations have reached a mature stage. On 23 October 2015, the Company entered into the Repurchase Agreement with Chengdu Property, pursuant to which the Company agreed to repurchase 50% of the interest in Chengdu Jinniu Shopping Mall (held by Chengdu Property through Greenland Jinniu). For further details, please refer to the Prospectus – “Relationship with Our Controlling Shareholders” and the Company’s announcement dated 23 October 2015. As at the end of the Reporting Period, the Company has not exercised the repurchase option as referred to in the Repurchase Agreement.

2. Property held by Changzhou RSHFC

Changzhou Macalline, a wholly owned subsidiary of the Company, has leased a piece of property from Changzhou RSHFC for the operation and management of Changzhou Decoration Mall. Changzhou RSHFC is an individual proprietary enterprise (個人獨資企業) established by Mr. CHE under the PRC laws. Prior to April 2011, Changzhou RSHFC had used the property to operate its Portfolio Shopping Mall then named as “Changzhou Red Star Mall”. In order to consolidate the Group’s Core Operations and minimize potential competition and conflict of interests with the Controlling Shareholders, Changzhou RSHFC ceased to engage in home improvement and furnishing shopping mall business from April 2011 and leased property to Changzhou Macalline in view that the transfer of such property to the Group would give rise to tax implications.

We have adopted corporate governance measures to manage potential conflict of interest between the Group and the Controlling Shareholders. As the transactions contemplated under the Repurchase Agreement in relation to the repurchase of 50% interest in Chengdu Jinniu Shopping Mall constitutes connected transactions, the Directors who have a material interest have abstained from voting on the board resolution to approve the transactions. For further details, please refer to “Connected and Continuing Connected Transactions” of this annual report.

Save as disclosed in the Prospectus and in this annual report, none of Directors and Controlling Shareholders has interest in business which is in competition, or is likely to compete, with the Company.

NON-COMPETITION UNDERTAKING

In order to ensure that there is no competition between our Core Operations and the other business activities of Mr. CHE and his Close Associates, Mr. CHE and RSM Holding have entered into a non-competition undertaking (the “Non-Competition Undertaking”) in favor of our Company, under which they have undertaken that they will not directly or indirectly, whether as principal or agent, either on their own account or in conjunction with or on behalf of any person, firm, or company, engage, participate or hold any right or interest in any Restricted Business and will use their best efforts to procure that their respective Close Associates (other than any member of our Group) will not, directly or indirectly, whether as principal or agent, either on their own account or in conjunction with or on behalf of any person, firm, or company, engage, participate or hold any right or interest in any Restricted Business.

Report of Directors

Under the Non-Competition Undertaking, Mr. CHE and RSM Holding have, among others, (i) undertaken to offer new business opportunity in any Restricted Business to the Company on terms and conditions no less favorable than those offered to them or their respective Close Associates; (ii) undertaken to assist our repurchase of the relevant shopping malls, including Chengdu Jinniu Shopping Mall; and (iii) granted an option and right of first refusal for the Company to purchase the property leased from Changzhou RSHFC. For further details, please refer to the Prospectus — “Relationship with Our Controlling Shareholders”.

Mr. CHE and RSM Holding have confirmed their compliance with the Non-Competition Undertaking during the Reporting Period. The independent non-executive Directors have also reviewed the compliance with the Non-Competition Undertaking by Mr. CHE and RSM Holding and are satisfied that they have complied with the undertakings.

DIRECTORS’ AND SUPERVISORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed “Directors’, Supervisors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” above, at no time during the Reporting Period was the Company or any of its subsidiaries or holding company or any subsidiary of the Company’s holding company, a party to any arrangement that would enable the Directors or the Supervisors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or the Supervisors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

EMOLUMENTS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THE FIVE HIGHEST PAID INDIVIDUALS

Please refer to Notes XIII.3 and XIII.4 to the Consolidated Financial Statements on page 427 for details of the emoluments of the Directors, Supervisors and senior management and the five highest paid individuals of the Company.

The table below shows the remuneration of senior management by band:

(RMB)	2018 (members of senior management)	2017 (members of senior management)
1–1,000,000	—	—
1,000,000–1,500,000	—	—
1,500,000–2,000,000	—	2
2,000,000–2,500,000	3	4
2,500,000–3,000,000	4	1
3,000,000–3,500,000	—	2
3,500,000–4,000,000	—	—
4,000,000–4,500,000	1	—

REMUNERATION POLICY AND DIRECTORS' REMUNERATION

The remuneration of our employees consists of basic salary and performance bonuses. The Company conducts annual evaluations of our employees, supplemented by random checks from time to time. The evaluation results are linked directly with the employees' compensation. Selected employees with outstanding work performance and records are promoted to managerial positions.

In accordance with the applicable PRC laws and regulations, as well as compulsory requirements of the local authorities where our shopping malls are located, the Company contributed to various social insurance plans such as pension contribution plans, medical insurance plans, unemployment insurance plans, maternity insurance plans and work injury insurance plans for our employees. The amount of required contribution as a percentage of our employees' salaries varies from place to place, depending on relevant salary levels, location of the operation and other factors such as the average age of our employees.

Our Directors receive compensation in the form of Directors' fees, salaries, housing allowances and other allowances, benefits in kind, the employer's contribution to the pension schemes and discretionary bonuses.

Please refer to Note XIII.3 to the Consolidated Financial Statements on page 427 for details of the Directors' remuneration for the end of the Reporting Period.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors, namely Mr. LI Zhenning (resigned on 28 November 2018), Mr. DING Yuan (resigned on 28 November 2018), Mr. QIAN Shizheng, Mr. LEE Kwan Hung, Mr. WANG Xiao (appointed on 28 November 2018) and Ms. ZHAO Chongyi (appointed on 28 November 2018), the confirmation of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has duly reviewed the confirmation of independence of each of these Directors. The Company considers that the independent non-executive Directors have been independent from the date of their appointment to the end of the Reporting Period and remain so as at the date of this annual report.

MATERIAL LEGAL PROCEEDINGS

As of the end of the Reporting Period, the Company was not involved in any material litigation or claims and no material litigation or arbitration was pending or threatened against the Company so far as the Company is aware.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Reporting Period, except deviation from code provision A.2.1 of the Corporate Governance Code, the Company has complied with the provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, which sets out principles of good corporate governance in relation to, among other matters, the Directors, the chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration and communications with shareholders. Our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and the Controlling Shareholders and/or Directors to protect the interest of our minority shareholders. Please refer to the section headed “Corporate Governance Report” on page 104 for details.

AUDITOR

The Consolidated Financial Statements have been audited by Ernst & Young Hua Ming LLP, Certified Public Accountant, the PRC auditor of the Company.

The Company changed its auditor in November 2018.

Considering that Deloitte Touche Tohmatsu Certified Public Accountants LLP (“Deloitte”) had continuously served as auditor of the Company for more than 10 years, on the recommendation of the Audit Committee, the Board resolved to change auditors. Based on the aforesaid reason, and as recommended by the Audit Committee, the Board resolved to appoint Ernst & Young Hua Ming LLP as the auditor of the Company for the year 2018 and resolved to appoint Zhongxingcai Guanghua Certified Public Accountants LLP as the internal control consultant of the Company for the year 2018 with a term until the conclusion of the next annual general meeting. The resolution was approved by the Shareholders at the 2018 Second Extraordinary General Meeting. For further details, please refer to the Company’s announcement dated 11 November 2018, the supplemental circular of the 2018 Second Extraordinary General Meeting dated 11 November 2018 and the poll results announcement of the 2018 Second Extraordinary General Meeting dated 28 November 2018.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and the Consolidated Financial Statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the laws of the PRC.

SUFFICIENCY OF PUBLIC FLOAT

The Hong Kong Stock Exchange granted a waiver under Rule 8.08(1)(d) of the Listing Rules to accept a lower public float percentage of the Company's issued share capital (the "Minimum Public Float") on the conditions that:

- i. the Minimum Public Float of the Company should be at the highest of: (a) 15.10%; (b) such percentage of Shares held by the public after completion of the Global Offering; and (c) such percentage of Shares held by the public after the exercise of the over-allotment option;
- ii. the Company will confirm sufficiency of public float in successive annual reports after Listing; and
- iii. the Company will implement appropriate measures to ensure continual maintenance of the Minimum Public Float prescribed by the Hong Kong Stock Exchange.

The over-allotment option has not been exercised. Accordingly, the Company has complied with the public float requirement, which is at the highest of such percentage (being 15.10%) of Shares held by the public immediately after the Global Offering. Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the waiver.

VOTING BY POLL

During the Reporting Period, all votes of shareholders were taken by poll in the annual general meeting and extraordinary general meetings of the Company. Pursuant to the Rule 13.39(4) of the Listing Rules, all votes of shareholders will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed from Tuesday, 16 April 2019 to Thursday, 16 May 2019, and from Saturday, 22 June 2019 to Thursday, 27 June 2019, during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming AGM, unregistered holders of shares of the Company shall lodge share transfer documents with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration before 4:30 p.m. on Monday, 15 April 2019. In order to qualify for the proposed final dividend (subject to the approval by the Shareholders at the forthcoming AGM), unregistered holders of shares of the Company shall lodge share transfer documents with Computershare Hong Kong Investor Services Limited at the above-mentioned address for registration before 4:30 p.m. on Friday, 21 June 2019.

Report of Directors

CHANGES IN INFORMATION OF DIRECTORS AND SUPERVISORS

Pursuant to Rule 13.51B of the Listing Rules, the changes in information of Directors and Supervisors of the Company during the Reporting Period are set out below:

Name	Position	Details of Change
Ms. ZHANG Qi	Executive Director	Ms. ZHANG Qi resigned as vice chairman and executive Director on 10 October 2018.
Mr. LI Zhenning	Independent Non-executive Director	Mr. LI Zhenning resigned as an independent non-executive Director on 28 November 2018.
Mr. DING Yuan	Independent Non-executive Director	Mr. DING Yuan resigned as an independent non-executive Director on 28 November 2018.
Mr. GUO Binghe	Executive Director	Mr. GUO Binghe was appointed as vice chairman and executive Director on 28 November 2018.
Mr. WANG Xiao	Independent Non-executive Director	Mr. WANG Xiao was appointed as an independent non-executive Director on 28 November 2018.
Ms. ZHAO Chongyi	Independent Non-executive Director	Ms. ZHAO Chongyi was appointed as an independent non-executive Director on 28 November 2018.

FUTURE DEVELOPMENT

Please refer to the section headed “Outlook and Prospects” on page 52 for future development of the Company.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

1. 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 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 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 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 mid-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.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

3. Results of the issuance of the 2019 first tranche of mid-term notes (continued)

On 12 September 2018, the Company received the Notice for Acceptance of Registration (Zhong Shi Xie Zhu [2018] No. MTN506) 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 for the amount of RMB500 million, at an interest rate of 5.75%. For detailed information, please refer to the announcement of the Company dated 26 January 2019 as disclosed on 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 mid-term notes of the Company, please refer to the website of Chinamoney (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 cumulative total number of shares held under the Employee Stock Ownership Plan shall not exceed 1% of the total share capital of the Company. The cumulative 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 employees who have indirectly held shares of the Company through a stock ownership platform and front-line management personnel of the Company and its subsidiaries. For further details, please refer to the announcement of the Company dated 27 February 2019 as disclosed on 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>).

IMPORTANT EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

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 to acquire ordinary A shares of the Company from the secondary market (the “Purchase”) and to entrust a professional institution with asset management qualifications to manage them (the “Placement Scheme”). The Placement Scheme shall have a total size of not more than RMB160 million. The cumulative total number of shares held under the placement scheme shall not exceed 1% of the total share capital of the Company. The cumulative 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 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 RMB4 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 seven years (seven 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>).

By Order of the Board

CHE Jianxing

Chairman

Shanghai, 27 March 2019

Report of Supervisors

I. MEETINGS OF THE SUPERVISORY COMMITTEE AND RELEVANT RESOLUTIONS

The Supervisory Committee of Red Star Macalline Group Corporation Ltd. (the “Company”) convened a total of nine meetings in 2018, and details of the relevant meetings and the resolutions are as follows:

- (1) The third extraordinary meeting of the third session of the Supervisory Committee was convened on 7 February 2018. The resolution in respect of the use of part of the idle funds raised from completed investment projects for other investment projects and the resolution in respect of the use of funds raised to substitute self-owned funds contributed to investment projects (《關於將部分已結項募投項目節餘資金用於其他募投項目及使用募集資金置換預先已投入募投項目的自籌資金的議案》), the resolution in respect of the use of part of the idle A Share offering proceeds to replenish liquidity of funds temporarily, the resolution in respect of the use of A Share Offering proceeds to provide a loan to a wholly owned Subsidiary and the resolution in respect of the joint and several liability guarantees against the relevant loan provided by the Company for Haier Consume Financing Co., Ltd. (海爾消費金融有限公司) were reviewed and passed.
- (2) The third meeting of the third session of the Supervisory Committee was convened on 28 March 2018. The work report of the Supervisory Committee for 2017, the resolution in respect of the financial statements of the Company for the year ended 31 December 2017, the resolution in respect of the annual report and annual results announcement of the Company as of 31 December 2017, the final account report of the Company for 2017, the financial budget report of the Company for 2018, the profit distribution plan of the Company for 2017, the remuneration of Supervisors of the Company for 2017, the resolution in respect of changes in accounting policies, the resolution in respect of the provision of asset impairment allowances for 2017, the resolution in respect of the re-appointment of Deloitte Touche Tohmatsu Certified Public Accountants LLP as the auditor for the financial report and the internal control auditor of the Company for 2018 and the resolution in respect of the corporate environment and social responsibility report of the Company for 2017 were reviewed and passed.
- (3) The fourth meeting of the third session of the Supervisory Committee was convened on 26 April 2018. The first quarterly report of the Company for 2018 was reviewed and passed.
- (4) The fifth meeting of the third session of the Supervisory Committee was convened on 27 August 2018. The resolution in respect of changes in accounting policies, the interim financial statements of the Company as of 30 June 2018, the interim report and interim results announcement as of 30 June 2018 and the exclusive report on the depositary and actual use of funds raised by the Company in the first half of 2018 were reviewed and passed.
- (5) The fourth extraordinary meeting of the third session of the Supervisory Committee was convened on 7 September 2018. The resolution in respect of changes in part of the A Share fund-raising investment project was reviewed and passed.

- (6) The sixth meeting of the third session of the Supervisory Committee was convened on 29 October 2018. The third quarterly report of the Company for 2018 was reviewed and passed.
- (7) The fifth extraordinary meeting of the third session of the Supervisory Committee was convened on 9 November 2018. The resolution in respect of the change of auditor was reviewed and passed.
- (8) The sixth extraordinary meeting of the third session of the Supervisory Committee was convened on 28 November 2018. The resolution in respect of the first phase of the employee stock ownership plan of Red Star Macalline Group Corporation Ltd. (draft) and its extracts and the resolution in respect of the implementation of measures for management of the first phase of the employee stock ownership plan of Red Star Macalline Group Corporation Ltd. were reviewed and passed.
- (9) The seventh extraordinary meeting of the third session of the Supervisory Committee was convened on 10 December 2018. The resolution in respect of the use of funds raised to substitute self-owned funds contributed to investment projects, the resolution in respect of the use of A share offering proceeds to provide a loan to a wholly owned subsidiary for investment projects were reviewed and passed.

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE REGARDING CERTAIN MATTER

- (1) Legal operations: during the year of 2018, members of the Supervisory Committee continued to supervise the Company's operations through attending Board meetings, reviewing reports on special projects, conducting onsite inspections and meetings with staff, conducting audits and specific surveys. With reference to various regulations, the Supervisory Committee was of the opinion that the decision-making process was lawful, the internal control was effective, and the Directors and the senior management of the Company have diligently carried out their duties, and there is no behavior violating laws, regulations or the Articles of Association, nor have they prejudiced the Company's and Shareholders' interests. The Supervisory Committee reviewed the Company's internal control report from Zhongxingcai Guanghua Certified Public Accountants LLP for the year 2018 and was of the view that the report reflected the actual situation of the Company's corporate governance and internal control and audit opinions, and agreed to publish the relevant report.
- (2) Financial monitoring: during the Reporting Period, the Supervisory Committee diligently performed its duty of monitoring the Company's financial situation, including reviewing the Company's operations and its risks and providing audited opinions to each periodic report. The Supervisory Committee was of the opinion that the Company's financial report reflected a true and fair view on the Company's financial position and operating results.
- (3) Use of Proceeds

Report of Supervisors

Use of Proceeds from the Listing of H Shares

The net proceeds from the Global Offering amounted to RMB5,573.3 million, used for the development of nine Portfolio Shopping Malls, investment or acquisition of other home improvement and furnishings retailers and other market participants, refinancing of our existing indebtedness, development of our O2O business and information technology systems, working capital and other general corporate purposes. The Board resolved on 31 July 2015 and 16 January 2018 to change the intended use of part of the net proceeds from the global offering. For details, please refer to the announcements of the Company dated 31 July 2015 and 16 January 2018.

As of the end of the Reporting Period, the Company had cumulatively used 99.5% of the net proceeds in the abovementioned fund-raising investment projects.

Use of Proceeds from the Listing of A Shares

The A Shares of the Company (stock code: 601828) were listed and commenced trading on the Shanghai Stock Exchange on 17 January 2018. The Company issued 315,000,000 A Shares at the issue price of RMB10.23 per share. The total proceeds raised from this issue amounted to RMB3,222.45 million, and the net proceeds raised, after deducting the cost of the A Share offering of RMB172,442.2 thousand, amounted to RMB3,050,007.8 thousand (the “A Share Offering Proceeds”).

In order to improve the efficiency in the use of the A Share Offering Proceeds, the third extraordinary meeting of the third session of the Supervisory Committee was convened on 7 February 2018, which resolved to: (i) use RMB48,120.4 thousand of the balance of A Share Offering Proceeds from the Harbin Songbei Shopping Mall to fill in the gap between the A Share Offering Proceeds to be used and self-owned funds used by Hohhot Yuquan Shopping Mall and Dongguan Wanjiang Shopping Mall, and to use RMB35,333.5 thousand of the balance of A Share Offering Proceeds of the Tianjin Beichen Shopping Mall and RMB73,900.2 thousand of the balance of A Share Offering Proceeds of the Harbin Songbei Shopping Mall to meet the future capital requirements of the Urumchi Expo Mall; (ii) substitute the self-owned funds which the Company has previously invested in the investment projects with the A Share Offering Proceeds of RMB1,677,579.9 thousand; (iii) temporarily use not more than RMB500 million of the idle A Share Offering Proceeds to improve the liquidity of the Company. The period of such use shall not exceed 12 months (from the date when the A Share Offering Proceeds are transferred from the special account of proceeds to the date when the A Share Offering Proceeds are returned to the special account of proceeds); and (iv) use the balance of the A Share Offering Proceeds (RMB172,420.1 thousand) designated to the Urumchi Expo Mall by way of a loan to support this investment project. For further details, please see the announcement of the Company dated 8 February 2018.

The resolution on the change in part of the A Share fund-raising investment project was considered and approved at the fourth extraordinary meeting of the third session of the Supervisory Committee on 7 September 2018, which agreed the Company should cease contributing funds raised to the “Construction of Unified Logistic Service System”, “Expansion of Home Design and Decoration Services” and “O2O Home Decoration Platform” and change the use of the corresponding proceeds with an amount of RMB1,050 million to “Construction of Shopping Mall Projects” (Changsha Jinxia Shopping Mall and Xining Expo Mall), “new intelligent home furnishings shopping mall project” and “Repayment of Interest-Bearing Debts”. For specific details, please see the announcement of the Company dated 8 September 2018.

The resolution in respect of the use of funds raised to substitute self-owned funds contributed to investment projects was considered and approved at the forty-first extraordinary meeting of the third session of the Board convened by the Company on 10 December 2018, which agreed the Company could use funds raised of RMB421,856.9 thousand to substitute self-owned funds contributed to new projects. For specific details, please see the announcement of the Company dated 11 December 2018.

As of the end of the Reporting Period, the Company had cumulatively used 80.74% of the A Share Offering Proceeds in the abovementioned fund-raising investment projects.

- (4) Stock incentive plan: during the Reporting Period, the Company had no stock incentive plan.
- (5) Major asset acquisitions and disposals: during the Reporting Period, the Company did not conduct any major asset acquisitions and disposals.
- (6) Connected and continuing connected transactions:

During the Reporting Period, the Supervisory Committee paid close attention to the continuing connected transactions of the Company for the year, including: (i) the lease agreement entered into with Changzhou RSHFC; and (ii) the contract management agreements entered into with Xuzhou RSHFC, Xuzhou RSHFP, Yangzhou RSHFP, Jining Hongrui Real Estate Co., Ltd. and Shaanxi Hongrui Home Furnishings Plaza Co., Ltd. In addition, the Supervisory Committee also considered and reviewed the proposed new annual caps of the above continuing connected transactions, entered into a new contract management agreement with Yangzhou RSHFP and set an annual cap for the term of the agreement.

In the future, with the further development of the Company's businesses, the Supervisory Committee will, based on its existing work nature, firmly implement the Company's established strategies and policies, fulfill its duties as prescribed by national laws and regulations as well as the Articles of Association, and supervise the Company to operate in such a way as to promote compliance in the Company's operation, and practically guarantee and safeguard the legitimate interests of the Company and Shareholders.

**The Supervisory Committee of
Red Star Macalline Group Corporation Ltd.**

27 March 2019

Corporate Governance Report

The Group is committed to high-standard corporate governance so as to protect the interests and legal rights of the Shareholders and to promote the Company's value and accountability. H Shares of the Company were listed on the main board of the Hong Kong Stock Exchange on 26 June 2015, and A Shares of the Company were listed on the Shanghai Stock Exchange on 17 January 2018.

The Company has adopted the following corporate governance principles and practices:

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Other than deviation from code provision A.2.1, during the Reporting Period, the Company has complied with the provisions of the Corporate Governance Code, Appendix 14 to the Listing Rules, which sets out the principles of good corporate governance in relation to, among other matters, the directors, the chairman and the chief executive, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration, and communications with shareholders. Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between the Group and the Controlling Shareholders and/or Directors to protect the minority Shareholders' interests.

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

Mr. CHE Jianxing is the Chairman and chief executive officer of the Company. In view of Mr. CHE's experience, personal profile and his roles in our Group as mentioned above and that Mr. CHE has performed the role of chief executive officer and the general manager of the Group since June 2007, the Board considers it beneficial to the business prospects and operational efficiency of the Group that Mr. CHE, in addition to acting as the Chairman of the Board, continues to act as the chief executive officer of the Company. While this will constitute a deviation from Code Provision A.2.1 of the Corporate Governance Code, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) any decision to be made by our Board requires approval by at least a majority of our Directors and that the Board comprises four independent non-executive Directors out of the 12 Directors, which is in compliance with the Listing Rules requirement of one-third, and we believe that there are sufficient checks and balances in the Board; (ii) Mr. CHE and the other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of the Company and will make decisions for the Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Company. Moreover, the overall strategic and other key business, financial and operational policies of the Group are made collectively after thorough discussion at both Board and senior management levels.

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

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct regarding Directors' and Supervisors' securities transactions on terms as required under the Model Code. The Company has made specific enquiries to the Directors and Supervisors, and all Directors and Supervisors have confirmed their compliance with the provisions set out in the Model Code during the Reporting Period.

BOARD OF DIRECTORS

Board Composition

As at the end of the Reporting Period, the Board of the Company comprises 12 Directors, including four executive Directors, four non-executive Directors and four independent non-executive Directors. The following list sets forth the information in respect of the current members of the Board of the Company.

Name	Positions	Date of Re-appointment or Appointment ⁽¹⁾
Mr. CHE Jianxing ⁽²⁾	Chairman and Executive Director	30 December 2016
Mr. GUO Binghe ⁽⁴⁾	Vice Chairman and Executive Director	28 November 2018
Ms. CHE Jianfang	Executive Director	30 December 2016
Mr. JIANG Xiaozhong	Executive Director	30 December 2016
Ms. CHEN Shuhong	Non-executive Director	30 December 2016
Mr. XU Guofeng ⁽³⁾	Non-executive Director	30 December 2016
Mr. Joseph Raymond GAGNON	Non-executive Director	30 December 2016
Mr. ZHANG Qiqi	Non-executive Director	30 December 2016
Mr. QIAN Shizheng	Independent non-executive Director	30 December 2016
Mr. LEE Kwan Hung	Independent non-executive Director	30 December 2016
Mr. WANG Xiao ⁽⁴⁾	Independent non-executive Director	28 November 2018
Ms. ZHAO Chongyi ⁽⁴⁾	Independent non-executive Director	28 November 2018

Notes:

- (1) The new Directors, namely, Mr. GUO Binghe, Mr. WANG Xiao and Ms. ZHAO Chongyi were appointed on 28 November 2018.
- (2) Mr. CHE Jianxing is the husband of Ms. CHEN Shuhong and the brother of Ms. CHE Jianfang.
- (3) Mr. XU Guofeng is the husband of Ms. CHE Jianfang.
- (4) On 28 November 2018, Mr. LI Zhenning and Mr. DING Yuan resigned as independent non-executive Directors, and Mr. WANG Xiao and Ms. ZHAO Chongyi were each appointed as an independent non-executive Director. On 10 October 2018, Ms. ZHANG Qi resigned as executive Director and vice chairman with immediate effect, Mr. GUO Binghe was appointed as an executive Director and vice chairman on 28 November 2018.

Biographies of the Directors are set out in the section headed “Directors, Supervisors and Senior Management” of this annual report.

Corporate Governance Report

During the Reporting Period, the Board complied with the requirements of appointing at least three independent non-executive Directors (among whom at least one independent non-executive Director holds the appropriate professional qualifications or accounting or relevant financial management professional knowledge) set out in Rules 3.10(1) and 3.10(2) of the Listing Rules at any time.

The Company also complied with the requirements of appointing independent non-executive Directors, accounting for one-third of the members of the Board set out in Rule 3.10A of the Listing Rules. Independence of each independent non-executive Director has been confirmed in accordance with Rule 3.13 of the Listing Rules, and the Company regards them as independent.

All Directors (including the independent non-executive Directors) provide the Board with different valuable experience in business and professional knowledge so that the Board of Directors can fulfill its function efficiently and effectively. The independent non-executive Directors were invited to join the Audit Committee, the Remuneration and Evaluation Committee, the Nomination Committee and the Strategy and Investment Committee.

Board Diversity

The Company regards increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. The Board of Directors will consider setting quantifiable objectives for the implementation of the diversity policy for the Board and reviewing them from time to time, in order to ensure that the objectives are feasible and that progress is being made towards such objectives. In designing the Board's composition, the Company considers the Board's diversity from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, so as to ensure a moderate balance of the Board members in skills, experience and diversity of views, which will in turn help them to provide the necessary conditions to support the Board in implementing its business strategies and to maintain the effective operation of the Board. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. At present, the Nomination Committee considers that the Board members are fully diversified, and the Board has not set any quantifiable objectives. The Nomination Committee will continue to monitor the implementation of the Board diversity policy and will regularly review the Board diversity policy to ensure its continued effectiveness.

Board Meeting

In accordance with the provisions set out in the Articles of Association, board meetings are divided into regular meetings and provisional meetings. Board meetings shall be convened at least four times a year and be called for by the Chairman. A notice of no less than 14 days shall be sent to all Directors before a meeting is convened so that they may attend the meeting and include any relevant matters for discussion in the meeting agenda.

Other than the connected transactions to be reviewed by the Board set out in the Articles of Association, Board meetings shall be attended by more than half of the Directors.

Minutes of the Board meetings and Committee meetings shall record all matters considered and decisions made by the Board and Committees in details, including any questions raised by the Directors. Drafts and final versions of the minutes of the Board meetings and Committee meetings are/will be sent to each Director within a reasonable period of time after the meeting.

Save as disclosed in the Prospectus and in this annual report, to the best knowledge of the Company, there are no financial, business, family or other material relationships among members of the Board.

Appointment, Re-election and Re-appointment of Directors

In accordance with the provisions set out in the Articles of Association, the Directors shall be elected by the general meeting of Shareholders and shall serve three-year terms. Upon expiration of the term, the Directors may be re-elected and re-appointed. Each independent non-executive Director shall be subject to retirement by rotation once every two sessions.

Nomination Policy

The Company has implemented a set of effective procedures for the appointment of new Directors. The Nomination Committee and Remuneration and Evaluation Committee have priority to discuss nomination of the new Directors and shall submit proposals to the Board. New directors shall be elected by the general meeting of Shareholders.

This set of procedures aims to ensure that the skills and experience of the Board are evenly distributed to support them to provide the Company with different views and perspectives, to ensure the consistency of the Board and to ensure that the Board of Directors is under appropriate leadership.

In assessing candidates for Directors, the Nomination Committee will assess the suitability of the proposed personnel and their potential contributions to the Board from all aspects, including but not limited to the following:

- Reputation for integrity
- Guarantee for available time and related benefits
- Diversity in all aspects, including but not limited to gender, age (18 years old or older), cultural and educational background, race, professional experience, skills, knowledge and length of service

The Company will consider adopting the nomination policy for Directors, which sets out the selection criteria and procedures as well as the considerations related to the nomination and appointment of Directors in the succession plan of the Board.

The Nomination Committee reviews at least annually the structure, size and composition (including the skills, knowledge and experience) of the Board and, where appropriate, makes recommendations on changes to the Board to complement the Company's corporate strategy. The Company aims to maintain an appropriate balance of diversity perspectives of the Board that are relevant to the Company's business growth.

Corporate Governance Report

The Company has entered into service contracts or appointment letters for a service term of three years with all Directors (including the non-executive Directors).

Directors' Training

Introductory and Continuous Professional Development

All newly appointed Directors are granted the necessary induction training and information so as to have an appropriate understanding of the operating status and business of the Company as well as their responsibilities under relevant regulations, rules, legislation and provisions. The Company also arranges periodic seminars for the Directors in order to provide the latest information on any development and changes in the Listing Rules, and other relevant laws and regulatory requirements from time to time. The Directors are also informed about the updated information on the performance, current status and prospect of the Company regularly, so as to fulfill their responsibilities.

Training attended by all Directors in the Reporting Period are as below:

Name of Directors	Training Description
CHE Jianxing	A, B
ZHANG Qi (resigned as executive Director with effect from 10 October 2018)	A, B
GUO Binghe (appointed as executive Director with effect from 28 November 2018)	A, B
CHE Jianfang	A, B
JIANG Xiaozhong	A, B
CHEN Shuhong	A, B
XU Guofeng	A, B
Joseph Raymond GAGNON	A, B
ZHANG Qiqi	A, B
QIAN Shizheng	A, B
LEE Kwan Hung	A, B
DING Yuan (resigned as independent non-executive Director effective from 28 November 2018)	A, B
LI Zhenning (resigned as independent non-executive Director effective from 28 November 2018)	A, B
WANG Xiao (appointed as independent non-executive Director on 28 November 2018)	A, B
ZHAO Chongyi (appointed as independent non-executive Director on 28 November 2018)	A, B

Notes:

- A. Training related to governance of listed company and Directors' responsibility, organized by lawyer, compliance advisor, external auditor and etc.;
- B. Reading provisions connected to company governance, Directors' responsibilities and internal control risk management and attending lecture, forum and conference, etc.

Duties Performed by the Board and Management

The Board is responsible for the general meeting of Shareholders and performs the following duties, including: to approve and supervise all policy issues, overall strategy, budgeting, internal control and risk management system, material transactions (especially the transactions in which the parties with conflict of interest may be involved), Directors' appointment and other material financial and operating affairs. The Directors may seek independent professional opinions when fulfilling their duties, and the cost will be borne by the Company. The Company also encourages the Directors to seek independent consultation with senior management of the Company.

The senior management is responsible for daily management, administration and operation of the Group, and the Board shall discuss the authorization function and duty periodically. Any material transactions established by the management shall be approved by the Board in advance.

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for establishing the corporate governance policy of the Company and fulfilling the following corporate governance duties:

- (1) To develop and review the corporate governance policy and routines of the Company;
- (2) To review and monitor training and continuous professional development of the Directors and senior management;
- (3) To review and monitor policies and routines of the Company in compliance with the requirements of all applicable laws and regulations;
- (4) To establish, review and monitor code of conduct and compliance guidelines suitable for the employees and Directors (if available); and
- (5) To review the Company's compliance with the disclosure requirements as set out in the Corporate Governance Code and Corporate Governance Report.

DIRECTORS' LIABILITY INSURANCE

The Company has purchased appropriate insurance against litigation raised against the Directors during the Reporting Period.

BOARD COMMITTEES

The Board delegates responsibilities to various committees. In accordance with the relevant PRC laws and regulations, and the Corporate Governance Code, the Company has established four Board committees, namely the Audit Committee, the Remuneration and Evaluation Committee, the Nomination Committee and the Strategy and Investment Committee.

Corporate Governance Report

AUDIT COMMITTEE

Our Company has established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and Code Provision C.3 and Code Provision D.3 of the Corporate Governance Code. The Audit Committee consists of three independent non-executive Directors as of the end of the Reporting Period, namely Mr. QIAN Shizheng, Mr. LEE Kwan Hung and Mr. WANG Xiao. Mr. QIAN Shizheng, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules, serves as the chairman of the Audit Committee. The primary duties of the Audit Committee include, but are not limited to, the following:

- proposing the appointment or change of external auditors;
- overseeing the internal audit system of the Company and its implementation;
- maintaining close communication between the internal auditors and external auditors;
- examining the financial information of the Company and its disclosure, and auditing significant connected transactions as authorized by the Board;
- Monitoring integrity of the Company's financial statements, annual reports and accounts, interim reports, other periodic reports, agreed proceedings, audit reports (hereinafter referred to as the "Materials") and reviewing significant judgments on financial reporting set out in the Materials. Judging the completeness, accuracy and truthfulness of the preparation and disclosure of the Company's financial reports;
- examining the financial reporting system of the Company, the rationality, efficiency and implementation of the risk management and internal control systems of the Company and its subsidiaries and branch offices, and making recommendations to the Board;
- providing comments regarding the performance of internal auditors;
- overseeing the corporate governance of the Company, making recommendations to the Board, and reviewing the corporate governance report disclosed in our annual report;
- supervising the Company's Corporate Governance Code and compliance with the Listing Rules and relevant laws; and
- dealing with other matters that are authorized by the Board.

As of the end of the Reporting Period, the Audit Committee has performed its duties with due prudence in accordance with the requirements of Company Law, the Articles of Association, the Terms of Reference of the Audit Committee of the Board of the Company and the relevant laws and regulations. The Audit Committee convened five meetings, details of which are set out below:

Corporate Governance Report

Name of Meeting	Date of Meetings	Contents of Meeting	Attendance at the Meeting
Audit Committee	28 March 2018	<ol style="list-style-type: none"> 1. The auditor's reports to the Audit Committee in respect of the audit matters for the annual financial report of the Company for the year 2017; 2. The financial statements of the Company for the year ended 31 December 2017; 3. The annual report and annual results of the Company for the year ended 31 December 2017; 4. The profit distribution program of the Company for the year 2017; 5. The resolution concerning the re-appointment of Deloitte Touche Tohmatsu Certified Public Accountants LLP as the external auditor for the financial report of the Company for the year 2018 and internal control consultant; 6. The resolution concerning the expected ordinary connected transactions of the Company for the year 2018; 7. The resolution concerning the provision for assets impairment of the Company for the year 2017; 8. The report of the performance of duties of the audit committee of the Board of the Company for the year 2017; 9. The summary of internal audit works for the year 2017 and working plan for the year 2018 of the Company; 10. The resolution concerning the report of corporate environmental and social responsibility of the Company for the year 2017; 11. The corporate governance report of the Company as of 31 December 2017; and 12. The self-evaluation report of internal control of the Company for the year ended 31 December 2017. 	Mr. DING Yuan, Mr. QIAN Shizheng and Mr. LI Zhenning attended the meeting.

Corporate Governance Report

Name of Meeting	Date of Meetings	Contents of Meeting	Attendance at the Meeting
	26 April 2018	1. The 2018 first quarterly report of the Company.	Mr. DING Yuan, Mr. QIAN Shizheng and Mr. LI Zhenning attended the meeting
	27 August 2018	1. The financial statements of the Company for the half year ended 30 June 2018; 2. The interim report and interim results of the Company for the half year ended 30 June 2018; and 3. The Company's special report on the deposit and actual use of the funds raised in the first half year of 2018.	Mr. DING Yuan, Mr. QIAN Shizheng and Mr. LI Zhenning attended the meeting.
	29 October 2018	1. The 2018 third quarterly report of the Company.	Mr. DING Yuan, Mr. QIAN Shizheng and Mr. LI Zhenning attended the meeting.
	9 November 2018	1. The resolution concerning the change of auditor of the Company.	Mr. DING Yuan, Mr. QIAN Shizheng and Mr. LI Zhenning attended the meeting.

The Audit Committee oversees and monitors the risk management and internal control systems of the Company on an ongoing basis and reviews with our external auditors and management periodically, not less than annually, the scope, adequacy and effectiveness of the Company's corporate accounting and financial controls, risk management and internal control systems, and any related significant findings regarding risks or exposure and considers recommendations for improvement of such controls. The review should cover all material controls, including financial, operational and compliance controls. Further details regarding the annual review conducted by the Audit Committee are set out in the section headed "Risk Management and Internal Control".

REMUNERATION AND EVALUATION COMMITTEE

The Company established a Remuneration and Evaluation Committee with written terms of reference in compliance with Code Provision B.1 of the Corporate Governance Code.

As of the end of the Reporting Period, the Remuneration and Evaluation Committee consists of three Directors, including one executive Director and two independent non-executive Directors, namely Mr. CHE Jianxing, Mr. QIAN Shizheng and Mr. WANG Xiao. Mr. QIAN Shizheng serves as the chairman of the Remuneration and Evaluation Committee.

The primary duties of the Remuneration and Evaluation Committee include, but are not limited to, the following:

- formulating the remuneration plans for Directors, Supervisors and members of senior management in accordance with the terms of reference of the Directors, Supervisors and members of senior management and the importance of their positions as well as the remuneration benchmarks of relevant positions in other comparable companies;
- the remuneration plans include, but are not limited to, criteria and procedures of performance evaluation, the main evaluation system as well as the main reward and penalty scheme and system, etc.;
- making recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
- examining the performance of Directors, Supervisors and members of senior management of our Company, and conducting annual performance evaluation;
- supervising the implementation of our Company's remuneration plan and incentive system; and
- dealing with other matters that are authorized by the Board.

Corporate Governance Report

As of the end of the Reporting Period, the Remuneration and Evaluation Committee has performed its duties with due prudence in accordance with the requirements of Company Laws, the Articles of Association, the Terms of Reference of the Remuneration and Evaluation Committee of the Board and relevant laws and regulations. The Remuneration and Evaluation Committee convened two meetings, details of which are set out below:

Name of Meeting	Date of Meetings	Contents of Meeting	Attendance at the Meeting
Remuneration and Evaluation Committee	28 March 2018	<ol style="list-style-type: none">1. The resolution concerning the remuneration of Directors and senior management of the Company for the year 2017;2. The establishment and implementation of an evaluation system and incentive system for senior management for the year 2017.	Mr. QIAN Shizheng, Mr. CHE Jianxing and Mr. LI Zhenning attended the meeting.
	11 October 2018	<ol style="list-style-type: none">1. The resolution concerning the consideration and approval for the remuneration of additional executive Directors and an independent non-executive Director of the third session of the Board.	Mr. QIAN Shizheng, Mr. CHE Jianxing and Mr. LI Zhenning attended the meeting.

NOMINATION COMMITTEE

The Company has established a Nomination Committee with written terms of reference in compliance with Code Provision A.5 of the Corporate Governance Code. As of the end of the Reporting Period, the Nomination Committee consists of three Directors, including one executive Director and two independent non-executive Directors, namely Mr. CHE Jianxing, Mr. LEE Kwan Hung and Ms. ZHAO Chongyi. Mr. LEE Kwan Hung serves as the chairman of the Nomination Committee.

The primary duties of the Nomination Committee include, but are not limited to, the following:

- making recommendations to the Board on size and composition of the Board in accordance with our Company's operating activities, asset size and shareholding structure;
- researching and developing criteria and procedures for the election of Board members, general managers and other members of senior management, and making recommendations to the Board;
- conducting thorough investigation on suitable candidates for Directors, general managers and other members of senior management, and making recommendations to the Board;
- reviewing and examining candidates for Directors, general managers and other members of senior management and making recommendations to the Board; and
- dealing with other matters that are authorized by the Board.

As of the end of the Reporting Period, the Nomination Committee has performed its duties with due prudence in accordance with the requirements of Company Law, the Articles of Association, the Terms of Reference of the Nomination Committee of the Board and the relevant laws and regulations. The Nomination Committee convened one meeting, details of which are set out below:

Name of Meeting	Date of Meetings	Contents of Meeting	Attendance at the Meeting
Nomination Committee	11 October 2018	<ol style="list-style-type: none"> 1. The resolution concerning the additional appointment of Mr. GUO Binghe as executive Director of the third session of the Board of the Company; 2. The resolution concerning the additional appointment of Mr. Wang Xiao as independent executive Director of the third session of the Board of the Company; 3. The resolution concerning the additional appointment of Ms. ZHAO Chongyi as independent executive Director of the third session of the Board of the Company. 	Mr. LI Zhenning Mr. CHE Jianxing and Mr. LEE Kwan Hung attended the meeting.

Corporate Governance Report

STRATEGY AND INVESTMENT COMMITTEE

We have established a Strategy and Investment Committee with written terms of reference. As of the end of the Reporting Period, the Strategy and Investment Committee consists of five Directors, including three executive Directors, one non-executive Director and one independent non-executive Director: namely Mr. CHE Jianxing, Mr. GUO Binghe, Mr. JIANG Xiaozhong, Mr. ZHANG Qiqi and Ms. ZHAO Chongyi. Mr. CHE Jianxing serves as the chairman of the Strategy and Investment Committee.

The primary duties of the Strategy and Investment Committee include, but are not limited to, the following:

- researching and recommending to the Board the long-term development and strategic plans of our Company;
- researching and recommending to the Board material investments, financing proposals, capital operation and asset management of our Company, which must be approved via Board meetings or shareholders' meetings in accordance with the Articles of Association;
- researching and recommending to the Board matters that are material to the development of our Company;
- checking the implementation of abovementioned matters that are approved via Board meetings or shareholders' meetings; and
- dealing with other strategic matters that are authorized by the Board.

As of the end of the Reporting Period, the Strategy and Investment Committee has performed its duties with due prudence in accordance with the requirements of Company Law, the Articles of Association, the Terms of Reference of the Strategy and Investment Committee of the Board and the relevant laws and regulations. The Strategy and Investment Committee convened one meeting, details of which are set out below:

Name of Meeting	Date of Meetings	Contents of Meeting	Attendance at the Meeting
Strategy and Investment Committee	28 March 2018	1. The resolution concerning the Company's new strategy of internet retail.	Mr. CHE Jianxing, Ms. ZHANG Qi, Mr. JIANG Xiaozhong, Mr. ZHANG Qiqi and Mr. LI Zhenning attended the meeting.

ATTENDANCE RECORD OF BOARD MEETINGS

Attendance record of all Directors for the general meetings, Board meetings and committee meetings during the Reporting Period are as below:

Director's Name	Number of attending/ convening Board meetings	Number of attending/ convening Audit Committee meetings	Number of attending/ convening Remuneration and Evaluation Committee meetings	Number of attending/ convening Nomination Committee meetings	Number of attending/ convening Strategy and Investment Committee meetings	Number of attending/ convening general meeting of Shareholders
CHE Jianxing	26/26	—	2/2	1/1	1/1	5/5
GUO Binghe ⁽¹⁾	3/3	—	—	—	0/1	1/5
ZHANG Qi ⁽²⁾	18/26	—	—	—	1/1	4/5
CHE Jianfang	26/26	—	—	—	—	5/5
JIANG Xiaozhong	26/26	—	—	—	1/1	5/5
CHEN Shuhong	26/26	—	—	—	—	5/5
XU Guofeng	26/26	—	—	—	—	5/5
Joseph Raymond GAGNON	26/26	—	—	—	—	5/5
ZHANG Qiqi	26/26	—	—	—	1/1	5/5
LI Zhenning ⁽³⁾	23/26	5/5	2/2	1/1	1/1	4/5
DING Yuan ⁽³⁾	23/26	5/5	—	—	—	4/5
QIAN Shizheng	26/26	5/5	2/2	—	—	5/5
LEE Kwan Hung	26/26	0/5	—	1/1	—	5/5
WANG Xiao ⁽¹⁾	3/3	0/5	0/2	—	—	1/5
ZHAO Chongyi ⁽¹⁾	3/3	—	—	0/1	0/1	1/5

Notes:

- (1) The Directors were appointed on 28 November 2018. Mr. GUO Binghe was appointed as a member of the Strategy and Investment Committee; Mr. WANG Xiao was appointed as a member of the Audit Committee and the Remuneration and Evaluation Committee; and Ms. ZHAO Chongyi was appointed as a member of the Nomination Committee and the Strategy and Investment Committee.
- (2) Ms. ZHANG Qi resigned as executive Director and a member of the Strategy and Investment Committee with effect from 10 October 2018. She attended 18 Board meetings and 4 general meetings before her resignation, respectively.
- (3) On 28 November 2018, Mr. LI Zhenning resigned as independent non-executive Director, a member of the Audit Committee, a member of the Remuneration and Evaluation Committee, a member of the Strategy and Investment Committee and as the chairman of the Nomination Committee of the Company. On the same day, Mr. DING Yuan resigned as independent non-executive Director and as chairman of the Audit Committee. Each attended 23 Board meetings and 4 general meetings before resigning.
- (4) On 28 March 2018, the Chairman and the independent non-executive Directors had a meeting.

Corporate Governance Report

DIRECTORS' FINANCIAL STATEMENTS REPORTING RESPONSIBILITY

The Directors are fully aware of their responsibility of preparing the Consolidated Financial Statements of the Company for the year ended 31 December 2018 so as to provide a true and fair view of the situation of the Company and the Group as well as the results and cash flows of the Group.

Management has provided the necessary explanation and information to enable the Board to evaluate the financial statements of the Company, which are submitted for approval of the Board with full knowledge. The Company regularly provides updated information about performance, status and prospect of the Company to all members of the Board.

The Directors were not aware of any material uncertainties with respect to any event or situation which may pose important threat to the sustainable operation of the Group.

The statement of the Directors' reporting responsibilities of Consolidated Financial Statements of the Company made by auditors of the Company is recorded in the Independent Auditor's Report on page 132 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has established the risk management and internal control systems, and monitored and reviewed their effectiveness on an ongoing basis in compliance with Paragraph C.2 of the Corporate Governance Code. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and to promote effective and efficient operation, and they can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board reviews the effectiveness of the risk management and internal control systems on an annual basis and assesses all important monitoring aspects including financial monitoring, operation monitoring and compliance monitoring as per five internal control elements, namely, internal environment, risk assessment, control activities, information and communication and internal supervision and makes sure of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions to ensure that effective risk management and internal control systems are in place.

RISK MANAGEMENT AND INTERNAL CONTROL ORGANISATIONAL SYSTEM

The Company has established a complete risk management and internal control organisational system, which consists of the Board, the Audit Committee, the Internal Control Management Committee (a subcommittee under the Audit Committee), the Internal Control Compliance Department, the Audit Department and all divisions of the Company. Various functions of the Company form the first line of defence of risk management and internal control, which are responsible for the direct identification and management of the risks arising in the course of business during our daily operation, and developing

response strategies and specific solutions. The Internal Control Compliance Department and Internal Control Management Committee form the second line of defence of risk management and internal control, which is responsible for building and maintaining the comprehensive risk management framework of the Company and coordinating the establishment of risk management between various functions of the headquarters and different regions and shopping malls. The Audit Department and the Audit Committee form the third line of defence, which is responsible for conducting independent supervision, which involves supervision and examination to determine if the Company is able to conduct risk management and internal control in accordance with relevant policies, systems and processes for risk management and internal control, and if such measures are effective; meanwhile, the Audit Department reports the monitoring results to the Audit Committee, enabling it to better assess the extent and frequency of the Company's control and the effectiveness of risk management. The Board undertakes the ultimate responsibility for the establishment and perfection of the risk management and internal control systems as well as the effective implementation of risk management and acts as the ultimate decision-making body in the Company with respect to risk management and internal control.

In addition, the Board arranges adequate training courses and related budget in respect of the risk management and internal control systems on an annual basis and has also conducted periodic training on the concept, knowledge, process of risk management and methods of internal control to ensure the adequacy of management resources in risk management and internal control.

CARRYING OUT RISK MANAGEMENT WORK

In order to better cope with the changing market environment and ensure the realization of the Company's business objectives, in 2018 the Company implemented a comprehensive risk management system at the company-wide level. The system is designed to manage various potential risks to which the Company is exposed in the course of operation through procedures and measures of risk identification, risk assessment, risk response, risk reporting and monitoring. The Company has systematically established a database for risks based on the status quo of our current business and management, with a view to achieving comprehensive identification of and response to risks.

On the basis of risk identification, the Company has established the major risk evaluation criteria from two dimensions, namely the probability of occurrence and the magnitude of influence of relevant risks. Various forms of measures, including a risk questionnaire, risk investigation and interviews, as well as a forum for risk assessment, were conducted to carry out the multilevel and comprehensive risk assessment work. These measures are developed to identify major risk areas affecting the objectives of the Company and to specify the priority and allocation of resources on risk management.

In order to align the risk points with specific control measures and responsibilities of different roles in the management system, and to ensure sufficient control of such risks, the Company implements basic risk management measures of internal control through specific business processes, including establishment of management systems for significant procedures such as financial reporting, inside information processing and disclosure in accordance with laws, regulations and regulatory requirements of Listing Rules, etc.



Corporate Governance Report

In respect of external information and communication, the company developed information disclosure and reporting management rules, such as the Information Disclosure Management System, News Release and News Spokesman System, etc., to establish a standardized information collection, collation, validation and disclosure of the insider control program, which identified the message security measures. Before the information is completely disclosed to the public, the Company will ensure that the information is absolutely confidential. For information which confidentiality is difficult to maintain or has already leaked, our Company will disclose the relevant information in a timely manner, so as to ensure the effective protection of investors and the interests of related parties.

The major risks to which the Company are exposed will vary with the changes in internal and external business environment and business situations. The Company will continuously monitor the information on significant risks and changes in risks arising from the operation and management of the different risk liability departments and conduct supervision and evaluation on whether each of the departments is able to carry out risk management and the effectiveness of their efforts in accordance with relevant provisions, with a view to further improve the risk management mechanism.

OPERATION OF INTERNAL CONTROL MECHANISM

The management of the Company has set up the Internal Control Management Committee, which leads the Internal Control Compliance Department in the overall planning, design and guidance in relation to the building of the risk management and internal control management system. In 2018, the Internal Control Compliance Department played a leading role in the establishment of the internal control evaluation working group, which carried out self-evaluation of internal control and assessment of the effectiveness of the design and implementation of internal control for the Company's main business and matters. For all deficiencies in internal control as identified in the assessment, the management of the Company has developed feasible rectification plans and promoted the implementation of such rectification. The Internal Control Compliance Department has followed up on such areas subject to rectification and has continued to monitor the progress and the overall effectiveness of the rectification of deficiencies, thus achieving the organized operation of overall internal control.

The Board and the Audit Committee are responsible for the continuous supervision and review of the effective implementation of the Company's risk management and internal control management system and the deficiencies of internal control. Specific supervision and review is carried out by the Audit Department. The Audit Department exercises the right of audit supervision independently without any interference from other departments, units and individuals. This mechanism is designed to maintain the independence, impartiality and authority of the internal audit function.

The Board has reviewed risk management and internal control work carried out in 2018. There has been no significant risk control failure, and no significant risk control weakness has been identified within the Company. Management processes including financial reporting, inside information processing and disclosure of the Company are in strict compliance with the Listing Rules. The Board has reviewed the risk management and internal control work conducted by the Company during the Reporting Period and considers the risk management and internal control system effective and sufficient within the Group.

AUDITOR'S REMUNERATION

The statement of the Company's external auditor related to the reporting responsibilities of consolidated financial statements is recorded in the Independent Auditor's Report on page 132 of this annual report.

There is no remuneration of the external auditor Deloitte Touche Tohmatsu paid/payable in respect of audit service for the year ended 31 December 2018 and its remuneration in respect of non-audit service was RMB0.5 million. Remuneration of the Company's external auditor Ernst & Young Hua Ming LLP paid/payable for the year ended 31 December 2018 was RMB8.0 million. Remuneration of the Company's external auditor Zhongxingcai Guanghua Certified Public Accountants LLP paid/payable for the year ended 31 December 2018 was RMB0.8 million.

CESSATION OF APPOINTMENT OF AUDITOR AND APPOINTMENT OF EXTERNAL AUDITOR AND INTERNAL CONTROL CONSULTANT

On 11 November 2018, the Board announced that, considering Deloitte Touche Tohmatsu Certified Public Accountants LLP ("Deloitte") has continuously served as the auditor of the Company for more than 10 years, on the recommendation of the Audit Committee of the Company, the Board has resolved to change the auditor. Based on the aforesaid reason, and as recommended by the Audit Committee, the Board resolved to appoint Ernst & Young Hua Ming LLP as the auditor of the Company for the year 2018 and resolved to appoint Zhongxingcai Guanghua Certified Public Accountants LLP as the internal control consultant of the Company for the year 2018 with a term until the conclusion of the next annual general meeting. This appointment has been approved by the 2018 second extraordinary general meeting. Deloitte has confirmed to the Company that there are no matters that need to be brought to the attention of the Shareholders or creditors as regards the proposed change of auditor, and that there are no disagreements or unresolved matters with the Company. The Board is not aware of any matter in respect of the proposed change of auditor that is required to be brought to the attention of the Shareholders. For further details, please refer to the Company's announcement dated 11 November 2018.

COMPANY SECRETARY

Mr. GUO Binghe, the company secretary of the Company, is responsible for raising corporate governance-related suggestions to the Board, and ensuring compliance with policies and procedures of the Board, applicable laws, rules and regulations.

In order to maintain high-standard corporate governance and ensure that the Company complies with the Listing Rules and applicable Hong Kong laws, we also appointed Ms. LEUNG Suet Lun of the listing services department TMF Hong Kong Limited, as an assistant company secretary, to work closely with and provide assistance to Mr. GUO in the discharge of his duties as the company secretary.

Corporate Governance Report

For the year ended 31 December 2018, Mr. GUO and Ms. LEUNG have already completed professional training of no less than 15 hours in accordance with Rule 3.29 of the Listing Rules, respectively.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company believes that effective communication with Shareholders is very significant to the investor relations enhancement and investors' understanding of the Company's business, performance and strategies. We are also deeply convinced of the importance of disclosing information of the Company in time without preservation to the Shareholders and investors knowledgeably.

The annual general meeting of Shareholders of the Company provides the shareholders with opportunities to communicate with the directors directly. The chairman of the Board and directors of the committees will attend the meeting if possible, to answer questions raised by the shareholders. The external auditor of the Company will attend the meeting and answer the questions regarding auditing items, preparation and contents of the auditor's report, accounting policy and independence of the auditor.

The Company adopted a shareholder communication policy so as to promote the effectiveness of communication and establish a bridge between the Company and its Shareholders. Further, a website (www.chinaredstar.com) and enquiry channels for the investors (e-mail: ir@chinaredstar.com) are also available. The Company will release the latest information about the business operation and development, corporate governance practices and other latest information to the public on the website.

SHAREHOLDERS' RIGHTS

In order to protect shareholders' interest and rights, the Company will submit the items for the review of the Shareholders' general meeting in the form of an independent resolution. The resolution submitted to the Shareholders' general meeting will be voted pursuant to the Listing Rules, and the voting result will be published on the websites of the Stock Exchange and the Company in time after the meeting.

Extraordinary Shareholders' Meeting Convening and Proposal

Pursuant to the Articles of Association, where the Shareholders separately or jointly holding more than 10% of the Shares request the Board to convene an extraordinary Shareholders' meeting or Shareholders' class meeting, the following procedures shall be followed:

- (1) Shareholders who separately or jointly hold more than 10% of the Shares may request the Board to convene an extraordinary Shareholders' meeting or Shareholders' class meeting by signing a written requirement or several copies with the same format and to illustrate the subject of the meetings. The Board shall convene an extraordinary

Shareholders' meeting or Shareholders' class meeting as soon as possible upon the receipt of the aforesaid written request. The Shareholders shall calculate the aforesaid number of shareholdings as of the date of the submission of the written requirement.

- (2) If the Board fails to issue a notice of meeting within 30 days upon the receipt of the aforesaid written request, the Supervisory Committee may convene a meeting itself within four months upon the Board's receipt of such request; if the Supervisory Committee fails to convene and chair the meeting, the Shareholders who separately or jointly hold more than 10% of the Shares of our Company for more than 90 consecutive days may convene and preside over themselves, of which the convening procedure shall be at best the same as if convened by the Board. If the Shareholders call and convene a meeting by themselves due to the Board being unable to convene a meeting in accordance with the aforesaid requirement, the expenses reasonably incurred therefrom shall be borne by the Company and be deducted from the amounts due to the relevant Directors as a result of negligence of duty.

A general Shareholders' meeting convened by Shareholders themselves shall be chaired by a person elected by the convener. If no chairman is recommended, the chairman can be elected from the Shareholders. If for any reason the Shareholders cannot elect a chairman, the meeting shall be chaired by the attending Shareholder (including proxy) representing most voting Shares at the meeting.

The Shareholder(s) holding, separately or jointly, 3% or more of the total shares of our Company may put forward extempore proposals to the Company 10 days prior to the convening of the general meeting by submitting the proposals in writing to the convener. The convener shall issue a supplementary notice of the general meeting to the Shareholders within two days upon the receipt of the proposals.

Queries Made to Board of Directors

The Shareholders may send queries for attention of the Board to ir@chinaredstar.com by e-mail.

Articles of Association

For the year ended 31 December 2018, there had been various alternations to the Articles of Association. The existing Articles of Association are published on the websites of the Hong Kong Stock Exchange and the Company respectively. For further details, please refer to Company's announcements dated 7 February 2018, 17 May 2018, 17 August 2018 and 11 November 2018, respectively.

Social Responsibility Report

INTRODUCTION

This social responsibility report does not constitute an ESG report under Appendix 27 of the Listing Rules. An ESG report complying with the disclosure requirements under Appendix 27 of the Listing Rules will be published by Red Star Macalline separately.

RESPONSIBILITY TO THE INDUSTRY

As a leading brand in the home furnishings circulation industry, Red Star Macalline has been committed to promoting the development and reform of the industry through profound market research and strategic innovation. Red Star Macalline has been making positive efforts in the establishment of a new retail system in the home furnishings industry. By virtue of the emerging technologies, such as internet, big data, artificial intelligence to promote the intelligent development of the home furnishings retail industry, we also bring more Science and Technology elements to the home furnishings retail industry by creating the new retail model store, building smart shopping malls and operating IMP platform; empowering the quality development of home furnishings retail industry with the help of design aesthetics, improving the taste of domestic customers on home furnishings by hosting designer competitions, launching an online design platform system and organizing the International Home Design exhibition; strengthening the promotion of environmental protection concept and driving the green ecological development of home furnishings retail industry. We hold a series of green week activities to lead the green trend of environmental protection in the home furnishings retail industry.

RESPONSIBILITY TO OUR PARTNERS

We are committed to a code of business conduct focusing on integrity and share benefits with suppliers. We monitored the environmental protection quality of the suppliers' products, set strict supplier selection and assessment mechanism, thus ensuring that all products and brands in Red Star Macalline malls meet the requirements of environmental protection quality. We had close supervision on the environment and social risk of suppliers and urged them to perform environmental and social responsibilities. We have enhanced the build of internal management data, such as tenants' quality, prices, delivery, services and performance of duty etc., to upgrade tenant credit management system, so as to publicly show the feedback on tenant credit and spur the tenants to operate sincerely.

As for cooperation with our business partners, we made analysis of each supplier's competitive landscape and issued a brand operation and development report on a regular basis to give brand-specific improvement suggestions based on its current operating condition, helping them improve their brand image. These measures were widely accepted and recognized by a large number of cooperative brands, and enabled us to become a benchmark enterprise in the home improvement and furniture industry which can truly provide value-added services.

RESPONSIBILITY TO OUR CUSTOMER

Upholding the belief that "Customers are the base of a corporation", we are committed to offering customers efficient and high-quality services. We promoted the "Word of Mouth Advertising" project and aim to satisfy customers' demands in price, service, quality, workforce and environment, so as to win satisfaction and loyalty from customers and to build a strong brand. We improved after-sale maintain service, providing on-site maintenance service for free by a professional maintenance team from each mall, and the management carried out an on-site visit to receive the customer's opinion and suggestion.

We take the responsibility of protecting customers' household environment. In 2018, we issued the White Paper on Green Competitiveness of Home Furnishing in China (《中國家居綠色環保競爭力白皮書》) when carrying out "Leading Green Brand Campaign" for six consecutive years, and invited customers, industries' expert to visit original factory and environmental protection base. These measures show that we were determined to incorporate environmental protection into our mission and promised that every product we sold met environmental standards. Based on national and industry standards and advanced quality management systems established both at home and abroad, the Leading Green brand appraisal gave comprehensive and integrated assessment on selected brands and has been highly recognized by customers and the entire industry.

RESPONSIBILITY TO OUR STAFF

Following an open and fair employment principle, Red Star Macalline offered equal opportunities to talents and attached importance to the diversity of workforce. We are opposed to any form of discrimination and protect our staff from any racial, religious and gender discrimination.

Upholding the philosophy of high pay for high performance, Red Star Macalline offers its staff competitive remuneration and benefits. We also care about development of our staff, and specifically set up management school to establish the robust staff training system. We won awards of "CCFA Staff's Favorite Chain Enterprise", "CSTD China Best Corporate University" for consecutive years and in 2018, we received "HR Pioneer of the Year", "China Employer Excellence", "Asia Best Workplace" and "TOP HRM 2018 Top Human Resources Management Awards".

In addition, Red Star Macalline is devoted to building a safe, healthy and comfortable working and living environment for its staff. We organized staff medical examinations, hosted a health lecture, set up green medical channels at regular intervals to protect staff health and improve their safety awareness; we carried out a sports meet and a parent-child campaign, set up a staff bookstore to mitigate their work pressure and balance their life and work; we offered subsidized houses, set up supporting funds and mommy hut to improve life quality of staff.

RESPONSIBILITY TO ENVIRONMENT AND SOCIAL PUBLIC

Paying high attention to resource conservation and environmental protection, Red Star Macalline incorporates environmental protection into the decision making process, management and corporate culture, giving top priority to green environment in all aspects and stages of business operation. We develop a series of energy conservation and emission reduction strategies against the major consumed energy resources including water, electricity, gas and construction materials, reduce emission of greenhouse gas and play a part in combating global warming.

In the pursuit of growth and service quality improvement, Red Star Macalline builds close relations with communities, shares its development achievements with the society, and never forgets to perform its social responsibilities. As a leader in the home furnishing industry, we take an active part in public welfare undertakings to create employment opportunities for young people, pay attention to help children grow up healthily, improve the livelihood of residents, uphold Chinese traditional culture, facilitate the development of education. Total charitable donations amounted to RMB10.6 million in 2018.

THE MAIN AWARDS OF RED STAR MACALLINE ON PERFORMING THE SOCIAL RESPONSIBILITY IN 2018

Awards/Honors Issuing Organization

Chain Store Ever Green Award for the 40th Anniversary of the Reform and Opening-up (改革開放40週年連鎖企業長青獎)
“Shanghai Brand” Certification (「上海品牌」認證)

CCFA Staff's Favorite Chain Enterprise (CCFA中國連鎖業員工最喜愛公司)

CCFA Hengxin Scholarship Excellent Partner Award (CCFA恒欣獎學金優秀合作夥伴獎)

CCFA Excellent Corporate University-Best Innovation Practice Award (CCFA優秀企業大學 — 最佳創新實踐獎)

CCFA Excellent Corporate University-Top Ten excellent micro courses Award (CCFA優秀企業大學 — 十佳精品微課獎)

CCFA Retail Skills Competition-The Third Prize of the Winning Team (CCFA行業技能達人秀獲獎團隊三等獎)

HRoot Asia Best Workplace (HRoot亞洲最佳職場)

2018 China HR Pioneer Award (2018年度先鋒僱主)

2018 Excellence Employer of China (2018中國典範僱主)

2018 Shanghai Work Different (2018上海變革非凡僱主)

TOP HRM 2018 Top Human Resources Management Awards (TOP HRM 2018人力資源管理傑出獎)

Top 50 Training Magazine Chinese Corporate Universities (培訓雜誌中國企業大學50強)

2018 OCE (Overseas Education College) Chinese Corporate University Trend Leader (交大海外2018年度中國企業大學趨勢引領獎)

2018 OCE Best Learning Program For Chinese Enterprises (交大海外2018年度中國企業最佳學習項目)

2018 CEFE (China E-Learning Forum & Exhibition) Excellent Case Selection — The Best Business-oriented Application Award
(CEFE2018年中國企業在綫學習優秀案例評選 — 最佳業務型應用獎)

2018 Customer-oriented Outstanding Enterprises (2018年踐行消費者至上傑出企業)

2018 Shanghai Local Labor Union Top 10 Innovation Case Award (2018年度上海市基層工會十大創新案例獎)

2018 CMO Golden Craftsman Award-The best B2C Brand IP Award (2018 CMO金匠獎B2C最佳品牌IP獎)

Auditor's Report

TO THE SHAREHOLDERS OF RED STAR MACALLINE GROUP CORPORATION LTD.,

1. OPINION

We have audited the financial statements of Red Star Macalline Group Corporation Ltd. (the "Company") which comprise the consolidated and the Company's balance sheets as at 31 December 2018, the consolidated and the Company's income statements, the consolidated and the Company's statements of changes in shareholders' equity and the consolidated and the Company's cash flow statements for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements of the Company present fairly, in all material respects, the consolidated and the Company's financial position as at 31 December 2018, and the consolidated and the Company's financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises ("ASBEs").

2. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with China Code of Ethics for Certified Public Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

3. KEY AUDIT MATTERS (CONTINUED)

Key audit matter:	How our audit addressed the key audit matter:
<p>Measurement of investment properties at fair value</p> <p>As of 31 December 2018, the Group's investment property at fair value was RMB78,533 million, accounting for 71% of the Group's total book assets. Investment properties of the Group are subsequently measured using a fair value model.</p> <p>Due to the facts that the amount of investment properties is significant, and the assessment of the fair value of investment properties involves significant estimates, assumptions and judgments of the management, including estimated rental income, discount rate, vacancy rate, the economic environment in the region where the investment properties were located and the analysis of future trend etc., the uncertainty was relatively high. Therefore, we considered the measurement of investment properties at fair value as a key audit matter.</p> <p>For disclosure on the matter in the notes to the financial statements, please refer to Note III – 14. Investment Property, Note III – 31. Significant Accounting Judgments and Estimates, Note V – 15. Investment Property and Note V – 54. Gain on Fair Value Changes.</p>	<p>We performed the following audit procedures:</p> <ol style="list-style-type: none">(1) Evaluating the objectivity, independence and professional competence of third-party appraisers engaged by the management;(2) Taking samples and inviting internal evaluation experts to assist us in evaluating the valuation methods, key estimates and assumptions such as discount rate, vacancy rate, etc. adopted by appraisers; testing the rationality of relevant key estimates and assumptions by examining historical information and public market data;(3) Reviewing the adequacy of disclosures related to the investment properties at fair value in the financial statements.

3. KEY AUDIT MATTERS (CONTINUED)

Key audit matter:

How our audit addressed the key audit matter:

The recognition of revenue from the brand consulting and management service for the early stage of the project and construction revenue

In 2018, revenue from the brand consulting and management business for the early stage of the project and construction revenue recognized by the Group were RMB1,564 million and RMB1,480 million, respectively. The Group began to implement the Accounting Standards for Business Enterprises No. 14 — Revenue (hereinafter referred to as the “New Standards for Revenue”) from 1 January 2018 and changed the Group’s accounting policies for revenue recognition accordingly. According to the changed accounting policies, the Group recognized the above two revenues based on the progress of project performance and the progress of construction, respectively.

The amount of revenue from the brand consulting and management service for the early stage of the project was relatively large, and the splitting of contract performance obligations, the allocation of transaction considerations, and the progress of project performance all involved major estimates and judgments of the management. In addition, according to the New Standards for Revenue, the Group recognized the performance obligations included in the contract for revenue from the brand consulting and management service for the early stage of the project, and recognized the revenue based on the progress of the performance. The impact of implementation of New Standards for Revenue on 1 January 2018 was to reduce the retained earnings of the Group by RMB724 million. In addition, the amount of construction revenue is relatively large too, and the splitting of contract performance obligations, the allocation of transaction considerations, and the progress of project performance all involved major estimates and judgments of the management. Therefore, we considered the recognition of the above two incomes as key audit matters.

For disclosure on the matter in the notes to the financial statements, please refer to Note III — 22. Revenue (applicable from 1 January 2018), Note III — 31. Significant Accounting Judgments and Estimates, Note III — 32. Changes in Accounting Policies and Accounting Estimates, Note V — 44. Revenue and Cost.

We performed the following audit procedures:

- (1) Reviewing the rationality of the revenue recognition method adopted by management for revenue for the early stage of the project and testing key controls related to the processes of revenue for the early stage of the project and construction revenue;
- (2) Examining the services and engineering agreements and other materials signed by the Group and understanding the relevant terms and services;
- (3) Reviewing management’s performance obligation to identify and determine revenue for the early stage of the project and construction revenue, and examining the rationality of the basis and method of transaction consideration allocation;
- (4) Obtaining the evidence based on which the management evaluates the progress of the project performance, and analyzing and testing the budget cost, contract amount and progress of the project performance;
- (5) Reviewing the adequacy of disclosure on revenue for the early stage of the project and construction revenue at the beginning and current period in the financial statements.

3. KEY AUDIT MATTERS (CONTINUED)

Key audit matter:	How our audit addressed the key audit matter:
<p>Estimation of impairment allowance of notes receivable and accounts receivable, other receivables, long-term receivables and contract assets</p> <p>As of 31 December 2018, the original values of notes receivable and accounts receivable, other receivables, long-term receivables, and contract assets were RMB2,839 million, RMB2,221 million, RMB1,811 million and RMB855 million, respectively. The balance of Bad debts allowance was RMB1,151 million, RMB284 million, RMB15 million and RMB48 million respectively.</p> <p>According to the requirements of Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments, when assessing the impairment allowance for receivables and contract assets, the Group made a judgment based on its expected credit losses.</p> <p>The management divided the receivables and contract assets into different credit risk characteristic combination categories based on the composition of receivables and contract assets and the different types of customer returns and credit in recent years. In terms of each credit risk characteristic combination category, the management estimated the expected credit loss rate of receivables and contract assets based on the actual loss rate of receivables and contract assets with similar credit risk characteristics in previous years and combined with prospective consideration. Different proportion of bad debt allowance shall be made for different levels of risk, and bad debt allowance shall be made accordingly.</p> <p>The division of different credit risk characteristics combination categories for receivables, the expected credit loss rate and the estimation of forward-looking adjustments all involved major judgments and estimates of management, and there were great uncertainties in estimation. Moreover, the setting of various parameters needs to be based on the statistics and analysis of more complicated historical data. Therefore, we identified this matter as a key audit matter.</p>	<p>We performed the following audit procedures:</p> <ol style="list-style-type: none"> (1) Understanding the policies of the Group's receivables and impairment allowance for contract assets and the method adopted by the management for assessing the amount of impairment, and testing internal controls related to the processes of impairment of receivables and contract asset; (2) Reviewing and evaluating the rationality of the "expected credit loss model" used by the management to estimate the impairment allowance for receivables and contract assets, as well as the adequacy of bad debt allowance; assessing key assumptions and parameters used for estimating expected credit loss, including the rationality of the selection of forward-looking coefficients based on industry conditions; (3) Discussing with management to evaluate receivables and contract assets with defaults and indication of impairment. Examining relevant supporting evidence, including post collection, evaluation of customer's credit history, operating conditions and loan repayment ability, etc., and judging the rationality of management's impairment allowance of the Group; (4) Reviewing the adequacy of management's disclosure of bad debt allowance of receivables and contract assets.

3. KEY AUDIT MATTERS (CONTINUED)

Key audit matter:

How our audit addressed the key audit matter:

Estimation of impairment allowance of notes receivable and accounts receivable, other receivables, long-term receivables and contract assets (continued)

For disclosure on the matter in the notes to the financial statements, please refer to Note III – 11. Receivables, Note III – 23. Contract Assets and Contract Liabilities (applicable from 1 January 2018), Note III – 31. Significant Accounting Judgments and Estimates, Note V – 3. Notes Receivable and Accounts Receivable, Note V – 5. Other Receivables, Note V – 7. Contract Assets (only applicable to 2018), Note V – 11. Long-term Receivables, Note V – 24. Impairment Allowance of Assets, Note V – 51. Impairment Losses of Credit (only applicable to 2018).

4. OTHER INFORMATION

The management of the Company is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

5. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with ASBEs, and for designing, implementing and maintaining such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing (as applicable) matters related to going concern and using the a going concern basis of accounting, unless the management either intends to liquidate the Company or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also: (continued)

- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (4) Conclude on the appropriateness of the management's use of going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required by CSAs to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young Hua Ming LLP

(seal)

Chinese Certified Public Accountants: ZHU Lei
(The engagement partner)

(signature and seal)

Chinese Certified Public Accountants: WANG Huida
(signature and seal)

27 March 2019

Beijing, China

Consolidated Balance Sheet

At 31 December 2018

RMB

Assets	Note V	31 December 2018	31 December 2017
Current Assets			
Cash and bank balances	1	8,527,607,964.92	10,626,917,788.54
Financial assets held for trading	2	236,256,219.87	—
Notes receivable and accounts receivable	3	1,687,918,584.76	1,170,430,013.77
Prepayments	4	319,437,303.71	267,777,107.29
Other receivables	5	1,936,025,518.72	1,734,498,124.83
Inventories	6	251,352,502.91	120,291,360.44
Contract assets	7	807,109,773.17	—
Non-current assets due within one year	8	314,950,000.00	120,000,000.00
Other current assets	9	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	10	—	3,062,451,062.40
Long-term receivables	11	1,795,159,925.01	1,301,785,294.30
Long-term equity investments	12	3,026,101,128.50	1,613,818,294.75
Other equity instrument investments	13	3,302,748,467.57	—
Other non-current financial assets	14	324,850,000.00	—
Investment properties	15	78,533,000,000.00	70,831,000,000.00
Fixed assets	16	192,418,042.50	158,862,688.00
Construction in progress	17	84,866,598.69	66,100,052.88
Intangible assets	18	460,830,931.51	458,617,045.42
Development expenditure	19	—	29,418,402.19
Goodwill	20	16,592,357.41	16,592,357.41
Long-term prepaid expenses	21	400,731,940.53	229,333,419.48
Deferred tax assets	22	822,269,149.42	718,579,066.08
Other non-current assets	23	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

The attached notes below to the financial statements are the constituent part of this financial statement

Consolidated Balance Sheet

At 31 December 2018

RMB

Liabilities and equity	Note V	31 December 2018	31 December 2017
Current liabilities			
Short-term loans	25	5,148,516,740.00	300,010,000.00
Notes payables and accounts payables	26	970,116,980.34	491,215,018.66
Advance from customers	27	1,249,019,601.25	3,068,282,301.16
Contract liabilities	28	2,601,978,507.73	—
Payroll payable	29	913,986,023.52	800,537,116.04
Taxes payables	30	607,676,739.98	927,266,639.50
Other payables	31	8,712,208,081.24	7,579,360,891.86
Other current liabilities	33	1,161,684,557.80	—
Non-current liabilities due within one year	32	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	34	14,306,362,773.00	11,372,664,484.81
Bonds payable	35	7,156,394,519.96	4,896,478,160.15
Long-term payables	36	1,385,921,007.85	1,415,698,075.42
Deferred income	37	212,456,044.43	192,141,221.74
Deferred tax liabilities	22	11,008,662,811.23	9,714,400,823.89
Other non-current liabilities	38	6,181,288,065.26	2,774,520,500.00
Total non-current liabilities		40,251,085,221.73	30,365,903,266.01

The attached notes below to the financial statements are the constituent part of this financial statement

Consolidated Balance Sheet

At 31 December 2018

RMB

Liabilities and equity	Note V	31 December 2018	31 December 2017
Total liabilities		65,564,892,138.34	53,082,650,707.20
Equity			
Share capital	39	3,550,000,000.00	3,623,917,038.00
Capital reserve	40	4,490,018,895.43	5,362,115,385.55
Other comprehensive income	41	1,227,776,839.27	1,562,965,633.10
Surplus reserve	42	1,816,847,121.56	1,623,080,808.19
Retained earnings	43	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

The attached notes below to the financial statements are the constituent part of this financial statement

This financial statement is signed by the following persons:

Legal representative:

Person in charge of accounting:

Person in charge
of the accounting department:

CHE Jianxing

XI Shichang

CAI Weichun

Consolidated Income Statement

For the year ended 31 December 2018

RMB

	Note V	2018	2017
Revenue	44	14,239,792,500.44	10,959,512,669.77
Less: Costs of sales	44	4,813,699,821.07	3,163,193,516.38
Taxes and surcharges	45	387,369,974.23	317,329,519.05
Distribution and selling expenses	46	1,700,337,297.30	1,513,829,389.14
General and administrative expenses	47	1,490,961,410.80	1,361,788,199.04
Research and development costs	48	43,165,869.51	—
Financial expenses	49	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 losses of assets	50	—	283,436,250.82
Impairment losses of credit	51	247,494,708.99	—
Add: Other income	52	111,159,889.42	62,288,005.83
Investment income	53	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	54	1,767,009,613.56	1,996,188,694.30
Gains/(losses) from disposal of assets	55	(656,552.23)	35,964,572.41
Operating profit		6,130,797,925.86	5,916,434,135.56
Add: Non-operating income	56	38,512,766.67	112,250,229.35
Less: Non-operating expenses	57	149,990,961.12	42,647,769.39
Total profit		6,019,319,731.41	5,986,036,595.52
Less: Income tax expenses	60	1,313,872,428.30	1,708,022,775.23
Net profit		4,705,447,303.11	4,278,013,820.29
According to the classification of ownership			
Net profit attributable to owners of the Company		4,477,411,242.46	4,077,897,749.46
Non-controlling interests		228,036,060.65	200,116,070.83

Consolidated Income Statement

For the year ended 31 December 2018

RMB

	Note V	2018	2017
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	41	(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
Total comprehensive income		4,355,393,459.27	6,014,642,301.51
Including:			
Total comprehensive income attributable to the 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
Earnings per share	61		
Basic earnings per share		1.20	1.13
Diluted earnings per share		N/A	N/A

The attached notes below to the financial statements are the constituent part of this financial statement

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

RMB

For the year 2018	Attributable to shareholders of the Company							Non-controlling interest	Total equity
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained earnings	Sub-total			
I. Balance at the end of last year	3,623,917,038.00	5,362,115,385.55	1,562,965,633.10	1,623,080,808.19	28,254,693,080.77	40,426,771,945.61	3,505,201,438.50	43,931,973,384.11	
Add: Changes in accounting policies	-	-	114,069,393.88	-	(812,868,228.22)	(698,798,834.34)	(370,344.50)	(699,169,178.84)	
II. Balance at the beginning of the year	3,623,917,038.00	5,362,115,385.55	1,677,035,026.98	1,623,080,808.19	27,441,824,852.55	39,727,973,111.27	3,504,831,094.00	43,232,804,205.27	
III. Changes in the current year									
(I) Total comprehensive income	-	-	(284,856,658.06)	-	4,477,411,242.46	4,192,554,584.40	162,838,874.87	4,355,393,459.27	
(II) Shareholders' contributions and reduction in capital									
1. Issue of ordinary shares	315,000,000.00	2,735,007,849.63	-	-	-	3,050,007,849.63	-	3,050,007,849.63	
2. Repurchase of ordinary shares	(388,917,038.00)	(3,523,954,372.77)	-	-	-	(3,912,871,410.77)	-	(3,912,871,410.77)	
3. Capital contributions from Non-controlling interest	-	-	-	-	-	-	19,166,120.00	19,166,120.00	
4. Non-controlling interest arising from acquisition of subsidiaries	-	-	-	-	-	-	437,296,034.81	437,296,034.81	
5. Acquisition of non-controlling interest	-	(260,600,875.59)	-	-	-	(260,600,875.59)	(402,601,473.77)	(663,202,349.36)	
6. Others	-	177,450,908.61	-	-	-	177,450,908.61	-	177,450,908.61	
(III) Profit distribution									
1. Transfer to surplus reserve	-	-	-	193,766,313.37	(193,766,313.37)	-	-	-	
2. Distributions to shareholders	-	-	-	-	(1,260,453,452.16)	(1,260,453,452.16)	(139,765,685.08)	(1,400,219,137.24)	
(IV) Internal carry forward of shareholders' equity									
1. Other comprehensive income converted to retained earnings	-	-	(164,401,529.65)	-	164,401,529.65	-	-	-	
IV. Balance at the end of the year	3,550,000,000.00	4,490,018,895.43	1,227,776,839.27	1,816,847,121.56	30,629,417,859.13	41,714,060,715.39	3,581,764,964.83	45,295,825,680.22	

The attached notes below to the financial statements are the constituent part of this financial statement

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

RMB

For the year 2017	Attributable to shareholders of the Company						Non-controlling interest	Total equity
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained earnings	Sub-total		
I. Balance at the beginning of the year	3,623,917,038.00	5,620,013,738.96	—	1,226,111,855.65	26,095,809,439.81	36,565,852,072.42	3,354,921,066.82	39,920,773,139.24
II. Changes in the current year								
(I) Total comprehensive income	—	—	1,562,965,633.10	—	4,077,897,749.46	5,640,863,382.56	373,778,918.95	6,014,642,301.51
(II) Shareholders' contributions and reduction in capital								
1. Ordinary shares contributed by shareholders	—	—	—	—	—	—	134,457,880.00	134,457,880.00
2. Others	—	(257,898,353.41)	—	—	—	(257,898,353.41)	(261,246,772.92)	(519,145,126.33)
(III) Profit distribution								
1. Transfer to surplus reserve	—	—	—	396,968,952.54	(396,968,952.54)	—	—	—
2. Distributions to shareholders	—	—	—	—	(1,522,045,155.96)	(1,522,045,155.96)	(96,709,654.35)	(1,618,754,810.31)
III. Balance at the end of the year	3,623,917,038.00	5,362,115,385.55	1,562,965,633.10	1,623,080,808.19	28,254,693,080.77	40,426,771,945.61	3,505,201,438.50	43,931,973,384.11

The attached notes below to the financial statements are the constituent part of this financial statement

Consolidated Cash Flow Statement

For the year ended 31 December 2018

RMB

	Note V	2018	2017
I. Cash Flows from Operating Activities:			
Cash received from the sales of goods and rendering of services		14,498,199,921.83	12,184,489,800.57
Other cash received relating to operating activities	62	764,903,311.65	2,282,640,770.97
Sub-total of cash inflow from operating activities		15,263,103,233.48	14,467,130,571.54
Cash payments for goods purchased and services received		1,987,335,825.85	1,353,768,114.19
Cash payments to and on behalf of employees		3,435,545,648.33	2,731,713,050.70
Payments of various types of taxes		1,893,001,161.21	1,439,972,395.48
Other cash payments relating to operating activities	62	2,089,289,893.74	2,413,208,082.34
Sub-total of cash outflow from operating activities		9,405,172,529.13	7,938,661,642.71
Net cash flows from operating activities	63	5,857,930,704.35	6,528,468,928.83
II. Cash Flows from Investing Activities:			
Cash received from disposal of investments		573,017,162.74	86,800,000.00
Cash received from investment income		74,654,075.41	1,025,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		3,150,598.29	38,051,932.66
Net cash received from disposal of subsidiaries and other business units	63	4,995,395.61	2,781,119,596.23
Other cash received relating to investing activities	62	1,017,764,828.95	1,312,058,756.14
Sub-total of cash inflow from investing activities		1,673,582,061.00	4,219,055,285.03
Cash paid to purchase and construct fixed assets, intangible assets and other long-term assets		3,745,208,194.37	5,840,426,576.29
Cash paid for investments		2,167,569,379.01	1,607,414,912.91
Net cash paid for acquisition of subsidiaries and other business units	63	1,973,006,777.83	740,285,674.10
Other cash paid relating to investing activities	62	4,782,238,005.57	2,052,152,346.63
Sub-total of cash outflow from investing activities		12,668,022,356.78	10,240,279,509.93
Net cash flow from investing activities		(10,994,440,295.78)	(6,021,224,224.90)

The attached notes below to the financial statements are the constituent part of this financial statement

Consolidated Cash Flow Statement

For the year ended 31 December 2018

RMB

	Note V	2018	2017
III. Cash Flows from Financing Activities:			
Cash receipts from capital contributions		3,066,829,969.63	134,457,880.00
Including: cash receipts from capital contributions from minority shareholders of subsidiaries		16,822,120.00	134,457,880.00
Cash received from borrowings		20,881,775,944.52	12,894,832,370.23
Other cash received relating to financing activities	62	—	6,099,043.31
Sub-total of cash inflow from financing activities		23,948,605,914.15	13,035,389,293.54
Cash repayments of borrowings		14,188,692,838.44	6,038,656,350.99
Cash payments for distribution of dividends or profits or settlement of interest expenses		2,956,063,636.01	2,808,194,256.59
Including: payments for distribution of dividends or profits to minority shareholders of subsidiaries		110,477,105.82	173,249,654.35
Other cash payments relating to financing activities	62	4,328,551,494.99	314,901,264.13
Sub-total of cash outflow from financing activities		21,473,307,969.44	9,161,751,871.71
Net Cash Flow from Financing Activities		2,475,297,944.71	3,873,637,421.83
IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents			
		6,405,135.96	(4,013,093.73)
V. Net (Decrease)/Increase in Cash and Cash Equivalents		(2,654,806,510.76)	4,376,869,032.03
Add: Opening balance of cash and cash equivalents		10,269,293,739.45	5,892,424,707.42
VI. Closing Balance of Cash and Cash Equivalents	63	7,614,487,228.69	10,269,293,739.45

The attached notes below to the financial statements are the constituent part of this financial statement

Company's Balance Sheet

At 31 December 2018

RMB

Asset	Note 14	31 December 2018	31 December 2017
Current assets			
Cash and bank balances		1,643,966,701.80	1,969,876,777.44
Notes receivable and account receivable	1	576,962,054.82	484,757,225.91
Prepayments		14,161,010.39	48,766,995.40
Other receivables	2	25,266,149,844.00	21,537,417,235.10
Inventories		7,486,585.89	5,730,984.40
Contract assets		240,397,879.00	—
Other current assets		3,400,403.86	49,830,391.58
Total current assets		27,752,524,479.76	24,096,379,609.83
Non-current assets			
Available-for-sale financial assets		—	669,543,221.29
Long-term receivables		1,133,376,387.24	808,560,382.87
Long-term equity investments	3	14,066,375,112.16	11,388,694,251.59
Other equity instrument investments		1,409,651,852.03	—
Other non-current financial assets		13,100,000.00	—
Fixed assets		28,455,482.64	25,497,724.38
Construction in progress		29,946,397.23	13,762,311.97
Intangible assets		395,609,045.26	418,061,037.62
Long-term prepaid expenses		19,428,231.72	21,357,637.10
Deferred tax assets		533,442,706.25	384,913,111.65
Other non-current assets		3,120,839,869.00	1,908,490,377.66
Total non-current assets		20,750,225,083.53	15,638,880,056.13
Total assets		48,502,749,563.29	39,735,259,665.96

The attached notes below to the financial statements are the constituent part of this financial statement

Company's Balance Sheet

At 31 December 2018

RMB

Liabilities and equity	31 December 2018	31 December 2017
Current liabilities		
Short-term loans	4,687,756,740.00	300,010,000.00
Notes payables and accounts payables	235,577,036.32	121,642,406.76
Advance from customers	53,618,770.24	731,167,637.28
Contract liabilities	561,777,664.68	—
Payroll payable	266,382,823.07	287,449,474.82
Taxes payables	177,745,952.69	172,165,530.70
Other payables	15,303,562,969.89	11,791,290,877.78
Non-current liabilities due within one year	1,886,573,720.79	7,036,714,288.88
Other current liabilities	1,033,706,659.88	—
Total current liabilities	24,206,702,337.56	20,440,440,216.22
Non-current liabilities		
Long-term loans	3,306,397,000.00	660,000,000.00
Bonds payable	5,128,016,872.12	2,972,912,335.65
Long-term payables	46,681,901.29	34,621,903.57
Other non-current liabilities	629,422,237.44	304,520,500.00
Total non-current liabilities	9,110,518,010.85	3,972,054,739.22
Total liabilities	33,317,220,348.41	24,412,494,955.44
Equity		
Share capital	3,550,000,000.00	3,623,917,038.00
Capital reserve	5,150,419,073.28	5,784,981,095.88
Surplus reserve	1,637,028,554.33	1,443,262,240.96
Other comprehensive income	79,624,963.06	—
Retained earnings	4,768,456,624.21	4,470,604,335.68
Total equity	15,185,529,214.88	15,322,764,710.52
Total liabilities and equity	48,502,749,563.29	39,735,259,665.96

The attached notes below to the financial statements are the constituent part of this financial statement

Company's Income Statement

For the year ended 31 December 2018

RMB

	Note 14	2018	2017
Revenue	4	1,947,065,747.87	1,883,634,069.86
Less: Cost of sales	4	357,146,747.26	276,523,553.00
Taxes and surcharges		11,043,446.92	10,792,314.26
Distribution and selling expenses		350,189,771.28	377,277,042.14
General and administrative expenses		578,707,303.14	649,245,347.45
Financial expenses		442,774,399.11	357,214,111.15
Including: Interest expenses		1,032,188,175.97	688,914,690.50
Interest income		783,627,779.82	30,172,616.18
Impairment losses of assets		—	247,590,661.48
Impairment losses of credit		149,872,621.48	—
Add: Other income		52,655,584.52	4,489,199.06
Investment income	5	1,947,876,867.90	4,012,981,415.45
Including: Investment income from associates and joint ventures		103,733,130.56	93,420,154.33
Gain/(loss) from disposal of assets		(434,257.20)	358,379.26
Operating profit		2,057,429,653.90	3,982,820,034.15
Add: Non-operating income		13,400,601.44	4,194,339.21
Less: Non-operating expenses		124,347,521.92	10,911,170.27
Total profit		1,946,482,733.42	3,976,103,203.09
Less: Income tax expenses		8,819,599.72	6,413,677.65
Net profit		1,937,663,133.70	3,969,689,525.44
Other comprehensive income (after tax)		28,349,732.07	—
Other comprehensive income that will not be reclassified to profit or loss		28,349,732.07	—
Changes in fair value of other equity instrument investments		28,349,732.07	—
Total comprehensive income		1,966,012,865.77	3,969,689,525.44

The attached notes below to the financial statements are the constituent part of this financial statement

Company's Statement of Changes in Equity

For the year ended 31 December 2018

RMB

For the year 2018	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained earnings	Total equity
I. Balance at the end of the last year	3,623,917,038.00	5,784,981,095.88	–	1,443,262,240.96	4,470,604,335.68	15,322,764,710.52
Add: Changes in accounting policies	–	–	51,275,230.99	–	(185,591,079.64)	(134,315,848.65)
II. Balance at the beginning of the year	3,623,917,038.00	5,784,981,095.88	51,275,230.99	1,443,262,240.96	4,285,013,256.04	15,188,448,861.87
III. Changes in the current year						
(I) Total comprehensive income	–	–	28,349,732.07	–	1,937,663,133.70	1,966,012,865.77
(II) Shareholders' contributions and reduction in capital						
1. Ordinary shares of Shareholders' contributions	315,000,000.00	2,735,007,849.63	–	–	–	3,050,007,849.63
2. Ordinary shares of Shareholders' repurchase	(388,917,038.00)	(3,523,954,372.77)	–	–	–	(3,912,871,410.77)
3. Others		154,384,500.54				154,384,500.54
(III) Profit distribution						
1. Transfer to surplus reserve	–	–	–	193,766,313.37	(193,766,313.37)	–
2. Distributions to shareholders	–	–	–	–	(1,260,453,452.16)	(1,260,453,452.16)
IV. Balance at the end of the year	3,550,000,000.00	5,150,419,073.28	79,624,963.06	1,637,028,554.33	4,768,456,624.21	15,185,529,214.88

The attached notes below to the financial statements are the constituent part of this financial statement

Company's Statement of Changes in Equity

For the year ended 31 December 2018

RMB

For the year 2017	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total equity
I. Balance at the beginning of the year	3,623,917,038.00	5,784,981,095.88	1,046,293,288.42	2,419,928,918.74	12,875,120,341.04
II. Changes in the current year					
(I) Total comprehensive income	—	—	—	3,969,689,525.44	3,969,689,525.44
(II) Profit distribution					
1. Transfer to surplus reserve	—	—	396,968,952.54	(396,968,952.54)	—
2. Distributions to shareholders	—	—	—	(1,522,045,155.96)	(1,522,045,155.96)
III. Balance at the end of the year	3,623,917,038.00	5,784,981,095.88	1,443,262,240.96	4,470,604,335.68	15,322,764,710.52

The attached notes below to the financial statements are the constituent part of this financial statement

Company's Cash Flow Statement

For the year ended 31 December 2018

RMB

	2018	2017
I. Cash Flows from Operating Activities:		
Cash received from the sales of goods and rendering of services	1,994,453,963.37	1,777,718,452.65
Other cash received relating to operating activities	85,520,351.90	32,229,405.94
Sub-total of cash inflow from operating activities	2,079,974,315.27	1,809,947,858.59
Cash payments for goods purchased and services received	64,322,233.73	93,571,215.65
Cash payments to and on behalf of employees	608,469,109.50	517,453,347.16
Payments of various types of taxes	260,024,960.51	170,876,989.77
Other cash payments relating to operating activities	680,767,101.55	408,387,376.23
Sub-total of cash outflow from operating activities	1,613,583,405.29	1,190,288,928.81
Net cash flows from operating activities	466,390,909.98	619,658,929.78
II. Cash Flows from Investing Activities:		
Cash received from disposal of investments	5,000,000.00	250,000.00
Cash received from investment income	2,314,239,542.06	111,195,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	40,078.16	450,976.92
Net cash received from disposal of subsidiaries and other business units	—	156,700,000.00
Other cash received relating to investing activities	15,056,720,958.49	30,929,543,209.74
Sub-total of cash inflow from investing activities	17,376,000,578.71	31,198,139,186.66
Cash paid to purchase and construct fixed assets, intangible assets and other long-term assets	122,852,907.68	1,203,754,596.19
Cash paid for investments	5,192,543,281.72	2,012,432,356.51
Other cash paid relating to investing activities	22,690,870,591.50	30,197,086,276.26
Sub-total of cash outflow from investing activities	28,006,266,780.90	33,413,273,228.96
Net cash flow from investing activities	(10,630,266,202.19)	(2,215,134,042.30)

The attached notes below to the financial statements are the constituent part of this financial statement

Company's Cash Flow Statement

For the year ended 31 December 2018

RMB

	2018	2017
III. Cash Flows from Financing Activities:		
Cash receipts from capital contributions	3,050,007,849.63	—
Cash received from borrowings	12,790,263,836.04	1,050,010,000.00
Other cash received relating to financing activities	41,627,428,220.72	32,884,755,382.04
Sub-total of cash inflow from financing activities	57,467,699,906.39	33,934,765,382.04
Cash repayments of borrowings	7,868,923,959.57	3,440,010,000.00
Cash payments for distribution of dividends or profits or settlement of interest expenses	1,934,964,087.17	2,377,372,996.83
Other cash payments relating to financing activities	38,205,597,771.38	26,057,418,597.63
Sub-total of cash outflow from financing activities	48,009,485,818.12	31,874,801,594.46
Net Cash Flow from Financing Activities	9,458,214,088.27	2,059,963,787.58
IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents	(248,871.70)	—
V. Net (Decrease)/Increase in Cash and Cash Equivalents	(705,910,075.64)	464,488,675.06
Add: Opening balance of cash and cash equivalents	1,969,876,777.44	1,505,388,102.38
VI. Closing Balance of Cash and Cash equivalents	6 1,263,966,701.80	1,969,876,777.44

The attached notes below to the financial statements are the constituent part of this financial statement

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

I. GENERAL INFORMATION OF THE COMPANY

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飾品有限公司) and Shanghai Red Star Macalline Enterprise Management Company Limited** (上海紅星美凱龍企業管理有限公司), hereinafter referred to as “the Company”) is a limited liability company jointly established by Shanghai Red Star Macalline Investment Company Limited** (上海紅星美凱龍投資有限公司, renamed to Red Star Macalline Holding Group Company Limited** (紅星美凱龍控股集團有限公司) in December 2016) and Red Star Furniture Group Co., Ltd.** (紅星傢俱集團有限公司) on 18 June 2007 in Shanghai, the People’s Republic of China (the “PRC”), with a term of operation of 10 years and an original registered capital and paid-in capital of RMB120,000,000.00.

On 2 November 2007, Red Star Furniture Group Co., Ltd. transferred all the 90% equity held by it to Red Star Macalline Holding Group Company Limited, and completed the business registration for such change on 16 November 2007, after which, Red Star Macalline Holding Group Company Limited held 100% equity of the Company.

According to the resolution passed at the general meeting of the Company on 21 November 2008 and as approved by Shanghai Municipal Commission of Commerce in its document dated 12 December 2008 (Hu Shang Wai Zi Pi [2008] No.519), the Company decided to increase its registered capital by RMB24,578,313.00, which was contributed by Candlewood Investment SRL and Springwood Investment SRL, two new foreign shareholders. As such, the Company changed in nature from a domestic enterprise into a Sino-foreign joint venture, with its name changed from Shanghai Red Star Macalline Home Furnishing Company Limited to Shanghai Red Star Macalline Enterprise Management Company Limited. After such capital increase, the registered capital and paid-in capital of the Company amounted to RMB144,578,313.00.

According to the absorption and merger agreement of the Company dated 8 August 2009 and the provisions of the Articles of Association as amended, the Company applied to absorb and merge with Tianjin Red Star Macalline Home Decoration Co., Ltd.** (天津紅星美凱龍家飾有限公司). Tianjin Red Star Macalline Home Decoration Co., Ltd. is a limited liability company established in Tianjin, the PRC on 1 June 2007, with a term of operation of 10 years and an original registered capital of RMB40,000,000.00, and is mainly engaged in the wholesale and retail of and investment management, investment consultation and commodity information consultation in relation to furniture and construction materials, as well as the provision of design planning and management services for the shopping malls under operation and other businesses. According to the resolution passed at the general meeting of Tianjin Red Star Macalline Home Decoration Co., Ltd. on 1 November 2007 and as approved by Tianjin Municipal Commission of Commerce in its document dated 24 December 2007 (Jin Shang Wu Zi Guan [2008] No. 680), Tianjin Red Star Macalline Home Decoration Co., Ltd. decided to increase its registered capital by RMB11,880,674.00, which was contributed by Candlewood Investment SRL and Springwood Investment SRL, two new foreign shareholders. As such, Tianjin Red Star Macalline Home Decoration Co., Ltd. changed in nature from a domestic enterprise into a Sino-foreign joint venture. After such capital increase, the registered capital and paid-in capital of Tianjin Red Star Macalline Home Decoration Co., Ltd. amounted to RMB51,880,674.00. The Company had paid its equity to the shareholders of Tianjin Red Star Macalline Home Decoration Co., Ltd. as the merger consideration upon the absorption and merger of Tianjin Red Star Macalline Home Decoration Co., Ltd., after which, the registered capital and paid-in capital of the Company amounted to RMB196,458,987.00.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

I. GENERAL INFORMATION OF THE COMPANY (CONTINUED)

According to the resolution passed at the Board meeting of the Company on 28 March 2010 and the provisions of the Articles of Association as amended, the Company applied to increase its registered capital by RMB25,960,651.00 to RMB222,419,638.00. Such increase in the registered capital had been contributed in full by the new shareholders, namely Beijing Ruibang Beite Entrepreneur Investment Center (Limited Partnership), WHWH Group Company Limited, Beijing Yaxiang Xingtai Investment Company Limited, Tianjin Jinkai Equity Investment Fund Partnership (Limited Partnership), Lianyungang Fairbay Infrastructure Construction Company Limited, Mianyang Science and Technology Park Industry Fund (Limited Partnership), Beijing Bainian Decheng Entrepreneur Investment Center (Limited Partnership), Shanghai Yinping Investment Management Company Limited, Shanghai Junyi Investment Consultancy Company Limited, Shanghai Ping'an Pharmacy Company Limited and Nantong Qianjun Construction Material Company Limited. After such capital increase, the registered capital and paid-in capital of the Company amounted to RMB222,419,638.00, and the Company completed the business registration in respect of such change on 1 June 2010.

According to the resolution passed at the Board meeting of the Company on 22 June 2010 and the provisions of the Articles of Association as amended, the Company applied to increase its registered capital by RMB5,866,965.00 to RMB228,286,603.00. Such increase in the registered capital had been contributed in full by the new shareholders, namely Shanghai Meilong Assets Management Company Limited, Shanghai Xingkai Business Administration Company Limited and Shanghai Hongmei Investment Management Company Limited. After such capital increase, the registered capital and paid-in capital of the Company both amounted to RMB228,286,603.00, and the Company completed the business registration in respect of such change on 28 July 2010.

According to the approval of the Ministry of Commerce of the People's Republic of China dated 23 December 2010 (Shang Zi Pi [2010] No. 1266), the resolution of the Board meeting, and the provisions of the sponsor agreement and Articles of Association of the Company, 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 converted RMB3,000,000,000.00 out of the audited net assets of RMB3,260,932,367.04 of Shanghai Red Star Macalline Enterprise Management Company Limited as at 30 June 2010 at a conversion rate of 1:1 into a registered capital of RMB3,000,000,000.00, divided into 3,000,000,000 shares in total with a par value of RMB1 each, and paid the registered capital of RMB3,000,000,000.00, representing 100% of the Company's registered capital. The Company completed the business registration in respect of such change on 6 January 2011.

According to the resolution at the second extraordinary general meeting of the Company in 2015, the Articles of Association as amended and the approval of Shanghai Municipal Commission of Commerce (Hu Shang Wai Zi Pi [2015] No. 398), the Company applied to increase its registered capital by RMB80,329,038.00 by way of capital contribution from Candlewood Investment SRL and Springwood Investment SRL of RMB60,917,952.00 and RMB19,411,086.00, respectively. After such capital increase, the registered capital and paid-in capital of the Company amounted to RMB3,080,329,038.00. In the meanwhile, Beijing Ruibang Beite Entrepreneur Investment Center (Limited Partnership), WHWH Group Company Limited, Beijing Yaxiang Xingtai Investment Company Limited, Tianjin Jinkai Equity Investment Fund Partnership (Limited Partnership), Lianyungang Fairbay Infrastructure Construction Company Limited, Mianyang Science and Technology

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

I. GENERAL INFORMATION OF THE COMPANY (CONTINUED)

Park Industry Fund (Limited Partnership), Beijing Bainian Decheng Entrepreneur Investment Center (Limited Partnership), Shanghai Yinping Investment Management Company Limited, Shanghai Junyi Investment Consultancy Company Limited and Nantong Qianjun Construction Material Company Limited, all being the original shareholders of the Company, transferred their shares in the Company to Red Star Macalline Holding Group Company Limited, the controlling shareholder of the Company. The Company completed the business registration in respect of such change on 6 February 2015.

Pursuant to the proposal of the Board, as approved at the fourth extraordinary general meeting of the Company in 2015, and as permitted by China Securities Regulatory Commission on 8 May 2015 via the Approval on the Issuance of Foreign Preference Shares by Red Star Macalline Group Corporation Ltd. (Zheng Jian Xu Ke [2015] No. 822), the Company publicly issued no more than 1,180,792,000 overseas-listed foreign shares (H Shares) to overseas investors and became listed on the Main Board of Hong Kong Stock Exchange. As of 26 June 2015, the Company completed the issuance of 543,588,000 overseas-listed foreign shares (H Shares) with a par value of RMB1.00 per share to overseas investors at a price of HK\$13.28 per share. After such issuance, the paid-in capital (share capital) of the Company amounted to RMB3,623,917,038.00, representing 3,623,917,038 ordinary shares of RMB1.00 per share, including 2,561,103,969 domestic shares with restrictive conditions for sale and 1,062,813,069 overseas-listed foreign shares (H Shares) with no restrictive conditions for sale. On 26 June 2015, such overseas-listed foreign shares (H Shares) publicly issued were listed and traded on the Hong Kong Stock Exchange. The Company completed the business registration in respect of such change on 7 September 2015.

Approved at the second extraordinary general meeting of 2016 and permitted on 22 December 2017 in Reply on Approval of Initial Public Offering of Shares by Red Star Macalline Group Corporation Ltd. Zheng Jian Xu Ke [2017] No. 2373 Document issued by the China Securities Regulatory Commission, the Company carried out public offering of no more than 315,000,000 RMB-denominated ordinary shares (A shares), which were listed and traded at the Shanghai Stock Exchange. As of 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. The Company completed the business registration in respect of such change on 20 March 2018.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

I. GENERAL INFORMATION OF THE COMPANY (CONTINUED)

The business scope of the Company and its subsidiaries (hereinafter referred to as the “Group”) mainly includes providing investees 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.

The parent company and ultimate parent company of the Group is Red Star Macalline Holding Group Company Limited incorporated in Shanghai, the People’s Republic of China, and our actual controller is Che Jianxing.

These financial statements have been approved by the Board of the Company by resolutions on 27 March 2019. Pursuant to the Articles of Association of the Company, these financial statements will be proposed to the general meeting for consideration and approval.

The consolidation scope of these consolidated financial statements shall be determined on the basis of control. Refer to Note VI for the change of scope for the year.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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”).

As of 31 December 2018, the Group’s current liabilities in aggregate exceeded its current assets in aggregate with an amount of RMB9.595 billion. 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 and financial statements of the Group. Therefore, these financial statements have been prepared on a going concern basis.

When preparing the financial statements, except for certain financial instruments and investment properties which are measured at fair value, the financial statements have been carried at historical cost basis. If the assets are impaired, corresponding provisions for impairment shall be made according to relevant provisions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group formulated specific accounting policies and accounting estimates according to the characteristics of its actual production and operation, which is mainly embodied in the bad debt allowance of receivables, the recognition and measurement of revenue and investment properties.

1. Declaration Following ASBE (Accounting Standards for Business Enterprises)

The financial statements have been prepared in accordance with ASBE, and presented truly and completely the Company's and the Group's financial position as at 31 December 2018, and the operating results and cash flows for 2018.

2. Accounting Period

The Group has adopted the calendar year as its accounting year i.e. from 1 January to 31 December.

3. Normal Operating Cycle

Operating cycle refers to the period from the purchase of assets used for processing to the realization of cash or cash equivalents. The Group's brand consulting and management service for the early stage of the project has an operating cycle that starts from the permission for relevant managed shopping malls to use the brands that are intangible assets of the Group and ends upon the opening of such managed shopping malls. The Group's commercial management and consultation service for construction project has an operating cycle that starts from the provision of relevant consultation service for the construction of managed shopping malls and ends upon the opening of such managed shopping malls. The Group's business of Owned/Leased Portfolio Shopping Malls, business relating to managed shopping malls other than the brand consulting and management service for the early stage of the project, business of product sales and relevant services as well as other businesses have an operating cycle of or less than 12 months. The Group takes 12 months as the criterion to categorize assets and liabilities.

4. Functional Currency

The Group adopts Renminbi ("RMB") as its functional currency and to prepare its financial statements. Unless otherwise stated, the financial statements are all presented in RMB. The subsidiaries of the Group determine to adopt RMB as their functional currencies for accounting and preparing financial statements based on the currencies in the main economic environment where they operate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Business Combination

Business combinations are classified into business combinations involving enterprises under common control and business combinations not involving enterprises under common control.

Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. In a business combination under common control, the party which obtains control of other combining enterprise(s) on the combination date is the merging party, the other combining enterprise(s) is (are) the merged party. The combination date refers to the date on which the merging party actually obtains control of the merged parties.

Assets and liabilities that are obtained in a business combination involving enterprises under common control, including goodwill arising from the acquisition of the merging party by the ultimate controller, shall be accounted for on the basis of the carrying amounts on the financial statements of the ultimate controller at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued) is adjusted to the share premium in capital reserve. If the share premium is not sufficient to absorb the difference, any excess is adjusted against retained earnings.

Business combinations involving enterprises not under common control

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination. In a business combination not under common control, the party which obtains control of other combining enterprise(s) on the acquisition date is the acquirer, the other combining enterprise(s) is (are) the acquiree(s). The acquisition date refers to the date on which the acquirer actually obtains control of the acquiree.

The acquiree's identifiable assets, liabilities and contingent liabilities acquired in the business combination involving entities not under common control are measured at fair value at the acquisition date.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Business Combination (Continued)

Business combinations involving enterprises not under common control (continued)

The excess of the fair value of the sum of the combination consideration paid (or the fair value of equities securities issued) and equity interests in the acquiree held prior to the acquisition date over the fair value of the acquiree's identifiable net assets acquired in combination, measured at fair value, was recognized as goodwill, which is subsequently measured at cost less cumulative impairment losses. In case the fair value of the sum of the combination consideration paid (or the fair value of equities securities issued) and equity interests in the acquiree held prior to the acquisition date is less than the fair value of the acquiree's identifiable net assets acquired in combination, a review of the measurement of the fair values of the various identifiable assets, liabilities and contingent liabilities, the consideration paid for the combination of the acquiree (or the fair value of equity securities issued) and the equity interests in the acquiree held prior to the acquisition date is conducted. If the review indicates that the fair value of the sum of the combination consideration paid (or the fair value of equities securities issued) and equity interests in the acquiree held prior to the acquisition date is indeed less than the fair value of the acquiree's identifiable net assets acquired in combination, the difference is recognized in current profit or loss.

For the business combination involving enterprises not under common control is achieved in stages, the long-term equity investments of the acquiree held prior to the acquisition date is remeasured at the fair value on the acquisition date, and the difference between the fair value and the carrying amount is recognised in profit or loss for the current period. For the other comprehensive income generated under the equity method from the long-term equity investments of the acquiree held prior to the acquisition date, the same accounting treatment of which the investee directly disposes of the related assets or liabilities should be used. Movement of other shareholders' equity (excluding net profit or loss, other comprehensive income and profit distribution) shall be transferred to profit or loss for the current period to which the acquisition date belongs. For other equity instrument investments of the acquiree held prior to the acquisition date, the movement of the fair value of equity instrument investment is transferred to retained earnings before the acquisition date.

6. Consolidated Financial Statement

The consolidation scope of the consolidated financial statements is determined on the basis of control, including the financial statement of the Company and all of its subsidiaries, which represent the entities controlled by the Company (contain enterprises, a divisible portion of the invested enterprises and structured entities controlled by the Company).

In preparation of consolidated financial statements, the subsidiaries use the same accounting period and accounting policies as those the Company. All intra-group assets, liabilities, interests, income, expenses and cash flow are eliminated in full on consolidation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Consolidated Financial Statement (Continued)

Where the amount of losses of a subsidiary attributable to the minority shareholders in the current period exceeds their share of the opening balance of owner's equity of the subsidiary, the excess shall be allocated against minority interests.

For a subsidiary acquired through a business combination involving enterprises not under common control, the operating results and cash flows of the acquiree shall be included in the consolidated financial statement from the date on which the Group gains control till the Group ceases the control of it. While preparing the consolidated financial statements, the acquirer shall adjust the subsidiary's financial statements, on the basis of the fair values of the identifiable assets, liabilities and contingent liabilities recognized on the acquisition date.

For subsidiaries acquired through business combinations involving entities under common control, the operating results and cash flows of the acquiree shall be included in the consolidated financial statements from the beginning of the period in which the combination occurs. While preparing the comparative consolidated financial statements, adjustments are made to related items in the financial statements for the prior period as if the reporting entity established through combination has been existing since the ultimate controller begins to exercise control.

The Group's control over an investee is re-assessed if change in relevant facts and situations causes changes in one or more of the control substances.

Where there is no loss of control, the change in minority interests is accounted for as equity transaction.

7. Classification of Joint Arrangements and Joint Ventures

There are two types of joint arrangements — joint operations and joint ventures. A joint operation is a joint arrangement whereby the joint operators have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the joint ventures have rights to the net assets of the arrangement.

8. Cash and Cash Equivalent

Cash comprises the Group's cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Translation of Transactions and Financial Statements Denominated in Foreign Currencies

The Group translates the amount of foreign currency transactions occurred into its functional currency.

Foreign currency transactions are recorded, on initial recognition, in the functional currency, by applying the foreign currency amount the spot exchange rate prevailing on the transaction dates. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate prevailing on the balance sheet date. All the resulting differences on settlement and monetary item translation are taken to profit or loss in the current period, except for those relating to foreign currency borrowings specifically for construction and acquisition of qualifying assets, which are capitalised in accordance with the principle of capitalisation of borrowing costs. Non-monetary foreign currency items measured at historical cost shall still be translated at the spot exchange rate prevailing on the transaction date, and the amount denominated in the functional currency is not changed. Non-monetary foreign currency items measured at fair value are translated at the spot exchange rate prevailing at the date on which the fair values are determined. The difference thus resulted are recognised in profit or loss for the current period or as other comprehensive income based on the nature of the non-monetary items.

Foreign currency cash flows and cash flows of overseas subsidiaries are translated using the spot exchange rate at the date when the cash flows occur. The effect of exchange rate changes on cash is separately presented as an adjustment item in the cash flow statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Financial Instrument (Applicable Starting from 1 January 2018)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and derecognition of financial instruments

A financial asset or financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or part of a financial asset, or part of a group of similar financial assets), i.e. writes off the financial asset from the account and balance sheet, when the following conditions are met:

- (1) the rights to receive cash flows from the financial asset expire;
- (2) the Group has transferred its rights to receive cash flows from the financial asset, or has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and either (a) has transferred substantially all the risks and rewards of ownership of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has not retained control of the financial asset.

If the underlying obligation of a financial liability has been discharged or cancelled or has expired, the financial liability is derecognized. If an existing financial liability is replaced by the same creditor with a new financial liability that has substantially different terms, or if the terms of an existing financial liability are substantially revised, such replacement or revision is accounted for as the derecognition of the original liability and the recognition of a new liability, and the resulting difference is recognized in profit or loss for the current period.

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales of financial assets refer to that the financial assets are delivered to or by the Group under the terms of a contract within a period as specified by law or general practice. The trade date is the date on which the Group undertakes to buy or sell a financial asset.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Financial Instrument (Applicable Starting from 1 January 2018) (Continued)

Classification and measurement of financial assets

On initial recognition, the Group's financial assets are classified based on the business model of the Group's financial asset management and the characteristics of the financial assets' contractual cash flows: financial assets at fair value through profit or loss, financial assets measured at amortized cost and financial assets at fair value through other comprehensive income. Financial assets are initially recognized at fair value. However, if the initial recognition of accounts receivable or notes receivable arising from sale of goods or provision of services does not include significant financing components or does not consider financing components not exceeding one year, it shall be recognized as the transaction price.

For the financial assets at fair value through profit or loss, related transaction expenses are directly charged to profit or loss for the current period; for other financial assets, related transaction expenses are included in the initial recognized amount.

The subsequent measurement of a financial asset is determined by its category:

Debt instrument investment measured at amortized cost

A financial asset shall be measured at amortized cost if both of the following conditions are met: the financial asset is held within a business model whose objective is to collect contractual cash flows; and the contractual terms of the financial asset set that the cash flows on specified dates are solely payments of principal and the interest based on the outstanding amount of principal. The interest income from such financial asset is recognized using the effective interest method, and gains or losses arising from its derecognition, revision or impairment is recognized in profit or loss for the current period. Such financial asset mainly includes cash and bank, accounts receivable and notes receivable, other receivables, contract assets and long-term receivables, etc. The Group's debt investments maturing within one year after the balance sheet date and long-term receivables are stated as non-current assets maturing within one year, and debt investments originally maturing within one year are stated as other current assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Financial Instrument (Applicable Starting from 1 January 2018) (Continued)

Classification and measurement of financial assets (continued)

Debt instrument investment at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met: the financial asset is held by the Group within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding amount of principal. The interest income from such financial asset is recognized using the effective interest method. The change in fair value of such financial asset shall be recognized in other comprehensive income, except for interest income, impairment losses and exchange differences recognized in profit or loss for the current period. When the financial asset is derecognized, the cumulative gains or losses previously recognized in other comprehensive income is reclassified from other comprehensive income to profit or loss for the current period. Such financial asset is stated as other debt investments, other debt investments maturing within one year after the balance sheet date are stated as non-current assets maturing within one year, and other debt investments originally maturing within one year are stated as other current assets.

Equity instrument investment at fair value through other comprehensive income

The Group irrevocably opts to assign some of the investments in non-tradable equity instruments to financial assets at fair value through other comprehensive income, and only recognizes relevant dividend incomes (excluding dividend incomes taken back clearly as part of investment cost) in profit or loss for the current period, while subsequent changes in fair value is recognized as other comprehensive income, without needing to withdraw impairment allowance. When the financial assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to retained earnings. Such financial assets are stated as other equity instrument investments.

A financial asset is classified as held for trading if one of the following conditions is satisfied: it has been acquired principally for the purpose of selling or repurchasing in the near term; it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; it is a derivative, except for a derivative that is a designated and effective hedging instrument, or a derivative that qualifies for financial guarantee contracts.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Financial Instrument (Applicable Starting from 1 January 2018) (Continued)

Classification and measurement of financial assets (continued)

Financial assets at fair value through profit or loss

The financial assets other than those measured at amortized cost and at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. For such financial assets, fair value is used for subsequent measurement, and all changes in fair value are recognized in profit or loss for the current period. Such financial assets are stated as financial assets held for trading, and those maturing more than one year after the balance sheet date and expected to be held for more than one year are stated as other non-current financial assets.

Neither a certain financial asset designated as the financial asset at fair value through profit or loss by an enterprise at the time of initial recognition can be reclassified as other financial assets nor can other financial assets be redesignated as financial assets at fair value through profit or loss after initial recognition.

Based on the above condition, such financial assets designated by the Group mainly include stocks and funds purchased from the secondary market for the purpose of earning price spread.

Only if the Group changes its business model for managing financial assets, all affected financial assets can be reclassified.

Classification and measurement of financial liabilities

The Group's financial liabilities are, on initial recognition, classified as other financial liabilities. For financial liabilities at fair value through profit or loss, related transaction expenses are directly charged to profit or loss for the current period; and transaction expenses relating to other financial liabilities are included in the initial recognized amount.

The subsequent measurement of financial liability is determined by its category:

Other financial liabilities

Such financial liabilities are measured at amortized cost by using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Financial Instrument (Applicable Starting from 1 January 2018) (Continued)

Impairment of financial instrument

On the basis of expected credit losses, the Group performs the impairment treatment on financial assets measured at amortized cost, lease receivables, and contract assets and recognizes the loss provision.

Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received by the Group that are discounted at the original effective interest rate, that is, the present value of all cash shortfalls. Among them, the Group's purchased or originated credit-impaired financial assets shall be discounted according to credit-adjusted effective interest rate for financial assets.

For receivables and contract assets that do not contain significant financing components, the Group uses a simplified measurement method to measure loss provision based on the amount of expected credit losses for the entire duration of the life.

For lease receivables, the Group uses a simplified measurement method to measure loss provision based on the amount of expected credit losses for the entire duration of the life.

For financial assets other than those measured by the aforesaid simplified measurement method, the Group assesses whether its credit risk has increased significantly since the initial recognition on each balance sheet date. If the credit risk has not increased significantly since the initial recognition (at the first phase), the Group measures the loss provision based on the amount of expected credit loss over the next 12 months and calculates the interest income based on the book balance and effective interest rate; if the credit risk has increased significantly but the financial assets have not yet been credit-impaired since the initial recognition (at the second phase), the Group measures the loss provision based on the amount of expected credit losses for the entire duration of the life and calculates the interest income based on the book balance and effective interest rate; if the financial assets have been credit-impaired since the initial recognition (at the third phase), the Group measures the loss provision based on the amount of expected credit losses for the entire duration of the life and calculates the interest income based on the amortized cost and effective interest rate. For financial instruments that have lower credit risk on the balance sheet date, the Group assumes that its credit risk has not increased significantly since the initial recognition.

Expected credit losses of financial instruments are assessed on an individual basis and group basis by the Group. The Group assesses expected credit losses of financial instruments including accounts receivable, other receivables, contract assets and long-term receivables based on grouping by age and in light of credit risk characteristics of different customers.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Financial Instrument (Applicable Starting from 1 January 2018) (Continued)

Impairment of financial instrument (continued)

The Group considers all reasonable and evidenced information relating to past events, current conditions and future economic forecast when assessing expected credit losses.

Refer to Note VIII. 2 for disclosures including the Group's criteria for judging the significant increase of credit risk, definition of credit-impaired assets and assumption of expected credit loss measurement.

When the Group no longer reasonably expects to be able to fully or partially recover the contractual cash flows of financial assets, the Group directly writes down the book balance of the financial assets.

Elimination of financial instruments

The net amount after eliminating financial assets and financial liabilities is presented in the balance sheet if the following conditions are satisfied: A lawful right exists for eliminating recognized amounts, and such lawful right is currently enforceable; it is planned that the financial assets and financial liabilities are to be netted against each other, or that they are to be realized and settled simultaneously.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Transfer of financial assets

If the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee, it derecognizes the financial asset; if the Group retains substantially all the risks and rewards of ownership of the financial asset, it does not derecognize the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it is accounted for as follows: if the Group has not retained control of the financial asset, it derecognizes the financial asset and recognizes any resulting assets or liabilities; if the Group has retained control of the financial asset, it recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability.

For continuing involvement by providing financial guarantee in respect of the transferred financial assets, the assets arising from such involvement is recognized as the lower of the book value of the financial assets and the amount of the financial guarantee. Amount of financial guarantee refers to the maximum amount to be repayable on demand among the considerations received.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Financial Instrument (Applicable Starting from 1 January 2018) (Continued)

Recognition and derecognition of financial instruments

A financial asset or financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or part of a financial asset, or part of a group of similar financial assets), i.e. writes off the financial asset from the account and balance sheet, when the following conditions are met:

- (1) the rights to receive cash flows from the financial asset expire;
- (2) the Group has transferred its rights to receive cash flows from the financial asset, or has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and either (a) has transferred substantially all the risks and rewards of ownership of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has not retained control of the financial asset.

If the underlying obligation of a financial liability has been discharged or cancelled or has expired, the financial liability is derecognized. If an existing financial liability is replaced by the same creditor with a new financial liability that has substantially different terms, or if the terms of an existing financial liability are substantially revised, such replacement or revision is accounted for as the derecognition of the original liability and the recognition of a new liability, and the resulting difference is recognized in profit or loss for the current period.

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales of financial assets refer to that the financial assets are delivered to or by the Group under the terms of a contract within a period as specified by law or general practice. The trade date is the date on which the Group undertakes to buy or sell a financial asset.

Classification and measurement of financial assets

On initial recognition, the Group's financial assets are classified into financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial assets are initially recognized at fair value. For the financial assets at fair value through profit or loss, related transaction expenses are directly charged to profit or loss for the current period; for other financial assets, related transaction expenses are included in the initial recognized amount.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Financial Instrument (Applicable Starting from 1 January 2018) (Continued)

Classification and measurement of financial assets (continued)

The subsequent measurement of a financial asset is determined by its category:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets specified at the time of initial recognition to be measured at fair value through profit or loss. A financial asset is classified as held for trading if one of the following conditions is satisfied: it has been acquired principally for the purpose of selling in the near term; it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; it is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured. For such financial assets, fair value is used for subsequent measurement. All the realized or unrealized gains or losses on these financial assets are recognized in profit or loss for the current period. Dividend or interest income related to financial assets at fair value through profit or loss is charged to profit or loss for the current period.

Held-to-maturity investments

Held-to-maturity investments refer to non-derivative financial assets which have a fixed maturity date and fixed or determinable recovery amount and which the Group has the positive intention and ability to hold to maturity. Such financial assets are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from amortization or impairment and derecognition are recognized in profit or loss for the current period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from amortization or impairment are recognized in profit or loss for the current period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Financial Instrument (Applicable Starting from 1 January 2018) (Continued)

Classification and measurement of financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are on initial recognition designated as available for sale or are not classified as any of the aforesaid categories. Such financial assets are subsequently measured at fair value. The discount/premium is amortized using effective interest method and recognized as interest income or expense. Changes in the fair value of an available-for-sale financial asset are recognized as other comprehensive income, except for impairment losses and exchange differences resulted from monetary financial assets recognized in profit or loss for the current period, until the financial asset is derecognized or impaired, at which time the cumulative gains or losses are transferred to profit or loss for the current period. Dividend or interest income relating to an available-for-sale financial asset is recognized in profit or loss for the current period.

For equity instrument investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost.

Classification and measurement of financial liabilities

The Group's financial liabilities are, on initial recognition, classified as other financial liabilities. The transaction expenses relating to other financial liabilities are included in the initial recognized amount.

The subsequent measurement of financial liability is determined by its category:

Other financial liabilities

Such financial liabilities are subsequently measured at amortized cost by using the effective interest method.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Financial Instrument (Applicable Starting from 1 January 2018) (Continued)

Impairment of financial assets

The Group assesses at the balance sheet date the book value of every financial asset. If there is objective evidence that a financial asset is impaired, the Group determines the amount of any impairment allowance. Objective evidence that a financial asset is impaired is evidence that, arising from one or more events that occurred after the initial recognition of the asset, the expected future cash flows of the financial asset, which can be reliably measured, have been affected. Objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or debtor, a breach of contract by the debtor, such as a default or delinquency in interest or principal payments, possible bankruptcy or other financial reorganizations of the debtor and public data indicating that there is a measurable decrease in the expected future cash flows.

Financial assets measured at amortized cost

If impairment on financial asset has incurred, the book amount of the asset is reduced to the present value of expected future cash flows (excluding future credit losses that have not been incurred) and such reduction is taken to profit or loss for the current period. The present value of expected future cash flows is discounted at the financial asset's original effective interest rate (i.e. effective interest rate computed on initial recognition) and includes the value of any related collateral. Interest income upon impairment is recognized at a rate equal to the discount rate used for discounting future cash flow upon recognition of impairment losses. For loans and receivables that are not expected to be recovered in future and all collaterals that have been realized or transferred into the Group, loans and receivables and relevant impairment allowance shall be written off.

Upon separate impairment test on financial assets large in unit value, if there is objective evidence that they have impaired, the impairment losses will be recognized in profit or loss for the current period. For financial assets not large in unit value, impairment test is included in the test on financial asset portfolios with similar credit risk characteristics or conducted separately. For financial assets (including financial assets large or not large in unit value) not found to have impaired upon separate impairment test, another impairment test is included in the test on financial asset portfolios with similar credit risk characteristics. For financial assets recognized as impaired, impairment test is not included in the test on financial asset portfolios with similar credit risk characteristics.

If, subsequent to the Group's recognition of impairment losses on a financial asset measured at amortized cost, there is objective evidence of a recovery in value of the financial asset and the recovery can be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment losses is reversed and recognized in profit or loss for the current period. However, the book value after reversal does not exceed the amortized cost of the said financial asset at the date of reversal on the assumption that no provision for impairment is withdrawn.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Financial Instrument (Applicable Starting from 1 January 2018) (Continued)

Impairment of financial assets (continued)

Available-for-sale financial assets

If there is objective evidence that an available-for-sale asset is impaired, the accumulated loss arising from decline in fair value previously recognized in other comprehensive income is removed and recognized in profit or loss for the current period. The removed accumulated loss is the balance of the initial acquisition cost of available-for-sale financial assets minus the principal recovered, amount amortized, the current fair value and impairment losses previously recognized in profit or loss.

Objective evidence that available-for-sale equity investment is impaired includes significant or non-temporary decline in fair value. "Significant" is judged by the extent of fair value below its cost, and "non-temporary" is judged by the duration of fair value below its cost. Where there is objective evidence of impairment, the removed accumulated loss is the balance of acquisition cost after deduction of the current fair value and impairment losses previously recognized in profit or loss. The impairment losses on available-for-sale equity investment is not reversed through profit or loss, and the increase in fair value after impairment is recognized directly in other comprehensive income.

Judgment should be made to determine what is "significant" or "non-temporary". The Group makes relevant judgment according to the extent and duration of fair value below its cost and other factors.

Financial assets measured at cost

If there is objective evidence that the said financial assets have impaired, the difference between the book value of the said financial asset and the current value of its foreseeable future cash flow discounted at the current market yield of similar financial assets is recognized as impairment losses and presented in profit or loss for the current period. Impairment losses incurred will not be reversed once recognized.

Elimination of financial instruments

The net amount after eliminating financial assets and financial liabilities is presented in the balance sheet if the following conditions are satisfied: A lawful right exists for eliminating recognized amounts, and such lawful right is currently enforceable; it is planned that the financial assets and financial liabilities are to be netted against each other, or that they are to be realized and settled simultaneously.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Financial Instrument (Applicable Starting from 1 January 2018) (Continued)

Transfer of financial assets

If the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee, it derecognizes the financial asset; if the Group retains substantially all the risks and rewards of ownership of the financial asset, it does not derecognize the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it is accounted for as follows: if the Group has not retained control of the financial asset, it derecognizes the financial asset and recognizes any resulting assets or liabilities; if the Group has retained control of the financial asset, it recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability.

For continuing involvement by providing financial guarantee in respect of the transferred financial assets, the asset arising from such involvement is recognized as the lower of the book value of the financial assets and the amount of the financial guarantee. Amount of financial guarantee refers to the maximum amount to be repayable on demand among the considerations received.

11. Receivables

The recognition principals and method of bad debt allowance for receivables of the Group for 2017 are as follows:

Receivables at individually significant amount and for which bad debts are provided individually

The criterion of individually significant amount

Accounts receivable more than RMB5,000,000 and other receivables more than RMB10,000,000 are recognized as individually significant receivables by the Group.

Method of bad debt allowance provided individually in respect of receivables at individually significant amount

For receivables that are individually significant, the Group tests the receivables individually for impairment. Any receivable not impaired in the individual test for impairment is included in a group of financial assets with similar credit risk characteristics to be tested for impairment collectively. Any receivable with impairment losses recognized in the individual test is not included in a group of receivables with similar credit risk characteristics to be tested for impairment collectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Receivables (Continued)

Receivables not at individually significant amount but for which bad debt allowance is provided individually

When there is objective evidence of impairment of the receivables that are not individually significant, the Group tests the receivables individually for impairment and the difference between estimated recoverable amount and book value is recognized as bad debt allowance.

Receivables for which bad debt allowance is provided by portfolio of credit risk characteristics

Basis for determining receivables for which bad debt allowance is provided by credit risk portfolio

The Group classifies receivables other than accounts receivable and other receivables for which bad debt allowance is provided individually into groups of financial assets in accordance with the similarity and relevance of credit risk characteristics. These credit risks usually reflect the debtor's ability to repay all the amounts due under the contractual terms of relevant assets, and are related to the forecast on future cash flows of the asset subject to assessment.

Receivables are classified by the Group based on the historical loss experience, current economic performance and available security guarantees for repayments relating to the portfolio of receivables with similar credit risk characteristics in prior years as well as estimated losses existing in the portfolio of receivables into (1) credit portfolio of accounts receivable; (2) credit portfolio I of other receivables; (3) credit portfolio II of other receivables; (4) credit portfolio III of other receivables; and (5) portfolio of loans extended.

Credit portfolio for accounts receivable: it is to be determined based on historical loss experience and current economic performance according to similar credit risk characteristics as well as estimated losses existing in the portfolio of such accounts receivable, and for which bad debt is provided by aging analysis;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Receivables (Continued)

Receivables for which bad debt allowance is provided by portfolio of credit risk characteristics (continued)

Credit portfolio I of other receivables: it consists of sales proceeds collected on behalf of the tenants due from third party payment institutions. The Group believes, this portfolio has minor credit risks, thus for which no bad debt allowance is provided;

Credit portfolio II of other receivables: it consists of other receivables within the normal collection period with adequate securities/guarantees or other evidence to prove its recoverability. It is to be determined based on historical loss experience and current economic performance according to similar credit risk characteristics as well as estimated losses existing in the portfolio of such receivables, and for which bad debt is provided by balance percentage;

Credit portfolio III of other receivables: it consists of other receivables other than those covered by credit portfolio I and II of other receivables. The proportions of bad debt allowance provided for different age groups of such portfolio in the current period are determined based on the loss rate of such type of receivables in previous years and with reference to the status quo, and for which bad debt is provided by aging analysis;

Portfolio of loans: it consists of microfinance loans granted to third parties by a microfinance company of the Group with its self-owned funds; and for which risk reserve is provided at 1% of the balance of loans being granted. Please see tables below for details of proportions of bad debt provided by aging analysis and balance percentage.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Receivables (Continued)

In the portfolios, the proportions of bad debt allowance for accounts receivable and other receivables which are provided by aging analysis are as follows:

	Accounts receivable Proportion for provision (%)	Credit portfolio III of other receivables Proportion for provision (%)
Within 1 year	5	5
1 to 2 years	10	10
2 to 3 years	20	20
3 to 4 years	50	50
4 to 5 years	80	80
Over 5 years	100	100

	Accounts receivable Proportion for provision (%)	Other receivables Proportion for provision (%)
Credit portfolio II of other receivables	N/A	5

The details of the recognition principals and measurement method of bad debt allowance for receivables of the Group since 1 January 2018, please refer to Note III. 10.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12. Inventory

Inventories mainly include goods in inventory and low-value consumables, etc.

Inventories are initially measured at cost. Cost of inventories comprises costs of purchase and other cost. When the inventories are delivered, the actual costs of the delivered inventories are determined by using the method of moving weighted average. Low-price easily-worn materials are amortized by the one-time writing-off method.

The inventory system is a perpetual inventory system.

On the balance sheet date, the inventories shall be calculated by the lower of cost and net realized value. When the cost is higher than the net realizable value, inventory impairment allowance shall be provided and the inventories shall be included in current profit and loss. In case the factors impacting the previous providing of the inventory impairment allowance are eliminated, making the net realizable value of the inventory be higher than its book value, the write-down amount should be recovered from the amount of inventory impairment allowance previously provided and the corresponding amount shall be reversed to current profit and loss.

The net realizable value represents the amount derived by deducting the potential cost, estimated sale cost and relative taxes to the completion date from the estimated selling price of the inventory in daily activities. When providing the inventory impairment allowance, the finished products shall be provided by categories.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Long-term Equity Investments

Long-term equity investments include equity investments in subsidiaries, joint ventures and associates.

A long-term equity investment is initially recorded at its initial investment cost on acquisition. For a long-term equity investment acquired under business combination involving entities under common control, the initial investment cost is the share of the book value of the owner's equity of the party being combined on the date of business combination in the consolidated financial statements of the ultimate controller. The difference between the initial investment cost and the book value of the consideration for combination is adjusted to capital reserve (or charged against retained earnings if there is any shortfall). Other comprehensive income held prior to the date of business combination is accounted for on the same basis as where the assets or liabilities are directly disposed of by the investee in disposal of such assets or liabilities. Shareholders' equity recognized as a result of changes in other shareholders' equity of the investee other than net profit or loss, other comprehensive income and profit appropriation is taken to profit or loss for the current period upon disposal of such investment. In particular, those which remain as long-term equity investments upon disposal are carried forward in proportion, and those which are converted to financial instruments upon disposal are carried forward in full. For a long-term equity investment acquired through a business combination involving entities not under common control, the initial investment cost is the cost of business combination (Business combination involving entities not under common control which is achieved after multiple transactions, the initial investment cost is the sum of book value of equity investments of the acquiree held prior to the date of acquisition and the addition to investment cost on the date of acquisition). Cost of business combination includes the sum of fair values of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer. Other comprehensive income recognized on equity method held prior to the date of acquisition is accounted for on the same basis as where the assets or liabilities are directly disposed of by the investee in disposal of such assets or liabilities. Shareholders' equity recognized as a result of changes in other shareholders' equity of the investee other than net profit or loss, other comprehensive income and profit appropriation is taken to profit or loss for the current period upon the disposal of such investment. In particular, those which remain as long-term equity investments upon disposal are carried forward in proportion, and those which are converted to financial instruments upon disposal are carried forward in full. Accumulated fair value change of equity investments held prior to the date of acquisition being taken to other comprehensive income as other equity instrument investments is taken to retained earnings in full under cost method. For long-term equity investment acquired by means other than business combination, initial investment cost is determined as follows: for a long-term equity investment acquired by paying cash, the initial investment cost is the actual purchase price paid and those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment; for a long-term equity investment acquired by the issue of equity securities, the initial investment cost is the fair value of the equity securities issued; for a long-term equity investment acquired by the swap of non-monetary assets, initial investment cost is determined based on Accounting Standard for Business Enterprises No. 7 — Swap of Non-monetary Assets.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Long-term Equity Investments (Continued)

For a long-term equity investment where the Company can exercise control over the investee, the Company uses the cost method in the Company's separate financial statements. Control refers to the power over an investee, and exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns.

Under the cost method, the long-term equity investment is measured at its initial investment cost. For addition or recovery of investments, the cost of long-term equity investments is adjusted accordingly. Cash dividend or profit declared to be distributed by an investee is recognized as profit or loss for the current period.

The equity method is adopted for a long-term equity investment when the Group holds joint control, or exercises significant influence on the investee. Joint control refers to the contractually-agreed shared control over an arrangement and related activities under such arrangement shall be decided on with the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee rather than to control or jointly control with other parties over the formulation of those policies.

Under the equity method, where the initial investment cost of a long-term equity investment is more than the share of the fair value of the investee's identifiable net assets when the investment is made, the cost is included in the initial investment cost of the long-term equity investment. Where the initial investment cost is less than the share of the fair value of the investee's identifiable net assets when the investment is made, the difference is recognized in profit or loss for the current period and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method, the Group recognizes its share in the net profit or loss and other comprehensive income made by the investee as investment income or losses and other comprehensive income after the acquisition of the long-term equity investment, and adjusts the book value of the long-term equity investment accordingly. When recognizing the Group's share in the net profit or loss of the investee, the Group recognizes the net profit of the investee after making appropriate adjustments based on the fair values of the identifiable assets of the investee when the investment is acquired and in accordance with the Group's accounting policies and periods, after eliminating the portion of the profits or losses, arising from internal transactions with its joint ventures and associates, attributable to the investor according to its share ratio (but losses arising from internal transactions that belong to impairment losses on assets should be recognized in full), save for business formed by assets invested or disposed. The book value of the long-term equity investment is reduced accordingly based on the Group's share of profit or cash dividends declared to be distributed by the investee. The Group's share in net loss of the investee is recognized to the extent that the book value of the long-term equity investment and other long-term equity substantively forming net investments of the investee are written down to zero, except that the

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Long-term Equity Investments (Continued)

Group has incurred obligations to assume additional losses. The Group adjusts the book value of the long-term equity investment for other changes in shareholders' equity of the investee (other than net profit or loss, other comprehensive income and profit appropriation of the investee) and includes the corresponding adjustments in the shareholders' equity.

On disposal of the long-term equity investment, the difference between book value and consideration actually received is recognized in profit or loss for the current period. For long-term equity investments under equity method, when the use of the equity method is discontinued, other comprehensive income previously accounted for under the equity method shall be accounted for on the same basis as where the relevant assets or liabilities are disposed of directly by the investee. Shareholders' equity recognized as a result of changes in other shareholders' equity (other than the net profit or loss, other comprehensive income and profit appropriation of the investee) shall be taken in full to the profit or loss for the current period. If the equity method remains in use, other comprehensive income previously accounted for under the equity method shall be accounted for on the same basis as where the relevant assets or liabilities are disposed of directly by the investee and taken to the profit or loss for the current period in proportion. Shareholders' equity recognized as a result of changes in shareholders' equity (other than the net profit or loss, other comprehensive income and profit appropriation of the investee) shall be taken to the profit or loss for the current period on a pro-rata basis.

14. Investment Property

Investment property is any property held for rental earnings or capital appreciation or both. It includes buildings being leased out, etc.

An investment property is measured initially at cost. Expenditure subsequently incurred for such investment property is recognized in its cost if the economic benefits associated with such investment property are probable to flow in and relevant costs can be measured reliably, otherwise recognized in profit or loss for the period of their occurrence.

There exists an active property trading market at the place of the investment properties of the Group and the market price of and other information relating to identical or similar properties are available to the Group on the property trading market, which makes it possible to estimate the fair value of investment properties in a reasonable manner. As such, the Group subsequently measures investment properties by adopting the fair value model and adjusts its carrying value based on investment properties' fair value in balance sheet date with the gap between fair value and original carrying value recognized in profit or loss for the period.

Where an investment property is sold, transferred, retired or damaged, the income from its disposal net of the book value and related taxes is recognized in profit or loss for the period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Fixed Assets

A fixed asset is recognized only when the economic benefits associated with the asset are probable to flow into the Group and the cost of the asset can be measured reliably. Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset when meets the above confirming conditions, finally the carrying amount of the replaced part is derecognized; otherwise the expenditures are recognized in profit or loss in the period in which they are incurred.

Fixed assets initially measured at cost. The cost of a purchased fixed asset consists of the acquisition price, relevant taxes, and other directly attributable expenditure for bringing the asset to its working condition for its intended use.

A fixed asset is depreciated using the straight-line method. The useful life, net of estimated residual value rate and annual depreciation rate of each category of fixed assets are as follows:

	Useful life	Net of estimated residual value rate	Annual depreciation rate
Dedicated equipment	10 years	5%	9.5%
Electronic equipment, appliances and furniture	3–5 years	5%	19–31.67%
Transportation equipment	5 years	5%	19%

Others:

If a fixed asset is upon disposal or no economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognized. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognized in profit or loss for the period.

The Group reviews the useful life and net of estimated residual value of a fixed asset and the depreciation method applied at least once at each year-end, and adjusts when necessary.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Construction in Progress

Construction in progress is recognized at its actual costs. The actual costs include various necessary construction expenditures during the construction period, borrowing costs capitalized before it is ready for intended use and other relevant costs.

Construction in progress is transferred to a fixed asset when it is ready for intended use.

17. Borrowing Costs

Borrowing costs are interests and other related cost arising from Group's borrowing, including borrowing interests, amortization of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency lending etc.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset are capitalized, and other borrowing costs are recognized in profit or loss for the period. Qualifying assets are fixed assets, investment property and inventory that necessarily take a substantial period of time to get ready for its intended use or sale.

Borrowing costs may be capitalised only when:

- (1) Expenditures for such asset are incurred;
- (2) Borrowing costs are incurred;
- (3) The acquisition, construction or production activities which are necessary to prepare the asset for its intended use or sale have started.

Capitalization of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Borrowing costs incurred subsequently are recognized in current profit and loss.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Borrowing Costs (Continued)

During the period of capitalisation, the amount of capitalised interests in each accounting period is determined by the following methods:

- (1) For dedicated borrowings, the amount of capitalised interests is the interest expenses actually incurred in the current period less the interest income earned on temporary deposits or investment income.
- (2) For general borrowings utilised, the amount of capitalised interests is the weighted average asset expenditures of the excess of accumulative asset expenditure over the dedicated borrowings multiplying the weighted average interest rate of the general borrowings utilised.

Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 consecutive months, other than those necessary to prepare the asset for its intended use or sale, the capitalization of the borrowing costs shall be suspended. Borrowing costs incurred during the interruption period are recognised as cost in profit or loss for the current period, until those acquisition or construction is resumed.

18. Intangible Assets

Intangible assets may be recognized initially measured at cost only when economic benefits relating to it are likely to flow into the Group as well as its cost can be measured reliably. However, for intangible assets acquired from business combination not under common control, if their fair value can be measured reliably, they are recognized separately as intangible assets and measured at fair value.

The useful life of an intangible asset shall be determined based on the term in which it can generate economic benefits for the Group. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable term in which it can generate economic benefits for the Group.

The useful life of each category of intangible assets is as follows:

	Useful life
Trademark use rights	30 years
Softwares	2–10 years
Others	3 years

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. Intangible Assets (Continued)

An intangible asset with finite useful life is amortised over its useful life period by using the straight-line method. The useful life and amortization method of an intangible asset with finite useful life shall be reviewed at least once at each year-end, and adjusted when necessary.

The Group's expenditures for its internal research and development projects are classified into expenditures at on the research stage and expenditures on the development stage. Expenditures on the research stage are recognized in profit or loss in the current period when incurred. Expenditures on the development stage are to be capitalized if the Group can satisfy all of the following criteria simultaneously: the technical feasibility to complete the intangible asset so that it will be available for use or sale; the intention complete the intangible asset, and to use or sell it; how the intangible asset will generate economic benefits. Among other things, the Group can demonstrate that there is an existing market for products produced by the intangible asset or there is an existing market for the intangible asset itself, if the intangible asset is to be used internally, the usage of it; the availability of adequate technical, financial and other resources to complete the development of the intangible asset and the ability to use or sell it; the ability to measure reliably the expenditure attributable to the intangible asset during its development stage. Expenses on the development stage that do not meet the above conditions are recognized in the current period when incurred.

19. Impairment of Assets

The Group determines impairment of assets excluding inventory, investment property measured at fair value model, deferred income taxes, finance assets and contract assets on below method:

The Group determines whether there is any indication that assets have suffered impairment losses at balance sheet date. If an impairment indication exists, the recoverable amount is estimated and impairment test is carrying out. The intangible assets with the goodwill and indefinite useful life arising from business combination should be performed impairment test at least once at the each year-end whether an impairment indication exists. As for intangible assets that have not been ready for intended use, an impairment test should be carried out each year.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. The asset group is determined according to whether the main cash flows generated from the asset group are independent from those from other assets or asset group.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Impairment of Assets (Continued)

If such recoverable amount is less than its carrying amount, book value is reduced to its recoverable amount, the reduction amount is recognized in profit or loss for the current period and a provision for impairment losses of such assets has been prepared.

For the purpose of impairment testing of goodwill, the carrying value of goodwill arising from business combination is reasonably allocated to the related assets group since the purchasing date, those difficulty allocated to the related assets group will allocated to the related sets of assets groups. The related assets group or sets of assets groups are those expected to benefit from the synergies of the business combination and less than the reportable segment determined by the Group.

If there exists impairment indication for assets group or sets of assets groups related to goodwill when an impairment test carried out for the related assets group or sets of assets groups including goodwill, an impairment test should be carried out for assets group or sets of assets groups excluding goodwill to calculate the recoverable amount and recognize the corresponding impairment losses. An impairment test should be carried out for assets group or sets of assets groups including goodwill, comparing its book value and the recoverable amount, if the recoverable amount is less than the book value, the impairment losses amount is deducted and amortized to the book value of the goodwill of assets group or sets of assets groups firstly and then deducted the book value of other assets on a pro rata basis according to the proportion of the book value of other assets of assets group or sets of assets groups excluding goodwill.

Once an impairment loss is recognized for above-mentioned assets, it will not be reversed in subsequent accounting period.

20. Long-term Prepaid Expenses

Long-term prepaid expenses are amortized using the straight-line method, and their amortized periods are as follow:

	Amortized periods
Improvement of fixed assets rented	10 years
Others	3–5 years

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Employee Remuneration

Employee remuneration is all kinds of reward or compensation for service rendered by employees or the termination of employment given by the Group. Employee remuneration includes short-term remuneration, post-employment benefit, termination benefits and other long-term employee benefits. Benefits the Group provided to employees' spouse, children, dependent, families of the deceased employees and other beneficiary also belong to employee remuneration.

Short-term remuneration

Actually occurred short-term employee remuneration is recognized as liabilities and charge to the profit or loss for the current period or in the costs of relevant assets in the accounting period in which employees provide services.

Post-employment benefits (Defined contribution plans)

Our employee participated in endowment insurance and unemployment insurance managed by local government and corresponding expenses are recognized in costs of related assets or profit or loss for the current period.

Termination Benefits

When the Group provides termination benefits to employees, employee remuneration liabilities are recognized for termination benefits, with a corresponding charge to the profit or loss for the period at the earlier of the following dates: when the Group cannot unilaterally withdraw the offer of termination benefits because of the termination plan or a curtailment proposal; and when the Group recognizes costs or expenses related to restructuring that involves the payment of termination benefits.

22. Revenue

Rental and related income

It refers to the revenue received by the Group from provision of booth leases and related services for tenants who signed up lease contracts to run business at its Owned/Leased Portfolio Shopping Malls and such revenue belongs to operating lease. The revenue is determined according to the rental area, unit price, contractual term and so on stipulated in the relevant contracts or agreements and recognized on a straight-line basis within the contractual period.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Revenue (Continued)

Revenue excluding rental and related income (applicable since 1 January 2018)

The Group recognizes revenue when it performs the performance obligations in the contract, namely, when the customer obtains control over relevant goods or services. Control over the relevant goods and services refers to the ability to direct the use of, and obtain substantially all of the economic benefits from the provisions of the services.

Revenue relating to Managed Shopping Malls

Revenue from the brand consulting and management service for the early stage of the project

It refers to the revenue received by the Group under the relevant contract or agreement, pursuant to which the Group are permitted by developers to use the brands that are intangible asset of its own, and from the provision of consultation, tenant sourcing and other services to partners of or project companies under the Managed Shopping Malls. The revenue arising there from is recognized by the Group in the period that the consulting and management services are provided in accordance with the progress of performance.

Revenue from annual brand consulting and management service for the project

After the opening of business of Managed Shopping Malls, the Group shall, on the terms and within the validity period of relevant contract, permit the Managed Shopping Malls to continuously use the brands that are intangible assets of the Group, and continuously provide management services (covering layout, planning, tenant sourcing, leasing, business planning, advertising, operation and after-sales service, etc.) to the Managed Shopping Malls, while the Managed Shopping Malls may, within the validity period of relevant contract, continuously use the brands that are intangible assets of the Group. Relevant management services are provided on an on-going basis within the validity period of the contracts. The revenue arising there from is recognized by the Group in the period that the management services are provided at the amount calculated and determined in accordance with charging methods agreed in the contract.

Revenue from tenant sourcing commissions

It refers to the revenue received by the Group arising from the provision of tenant sourcing and consultation services for Managed Shopping Malls. The revenue arising there from is recognized by the Group in the period that the tenant sourcing services are provided at the amount calculated and determined in accordance with charging methods agreed in the contract.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Revenue (Continued)

Revenue excluding rental and related income (applicable since 1 January 2018) (continued)

Revenue relating to Managed Shopping Malls (continued)

Revenue from commercial management and consultation service for construction project

It refers to revenue received by the Group from the provision of management and consultation services of Red Star Macalline to builders, including shopping mall design, consultation on construction and decoration solution, coordination and supervision on the site of construction as well as control of project cost and progress. The amount thereof is determined by the Group in consultation with the builders in line with the realities of the project. The revenue is recognized by the Group at the amount agreed in the contracts under the circumstance that relevant services have been provided, relevant Managed Shopping Malls has been constructed and reached operational status, and relevant service confirmation issued by the builder is obtained.

Revenue from commercial consultation fees

It refers the revenue received by the Group from the provision of commercial consultation services in the stage of development planning or properties in operation other than Owned/Leased/JV/associate Portfolio Shopping Malls and Managed Shopping Malls. The revenue arising there from is recognized by the Group in the period that the commercial consultation services are provided at the amount agreed calculated and determined in accordance with charging methods agreed in the contracts.

Revenue from construction and design service

As customers can control products in progress during the Group's performance, the Group takes the construction contracts between it and customers as the performance obligations fulfilled within a certain period and recognizes relevant revenue according to performance schedule, except that relevant performance schedule cannot be reasonably determined. The Group determines the performance schedule of the service it provides based on input method. Where the performance schedule cannot be reasonably determined and the costs incurred to the Group are expected to be recovered, the Group recognizes the revenue according to the amount of costs incurred until the performance schedule can be reasonably determined.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Revenue (Continued)

Revenue excluding rental and related income (Applicable since 1 January 2018) (continued)

Revenue from sales of goods and home decoration

Revenue from sales of goods is the revenue which the Group's self-operated shopping malls obtained from sales of home decoration and furnishing products. Relevant revenue from sales of goods is recognized when the Group fulfilled the performance obligations under relevant contracts and customers obtained the right of control of relevant goods or services.

Revenue from home decoration refers to the revenue received by the Group from home design and decoration works provided by the Group. The revenue is recognized by the Group under the circumstance that associated economic benefits are probable to flow into the Group after the Group has provided relevant service and fulfilled its performance obligations.

Other revenues

Revenue from strategic consultation fees

It refers the revenue received by the Group for the continuous provision of operational analysis, information consultation, brand rating and assessment consultation, tenant sourcing and matching and booth coordination and other services on the terms and within the validity period of the agreement entered into between the Group and home decoration companies and furniture manufacturers. The revenue is recognized by the Group at the amount agreed in the agreement according to the performance schedule within the validity period of the agreement.

Joint marketing income

If refers to the revenue received by the Group for the provision of business planning service, media production and other services during the joint marketing activities with brand manufacturers and tenants. The revenue is recognized when the Group fulfilled the performance obligations under the relevant contracts and customers obtained the right of control of relevant goods or services.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Revenue (Continued)

Revenue excluding rental and related income (applicable to 2017)

The revenues are recognized when economic benefits may possibly flow into the Group, relevant amount can be measured reliably and the following conditions can be met.

Revenue relating to Managed Shopping Malls

Revenue from brand consulting and management service for the early stage of the project

It refers to the revenue received by the Group under the relevant contracts or agreements, pursuant to which relevant Managed Shopping Malls are permitted to use the brands that are intangible assets of the Group, and from the provision of consultation, tenant sourcing and other services to partners of or project companies under the Managed Shopping Malls.

Before the opening of Managed Shopping Malls, the Group shall, pursuant to relevant contracts or agreements, permit the relevant Managed Shopping Malls to use the brands that are intangible assets of the Company in the preparatory work in the prior period of their construction. The initial revenue from the brand consulting and management service in the prior period of the project is recognized by the Group at the amount agreed in the contract, under the circumstance that there is no significant uncertainty about the recoverability of the amount under the right to payment collection acquired in the contract and that the following conditions are satisfied: (1) the Group and the partners have entered into management framework agreement or contract; (2) the partners have obtained land transaction confirmation or land use right certificate.

Upon the opening of Managed Shopping Malls, the Group shall, pursuant to relevant contracts or agreements, permit the Managed Shopping Malls to mark the brands that are intangible assets of the Company upon the opening of business, and conclude relevant consultation services in the prior period. The rest revenue from the brand consulting and management service in the prior period of the project is recognized by the Group at the amount agreed in the contract, under the circumstance that the Managed Shopping Malls have opened for business and there is no significant uncertainty about the recoverability of the amount under the right to payment collection acquired in the contract.

The Group provides tenant sourcing services to Managed Shopping Malls before their opening of the business and the commissions for which is recognized at the amount agreed in the contract upon the opening of the business and upon the satisfaction of completion rate for tenant sourcing commissions agreed in the contract.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Revenue (Continued)

Revenue excluding rental and related income (applicable to 2017) (continued)

Revenue relating to Managed Shopping Malls (continued)

Revenue from annual brand consulting and management service for the project

After the opening of business of Managed Shopping Malls, the Group shall, on the terms and within the validity period of relevant contract, permit the Managed Shopping Malls to continuously use the brands that are intangible assets of the Group, and continuously provide management services (covering layout, planning, tenant sourcing, leasing, business planning, advertising, operation and after-sales service, etc.) to the Managed Shopping Malls, while the Managed Shopping Malls may, within the validity period of relevant contract, continuously use the brands that are intangible assets of the Group. The revenue arising therefrom is recognized by the Group in the period that the management services are provided at the amount calculated and determined in accordance with charging methods agreed in the contract.

Revenue from commercial management and consultation service for construction project

It refers to revenue received by the Group from the provision of management and consultation services of Red Star Macalline to builders, including shopping mall planning and design, consultation on construction and decoration solution, coordination and supervision on the site of construction as well as control of project cost and progress. The amount thereof is determined by the Group in consultation with the builders in line with the realities of the project. The revenue is recognized by the Group at the amount agreed in the contract under the circumstance that relevant service has been provided, relevant Managed Shopping Mall has been constructed and reached operational status, and relevant service confirmation issued by the builder is obtained.

Revenue from sales of goods and home decoration

Revenue from sales of goods

Revenue from sales of goods is the revenue which the Group's self-operated shopping malls obtained from sales of home decoration and furnishing products. It is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the Group; and the associated costs incurred or to be incurred can be measured reliably.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Revenue (Continued)

Revenue excluding rental and related income (applicable to 2017) (continued)

Revenue from sales of goods and home decoration (continued)

Revenue from home decoration

It refers to the revenue received by the Group from home design and decoration works provided by the Group. The revenue is recognized by the Group under the circumstance that associated economic benefits are probable to flow into the Group after relevant services have been provided and settled.

Other revenues

Other revenues received by the Group mainly include: strategic consultation fee, joint marketing income and project construction income.

Revenue from strategic consultation fees

It refers the revenue received by the Group for the continuous provision of operational analysis, information consultation, brand rating and assessment consultation, tenant sourcing and matching and booth coordination and other services on the terms and within the validity period of the agreement entered into between the Group and home decoration companies and furniture manufacturers. The revenue is recognized by the Group at the amount agreed in the agreement on a straight-line basis within the validity period of the agreement.

Joint marketing income

It refers to the revenue received by the Group for the provision of business planning service, media production and other services during the joint marketing activities with brand manufacturers and tenants and the Group. The revenue is recognized by the Group at the amount agreed by the parties under the circumstance that relevant service has been provided, amount of service fees is confirmed by brand manufacturers and tenants and associated economic benefits are probable to flow into the Group.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Revenue (Continued)

Revenue excluding rental and related income (applicable to 2017) (continued)

Other revenues (continued)

Project construction income

The revenue received by the Group from external project construction works undertaken by the Group is recognized pursuant to construction contracts. The revenue is recognized as contractual revenue and contractual expenses by the method of completion percentage at the balance sheet date under the circumstance that the outcome of the construction contract can be estimated reliably. The progress of contract is determined according to the proportion of actual contractual costs being accrued cumulatively to the total estimated contractual costs.

Where the outcome of the construction contract cannot be estimated reliably, if the contractual cost is recoverable, the contractual revenue is recognized to the extent of recoverability of the actual contractual cost; and the contractual cost is recognized as contractual expenses in the period in which it is incurred; if the contractual cost is not recoverable, it is recognized as expenses immediately upon its occurrence and not contractual revenue is recognized. When the uncertainties that prevented the outcome of the construction contract from being estimated reliably no longer exist, revenue and expenses associated with the construction contract are recognized by the method of completion percentage.

If the total estimated contractual costs exceed total contract revenue, the expected loss is recognized as expenses for the period.

The net amount of cumulative costs accrued and cumulative gross profits (or losses) recognized for the contracts of construction in progress after offsetting amount having been settled is presented on the balance sheet. The amount that the sum of cumulative costs accrued and cumulative gross profits (or losses) recognized for the contracts of construction in progress exceeds the amount having been settled is presented as inventory. The amount that the amount having been settled exceeds the sum of cumulative costs accrued and cumulative gross profits (or losses) recognized for the contracts of construction in progress is presented as advances from customers.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Contract Assets and Contract Liabilities (Applicable Starting from 1 January 2018)

The Group presents contract assets or contract liabilities in the balance sheet based on the relationship between the Group's fulfilment of performance obligations and customers' payment.

Contract assets

The Group presents its unconditional (merely depending on time) right to receive considerations from customers as accounts receivable, and presents its right to receive considerations for goods already transferred to customers (depending on other factors other than time) as contract assets.

See Note III.10 for methods determining the expected credit loss of the Group's contract assets and relevant accounting methods.

Contract liabilities

In the event that the enterprises have received relevant amounts before transferring the promised goods, the Group presents the obligations for transfer of goods to customers for considerations received or receivable from customers as contract liabilities.

The Group presents contract assets and contract liabilities under the same contract as net amount after they offset each other.

24. Assets Related to Contract Costs (Applicable Starting from 1 January 2018)

The Group's assets related to contract costs include contract performance costs, and are presented in the inventories according to liquidity.

The incremental costs of obtaining a contract which are expected to be recovered shall be recognized as an asset as contract acquisition costs, unless the amortization period of the asset is less than one year.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Assets Related to Contract Costs (Applicable Starting from 1 January 2018) (Continued)

The cost of the Group for the performance of the contract is recognized as an asset as the contract performance cost, if it does not apply to the scope of the relevant standards of inventories, fixed assets or intangible assets and meets the following conditions:

- (1) The cost is directly related to a current or anticipated contract, including direct labor, direct materials, manufacturing expenses (or similar expenses), clear costs incurred by the customer, and other costs incurred solely for the contract;
- (2) The cost increases the resources that the Company will use to fulfill its performance obligations in the future;
- (3) The cost is expected to be recovered.

The Group amortizes the assets related to the contract costs on the same basis as the revenue recognition related to the assets, which is recognized in the profit or loss for the current period.

25. Government Grants

Government grant is recognized when the Group can comply with the conditions attached to it and it can be received. If a government grant is in the form of a transfer of monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of non-monetary asset, it is measured at fair value; in the event that fair value is not reliably determinable, it is measured at a nominal amount.

Government grants for purchasing, building or forming long-term assets in other methods regulated in government documents are recognized as asset-related government grants. Judgments should be made based on the necessary basic conditions for obtaining the government grants when government documents are unclearly stated. Government grants with purchasing, building or forming long-term assets in other methods as basic conditions, are recognized as asset-related government grants, whereas the rest as income-related government grants.

Income-related government grants used to recover related costs or losses in the subsequent period are recognized as deferred income, and are taken into the current profit or loss or used to offset related costs of the period in which the related costs or losses are recognized; those used to recover related costs or losses incurred are directly recognized as the current gains/losses or used to offset related costs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Government Grants (Continued)

Asset-related government grants are used to offset the book value of related assets; or recognized as deferred income, and arbitrarily and systematically included in profit or loss within the useful life of the related assets (however, government grants measured at nominal amounts are directly recognized in profit or loss for the current period); if the related assets are sold, transferred, discarded as useless or damaged before the end of their useful life, the balance of the relevant deferred income that has not been allocated shall be carried into the profit or loss of the period when the assets are disposed of.

26. Income Tax

Income tax comprises current and deferred tax. Income tax is recognized as income or an expense in profit or loss for the current period, or recognized directly in shareholders' equity if it arises from a business combination or relates to a transaction or event which is recognized directly in shareholders' equity.

The Group measures a current income tax asset or liability arising from the current and prior period based on the amount of income tax expected to be paid by the Group or returned by tax authority calculated by related tax laws.

For temporary differences on the balance sheet date between the tax bases of assets and liabilities and their book value, and temporary differences between the book value and the tax bases of items, the tax bases of which can be determined for tax purposes, but which have not been recognized as assets and liabilities according to the tax laws, deferred income taxes are provided using the liability method.

A deferred income tax liability is recognized for all taxable temporary differences, except:

- (1) where the taxable temporary differences arise from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which contains both of the following characteristics: the transaction is not a business combination; and at the time of the transaction, it affects neither accounting profit nor taxable income or deductible loss.
- (2) in respect of taxable temporary differences associated with investments in subsidiaries, jointly ventures and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Income Tax (Continued)

A deferred income tax asset is recognized for deductible temporary differences, carry forward of deductible tax losses from prior years and tax credits, to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, and deductible tax losses and tax credits can be utilized, except:

- (1) where the deductible temporary differences arises from a transaction that is not a business combination and, at the time of the transaction, neither the accounting profit nor taxable income or deductible loss is affected.
- (2) in respect of the deductible temporary differences associated with investments in subsidiaries, joint ventures and associates, a deferred income tax asset is only recognized to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable income will be available against which the deductible temporary differences can be utilized in the future.

At the balance sheet date, deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, according to the requirements of tax laws. The measurement of deferred income tax assets and deferred income tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects at the balance sheet date, to recover the assets or settle the liabilities.

The book value of deferred income tax assets is reviewed at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available in future periods to allow the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at the balance sheet date and are recognized to the extent that it has become probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be recovered.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Income Tax (Continued)

Where all of the following conditions are satisfied, deferred income tax assets and deferred income tax liabilities are presented on a net basis after offsetting: With the legal rights of net settlement of current income tax assets and current income tax liabilities granted, and deferred income tax assets and deferred income tax liabilities are related to income tax to be paid by the same entity liable to pay tax to the same tax collection and management authority or related to different entities liable to pay tax, but the relevant entity liable to pay tax is intended to apply net settlement of current income tax assets and liabilities or, at the same time, acquire assets or repay debt whenever every significant deferred income tax assets and liabilities would be reversed in the future.

27. Lease

A finance lease is a lease that transfers in substance all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

In the case of the lessee of an operating lease

Lease payments under an operating lease are recognized by a lessee on a straight-line basis over the lease term, and either included in the cost of the related asset or charged to profit or loss for the current period. Contingent rents are charged to profit or loss in the period in which they actually arise.

28. Repurchase of Shares

Consideration and transaction costs paid for the repurchase of the Company's own equity instruments are charged against shareholders' equity. The issuance (including refinancing), repurchase, sale or cancellation of its own equity instruments is treated as change in equity.

29. Profit Distribution

The Company's cash dividends are recognized as liabilities upon approval by the shareholders' general meeting. Since the Board is authorized to approve the interim cash dividends under the Articles of Association of the Company, the interim cash dividends shall be recognized as liabilities upon approval by the Board.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Fair Value Measurement

The Group measures its investment properties, other equity instruments, other non-current financial assets and financial assets held for trading at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal market must be accessible by the Group at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimizing the use of unobservable inputs only under the circumstances where such relevant observable inputs cannot be obtained or practicably obtained.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole: Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2 — based on inputs other than inputs within Level 1 that are observable for the asset or liability, either directly or indirectly; Level 3 — based on input for the asset or liability that is not based on observable market data.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Group re-assess them at each balance sheet date to determine whether transfers have occurred between levels in the hierarchy.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Significant Accounting Judgments and Estimates

The preparation of the financial statements requires the management to make judgments, estimates and assumptions that will affect the reported amounts and disclosure of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities at the balance sheet date. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the book value of the assets or liabilities affected in the future.

Judgments

In the process of applying the Group's accounting policies, the management has made the following judgments which have significant effect on the amounts recognized in the financial statements:

Operating lease – in the case of the lessor

The Group has entered into leasing contracts for its investment properties. The Group is of the opinion that, according to the terms of such leasing contracts, the Group has retained all material risks and rewards of the ownership of these properties, and thus they are regarded as operating lease.

Determination of single performance obligation and allocation of transaction prices to single performance obligation

The Group's brand consulting and management service for the project covers three service commitments: (1) brand consulting and management service for the early stage of the project; (2) annual brand consulting and management service for the project; (3) tenant sourcing commissions. Customers are able to obtain benefits from the use of the three service commitments or the joint use of the three service commitments and other easily available resources, and the three service commitments can be separately distinguished from other service commitments, so each of the three service commitments constitutes a single performance obligation. The three service commitments can be separately distinguished from other goods or service commitments because: (1) the Group does not need to provide material services to consolidate the three service commitments and other services promised in the contract into a combined output as agreed upon in the contract for transfer to the customer; (2) the three service commitments will not modify or customize the other services promised in the contract; and (3) the three service commitments are not highly relevant to other services promised in the contract.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Significant Accounting Judgments and Estimates (Continued)

Judgments (continued)

Determination of single performance obligation and allocation of transaction prices to single performance obligation (continued)

On the contract start date, the Group distributes the transaction prices to the above three service commitments so that the transaction price of the Group's single performance obligation can reflect the consideration amount that it is expected to receive due to the transfer of the service commitments to the customer. When the standalone selling price cannot be directly observed, the Group will comprehensively consider all relevant information that it can reasonably obtain, and reasonably estimate the standalone selling price by adopting the market adjustment method. Information considered includes market conditions, enterprise-specific factors, and customer-related information.

Method for determining the performance schedule of construction contracts

The Group determines the performance schedule of the brand consulting and management service and construction service contracts for the project in accordance with the input method. Specifically, the Group determines the performance schedule based on the percentage of cumulative actual construction costs in the estimated total costs. The cumulative actual costs include the direct and indirect costs incurred by the Group in transferring goods and services to customers. The Group believes that the price of the construction contract with the customer is determined on the basis of the construction cost, and the percentage of actual construction costs in the estimated total costs can accurately reflect the performance schedule of the construction service. The Group determines the performance schedule according to the percentage of cumulative actual construction costs in the estimated total costs, and recognizes revenues accordingly. The brand consulting and management service and construction service contracts for the project may span several accounting periods. In particular, the Group thinks that the price of construction service contract with the customer is determined on the basis of the construction cost, and the percentage of actual construction costs in the estimated total costs can accurately reflect the performance schedule of the construction service. The Group will review and revise the budget as the construction service contract advances and adjust revenue recognition accordingly.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Significant Accounting Judgments and Estimates (Continued)

Judgments (continued)

Business mode

The classification of financial assets at initial recognition depends on the business model of the Group's management of financial assets. In judging the business model, the Group takes into account the corporate evaluation and ways to report the performance of financial assets to key management personnel, risks affecting the performance of financial assets and their management style, and the manner in which relevant business management personnel are paid. In assessing whether the business model is based on the collection of contractual cash flows, the Group needs to analyse and judge the reasons, timing, frequency and value of the sale of financial assets before the maturity date.

Contractual cash flow characteristics

The classification of financial assets at initial recognition depends on the contractual cash flow characteristics of the financial assets. When it is necessary to judge whether the contractual cash flow is only the payment of the principal and the interest based on the outstanding principal, including the assessment of the correction of the time value of money, it is necessary to judge whether there is a significant difference compared with the benchmark cash flow, and to judge whether the fair value of financial assets with prepayment characteristics is insignificant.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the book value of assets and liabilities within the future accounting periods, are discussed below.

Impairment of available-for-sale financial assets

Before 1 January 2018, the Group classified some assets as available-for-sale financial assets and directly included changes in their fair value into other comprehensive income. When the fair value declines, the management makes assumptions about the decline in value to determine whether there is a need to recognise its impairment losses in profit or loss.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Significant Accounting Judgments and Estimates (Continued)

Estimation uncertainty (continued)

Impairment of financial instruments

The Group uses the expected credit loss model to assess the impairment of financial instruments. The application of the expected credit loss model requires significant judgments and estimations, and all reasonable and evidenced information, including forward-looking information, should be considered. In making such judgments and estimations, the Group infers the expected changes in the debtor's credit risk based on the historical repayment data in combination with economic policies, macroeconomic indicators, and industry risks.

Fair value of unlisted equity investments

The valuation of unlisted equity investments is the estimated future cash flows discounted on the basis of the current discount rate of other financial instruments with similar contractual terms and risk characteristics. This requires the Group to estimate future cash flows, credit risks, fluctuations and discount rates, so the valuation of unlisted equity investments is uncertain.

Division of investment properties and fixed assets

The Group will exercise its discretion to classify investment properties and fixed assets. Investment property is any property held to rental earnings or capital appreciation or both. Fixed assets are mainly tangible assets that are held by the Group for use in the production or supply of goods or services, or for administrative purposes, and have useful lives of more than one accounting year. Therefore, in classifying investment properties and fixed assets, the Group will fully consider the management's intention, whether relevant lease agreements are concluded, and other factors.

Investment property

As such, the Group measures its investment properties by adopting the fair value model with changes in fair value recognized in profit or loss for the current period. The assessment of the fair value of investment properties requires the management to make reasonable estimates of such parameters as rental growth rate, rate of return during the lease term, rate of return beyond the lease term, and vacancy rate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Significant Accounting Judgments and Estimates (Continued)

Estimation uncertainty (continued)

Impairment of goodwill

The Group carries out tests for impairment of goodwill on an annual basis, which entails estimation of the present value of future cash flows of the asset groups or asset portfolios to which goodwill is allocated. When estimating the present value of future cash flows, the Group needs to estimate the cash flows generated by the future asset groups or asset portfolios, and select the appropriate discount rate to determine the present value of future cash flows.

Provision for impairment of inventories

The Group's inventories shall be calculated by the lower of cost and net realizable value. The net realizable value of inventories represents the amount derived by deducting the potential cost, estimated sale cost and relative taxes to the completion date from the estimated selling price of the inventory in the ordinary course of business.

If the management revises the estimated selling price of the inventory, and the potential cost, estimated sale cost and relative taxes to the completion date, and the revised estimated selling price is lower than the current estimate, or the revised potential cost, estimated sale cost and relative taxes to the completion date are higher than the current estimates, the Group needs to make provision for impairment of additional inventories. If the actual selling price and the potential cost, estimated sale cost and relative taxes to the completion date are higher than the management's estimation, the Group will confirm the relevant impact in the consolidated income statements in the corresponding accounting period.

Deferred tax assets

Deferred tax assets shall be recognised for all deductible losses not used to the extent that there is likely sufficient taxable income available for deduction of deductible losses. It requires the management to determine the value of the to-be-recognized deferred tax assets by using adequate discretion to estimate the time and amount of taxable income to be obtained in the future in combination with tax planning strategies.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in Accounting Policies and Accounting Estimates

Changes in accounting policies

In 2017, the MOF issued the amended Accounting Standards for Business Enterprises No. 14 — Revenue (the “New Standards for Revenue”); Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments; Accounting Standards for Business Enterprises No. 23 — Transfer of Financial Assets; Accounting Standards for Business Enterprises No. 24 — Hedge Accounting; and Accounting Standards for Business Enterprises No. 37 — Presentation of Financial Instruments (collectively the “New Standards for Financial Instruments”). With effect from 1 January 2018, the Group has adopted the newly amended accounting standards set out above for accounting treatment. According to the transitional requirements, no adjustment is made to information for the comparative period. Adjustments arising from the difference in the first adopting the new standards and the original standards will be dealt with in the opening retained earnings or other comprehensive income.

New standards for revenue

The New Standards for Revenue establishes a new revenue recognition model for regulating revenues generated from contracts with customers. According to the New Standards for Revenue, the revenue recognition approach should reflect the mode in which the entity transfers goods or services to customers, and the amount of revenue should reflect the consideration that the entity is expected to receive due to the transfer of such goods and services to the customer. Meanwhile, the New Standards for Revenue also regulates the judgments and estimates required for each part of revenue recognition. Adjustments are only made to the cumulative effect of contracts that remain outstanding as of 1 January 2018. For changes in contracts incurred before 1 January 2018 a simplified approach is adopted in respect of the final arrangements for all contracts based on changes in contracts, identify performance obligations that have been performed or remain outstanding, determine the transaction price and apportion the transaction price between performance obligations that have been performed or remain outstanding.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in Accounting Policies and Accounting Estimates (Continued)

Changes in accounting policies (continued)

New standards for revenue (continued)

The impact of implementing the New Standards for Revenue on the balance sheet items on 1 January 2018 is as follows:

Consolidated balance sheet

	As stated	Assuming that original standard was applied	Effects
Notes receivable and accounts receivable	1,422,097,031.86	1,170,430,013.77	251,667,018.09
Contract assets	524,874,819.78	—	524,874,819.78
Deferred tax assets	801,843,598.75	718,579,066.08	83,264,532.67
Advance from customers	1,353,475,229.45	3,068,282,301.16	(1,714,807,071.71)
Contract liabilities	1,919,017,566.21	—	1,919,017,566.21
Other current liabilities	117,853,208.62	—	117,853,208.62
Other non-current liabilities	4,036,281,202.61	2,774,520,500.00	1,261,760,702.61
Retained earnings	27,530,675,045.58	28,254,693,080.77	(724,018,035.19)
Including:			
those attributable to owners of the Company	27,530,675,045.58	28,254,693,080.77	(724,018,035.19)
those attributable to the minority shareholders	—	—	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in Accounting Policies and Accounting Estimates (Continued)

Changes in accounting policies (continued)

New standards for revenue (continued)

The impact of implementing the New Standard for Revenue on the 2018 financial statements is as follows:

Consolidated balance sheet

	As stated	Assuming that original standard was applied	Effects
Notes receivable and accounts receivable	1,687,918,584.76	1,213,753,366.67	474,165,218.09
Contract assets	807,109,773.17	—	807,109,773.17
Inventories	251,352,502.91	496,105,799.90	(244,753,296.99)
Advance from customers	1,249,019,601.25	3,639,288,590.36	(2,390,268,989.11)
Contract liabilities	2,601,978,507.73	—	2,601,978,507.73
Taxes payables	607,676,739.98	594,234,337.25	13,442,402.73
Other current liabilities	1,161,684,557.80	1,000,000,000.00	161,684,557.80
Other non-current liabilities	6,181,288,065.26	5,301,073,154.05	880,214,911.21
Retained earnings	30,629,417,859.13	30,811,655,888.54	(182,238,029.41)

Consolidated income statement

	As stated	Assuming that original standard was applied	Effects
Revenue	14,239,792,500.44	13,648,146,891.23	591,645,609.21
Income tax expenses	1,313,872,428.30	1,264,006,824.87	49,865,603.43

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in Accounting Policies and Accounting Estimates (Continued)

Changes in accounting policies (continued)

New standards for revenue (continued)

The Group divided its brand consulting and management service for the early stage of the project at its early stage into two multi-factors before 1 January 2018. From 1 January 2018 onwards, the Group analysed that this business included only one service commitment, namely the three-dimensional solution for the planning & construction of home furnishing shopping mall. Customers are able to obtain benefits from the use of the service commitment or the joint use of the service commitment and other easily available resources, and the service commitment can be separately distinguished from other goods or service commitments, so the service commitment constitutes a single performance obligation. The tables above set forth the effects of the aforesaid changes.

New standards for financial instruments

The New Standards for Financial Instruments have changed the methods for classification and measurement of financial assets and determined three major measurement categories: amortized cost, fair value through other comprehensive income, and fair value through profit or loss. An enterprise should make such a classification based on its own business model and characteristics of contractual cash flows of financial assets. Equity instrument investments should be measured by fair value through profit or loss, but the enterprise may choose to irrevocably designate the equity instrument investment not held for trading as financial assets at fair value through other comprehensive income at the time of initial recognition.

For measurement of impairment of financial assets, the New Standards for Financial Instruments require changing the “incurred loss model” to the “expected credit loss model”, which is applicable to financial assets measured at amortized cost and financial assets at fair value through other comprehensive income.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in Accounting Policies and Accounting Estimates (Continued)

Changes in accounting policies (continued)

New standards for financial instruments (continued)

The yields of some wealth management products held by the Group depend on the yields of the underlying assets. The Group classified them as available-for-sale financial assets before 1 January 2018. After 1 January 2018, the Group analysed that its contractual cash flows not only represented the payment of the principal and interest based on the outstanding principal. So, it reclassified such wealth management products as financial assets at fair value through profit or loss and stated them as financial assets held for trading.

During daily fund management, the Group endorsed or discounted some bank acceptances. The business model of managing the aforesaid notes receivable is aimed to acquire and sell contractual cash flows. Therefore, after 1 January 2018, the Group reclassified such notes receivable as financial assets at fair value through other comprehensive income and stated them as other current assets.

After 1 January 2018, the Group designated some equity investments held as financial assets at fair value through other comprehensive income and stated them as other equity instrument investments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in Accounting Policies and Accounting Estimates (Continued)

Changes in accounting policies (continued)

New standards for financial instruments (continued)

On the date of first implementation, the classification and measurement of the financial assets conducted according to the standards for recognition and measurement of financial instruments before and after amendment are compared as follows:

The Group

	Standards for recognition and measurement of financial instruments before amendment		Standards for recognition and measurement of financial instruments after amendment	
	Measurement category	Book value	Measurement category	Book value
Notes receivable	Measured at amortized cost (Loans and receivables)	3,000,000.00	Measured at fair value through other comprehensive income	3,000,000.00
Equity investments	Measured at fair value through other comprehensive income (Available-for-sale assets)	2,200,652,330.85	Measured at fair value through other comprehensive income (Designated)	2,200,652,330.85
	Measured at cost (Available-for-sale assets)	741,798,731.55	Measured at fair value through other comprehensive income (Designated)	845,927,633.07
	Measured at cost (Other non-current assets)	15,600,000.00	Measured at fair value through other comprehensive income (Designated)	230,626,964.96

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in Accounting Policies and Accounting Estimates (Continued)

Changes in accounting policies (continued)

New standards for financial instruments (continued)

The Group (continued)

	Standards for recognition and measurement of financial instruments before amendment		Standards for recognition and measurement of financial instruments after amendment	
	Measurement category	Book value	Measurement category	Book value
Wealth management products	Measured at fair value through other comprehensive income (Available-for-sale assets)	3,000,000.00	Measured at fair value through profit or loss (Required by the standards)	3,000,000.00
Debt investments	Measured at fair value through other comprehensive income (Available-for-sale assets)	120,000,000.00	Measured at fair value through profit or loss (Required by the standards)	120,000,000.00
	Measured at cost (Other non-current assets)	178,350,000.00	Measured at fair value through profit or loss (Required by the standards)	178,350,000.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in Accounting Policies and Accounting Estimates (Continued)

Changes in accounting policies (continued)

New standards for financial instruments (continued)

On the date of first implementation, the original amount of provision for impairment of financial assets as at 31 December 2017 and the new loss provision classified and measured as per the amended standards for financial instruments are reconciled as follows:

Measurement category	Loss provision withdrawn as per the original standards for financial instruments	Reclassified	Re-measured	Loss provision withdrawn as per the new standards for financial instruments
Loans and receivables (original standards for financial instruments)/financial assets measured at amortized cost (new standards for financial instruments)				
Accounts receivable	766,752,183.69	—	182,598,075.69	949,350,259.38
Contract assets (note)	—	—	16,583,679.53	16,583,679.53
Other receivables	208,984,259.16	—	(2,524,499.09)	206,459,760.05
Other current assets	—	—	1,100,000.00	1,100,000.00
Long-term receivables	600,000.00	—	10,727,801.22	11,327,801.22
Other non-current assets	17,600,000.00	—	13,852,448.52	31,452,448.52
Available-for-sale financial instruments (original standards for financial instruments)/financial assets at fair value through other comprehensive income (new standards for financial instruments)				
Available-for-sale financial instruments	146,800,202.48	(146,800,202.48)	—	—
Total	1,140,736,645.33	(146,800,202.48)	222,337,505.86	1,215,673,948.71

Note: Contract assets result from reclassification under the New Standards for Financial Instruments in 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in Accounting Policies and Accounting Estimates (Continued)

Changes in accounting policies (continued)

New standards for financial instruments (continued)

Impacts on the balance sheet items as at 1 January 2018 after consideration of the expected credit loss under the New Standards for Financial Instruments are as follows:

Measurement category	Loss provision withdrawn as per the original standards for financial instruments	Reclassified	Re-measured	Loss provision withdrawn as per the new standards for financial instruments
Loans and receivables (original standards for financial instruments)/ financial assets measured at amortized cost (new standards for financial instruments)				
Accounts receivable	766,752,183.69	—	36,773,780.18	803,525,963.87
Contract assets	—	—	45,839,192.41	45,839,192.41
Total	766,752,183.69		82,612,972.59	849,365,156.28

According to the Notice on the Revision of the Format of General Financial Statements for 2018 (Cai Kuai [2018] No. 15), in the balance sheet, the “notes receivable” and “accounts receivable” items are classified under the new “notes receivable and accounts receivable” item, the “interests receivable” and “dividends receivable” items are classified under the “other receivables” item, the “disposal of fixed assets” item is classified under the “fixed assets” item, the “materials used in construction” item is classified under the “construction in progress” item, the “notes payable” and “accounts payable” items are classified under the new “notes payable and accounts payable” item, the “special payables” item is classified under the “long-term payables” item; in the income statement, the “research and development costs” item is added to present the expenses incurred during research and development and the “interest expenses” and “interest income” items are separated from the “financial expenses” item; and the Group has adjusted the comparative data on a retrospective basis. The changes in the accounting policies have no impact on the consolidated and the Company’s net profits and shareholder’s equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in Accounting Policies and Accounting Estimates (Continued)

Changes in accounting policies (continued)

Changes in the cash flow items with asset-related government grants

According to the Interpretation on Issues Relating to the Format of General Financial Statements for 2018 issued by the Ministry of Finance, in preparation of the cash flow statements, the original cash flows from investment activities are changed to cash flows from operating activities. The Group has adjusted the comparative data on a retrospective basis. The changes in the accounting policies led to a decrease in the net cash flows from investment activities in the consolidated and the Company's cash flow statements and an increase of the same amount in the net cash flows from operating activities, but had no impact on the net increase of cash and cash equivalents.

Major impacts of the retrospective adjustment arising from the changes in the accounting policies stated above on the financial statements are as follows:

2018

The Group

	Book value presented according to the original standards	Impact of the New Standards for Revenue		Impact on bad-debt allowance for accounts receivable and contract assets under the New Standards for Revenue	Impact of the New Standards for Financial Instruments		Other impacts of changes in presenting methods of the financial statements	Book value presented according to the New Standards 1 January 2018
	31 December 2017	Reclassified	Re-measured	Revenue	Reclassified	Re-measured		
Notes receivable	3,000,000.00	—	—	—	(3,000,000.00)	—	—	—
Accounts receivable	1,167,430,013.77	—	251,667,018.09	(36,773,780.18)	—	(182,598,075.69)	(1,199,725,175.99)	—
Notes receivable and accounts receivable	—	—	—	—	—	—	1,199,725,175.99	1,199,725,175.99
Contract assets	—	—	524,874,819.78	(45,839,192.41)	—	(16,583,679.53)	—	462,451,947.84
Other receivables	1,734,498,124.83	—	—	—	—	2,524,499.09	—	1,737,022,623.92
Other current assets	527,577,887.53	—	—	—	3,000,000.00	(1,100,000.00)	—	529,477,887.53

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in Accounting Policies and Accounting Estimates (Continued)

Changes in accounting policies (continued)

Changes in the cash flow items with asset-related government grants (continued)

	Book value presented according to the original standards	Impact of the New Standards for Revenue		Impact on bad-debt allowance for accounts receivable and contract assets under the New Standards for Revenue	Impact of the New Standards for Financial Instruments		Other impacts of changes in presenting methods of the financial statements	Book value presented according to the New Standards 1 January 2018
	31 December 2017	Reclassified	Re-measured	Revenue	Reclassified	Re-measured		2018
Available-for-sale financial assets	3,062,451,062.40	–	–	–	(3,062,451,062.40)	–	–	–
Long-term receivables	1,301,785,294.30	–	–	–	–	(10,727,801.22)	–	1,291,057,493.08
Deferred tax assets	718,579,066.08	–	83,264,532.67	18,673,492.89	–	50,256,245.55	–	870,773,337.19
Other non-current assets	3,960,574,126.00	–	–	–	(193,950,000.00)	(13,852,448.52)	–	3,752,771,677.48
Other non-current financial assets	–	–	–	–	298,350,000.00	–	–	298,350,000.00
Other equity instrument investments	–	–	–	–	2,958,051,062.40	319,155,866.48	–	3,277,206,928.88
Advance from customers	3,068,282,301.16	(1,714,807,071.71)	–	–	–	–	–	1,353,475,229.45
Interests payable	178,691,354.69	–	–	–	–	–	(178,691,354.69)	–
Dividends payable	61,960,000.00	–	–	–	–	–	(61,960,000.00)	–
Other payables	7,338,709,537.17	–	–	–	–	–	(240,651,354.69)	7,098,058,182.48
Contract liabilities	–	1,714,807,071.71	204,210,494.50	–	–	–	–	1,919,017,566.21
Other current liabilities	–	–	117,853,208.62	–	–	–	–	117,853,208.62
Deferred tax liabilities	9,714,400,823.89	–	–	–	–	58,286,270.12	–	9,772,687,094.01
Other non-current liabilities	2,774,520,500.00	–	1,261,760,702.61	–	–	–	–	4,036,281,202.61
Other comprehensive income	1,562,965,633.10	–	–	–	(146,800,202.48)	260,869,596.36	–	1,677,035,026.98
Minority interests	3,505,201,438.50	–	–	–	–	(370,344.50)	–	3,504,831,094.00
Retained earnings attributable to owners of the Company	28,254,693,080.77	–	(724,018,035.19)	(63,939,479.70)	146,800,202.48	(171,710,915.82)	–	27,441,824,852.54

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in Accounting Policies and Accounting Estimates (Continued)

Changes in accounting policies (continued)

Major impacts of the retrospective adjustment arising from the changes in the accounting policies stated above on the financial statements are as follows: (continued)

2018

The Company

	Book value presented according to the original standards	Impact of the New Standards for Revenue	Impact on bad-debt allowance for accounts receivable and contract assets under the New Standards for Revenue	Impact of the New Standards for Financial Instruments	Other impacts of changes in presenting methods of the financial statements	Book value presented according to the New Standards		
	31 December 2017	Reclassified	Re-measured	Reclassified	Re-measured	1 January 2018		
Accounts receivable	484,757,225.91	—	263,479,656.21	(26,707,858.75)	—	(177,334,527.78)	(544,194,495.43)	—
Notes receivable and accounts receivable	—	—	—	—	—	—	544,194,495.43	544,194,495.43
Contract assets	—	—	366,040,287.80	(38,781,619.09)	—	(14,641,611.51)	—	312,617,057.20
Available-for-sale financial assets	669,543,221.29	—	—	—	(669,543,221.29)	—	—	—
Long-term receivables	808,560,382.87	—	—	—	—	(6,581,124.17)	—	801,979,258.70
Deferred tax assets	384,913,111.65	—	3,089,233.18	20,032,772.34	—	39,339,603.86	—	447,374,721.03
Other non-current assets	1,908,490,377.66	—	—	—	—	(1,323,850.00)	—	1,907,166,527.66
Other equity instrument investments	—	—	—	—	669,543,221.29	68,366,974.65	—	737,910,195.94
Advance from customers	731,167,637.28	(392,500,000.00)	—	—	—	—	—	338,667,637.28
Interests payable	—	—	—	—	—	—	—	—
Dividends payable	—	—	—	—	—	—	—	—
Other payables	11,791,290,877.78	—	—	—	—	—	—	—
Contract liabilities	—	392,500,000.00	43,735,936.45	—	—	—	—	436,235,936.45
Other current liabilities	—	—	21,123,701.21	—	—	—	—	21,123,701.21
Deferred tax liabilities	—	—	—	—	—	17,091,743.66	—	17,091,743.66
Other non-current liabilities	304,520,500.00	—	547,342,404.07	—	—	—	—	851,862,904.07
Other comprehensive income	—	—	—	—	—	51,275,230.99	—	51,275,230.99
Retained earnings attributable to owners of the Company	4,470,604,335.68	—	(179,662,349.06)	(45,456,705.51)	—	(160,541,509.60)	—	4,285,013,256.04

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

IV. TAXATION

1. Major Categories of Tax and Tax Rate

Value-added tax (VAT)	—	<p>Rental income: Before 1 May 2018, output VAT was calculated as per 5% (simple taxation conditions should be met) or 11% of the taxable income; after 1 May 2018, output VAT was calculated as per 10% of the taxable income;</p> <p>Income from modern service industry: (including entrusted management service and project management and consulting): output VAT is calculated as per 6% of the taxable income;</p> <p>Income from construction services: Before 1 May 2018, output VAT was calculated as per 3% (simple taxation conditions should be met) or 11% of the taxable income; after 1 May 2018, output VAT was calculated as per 10% of the taxable income;</p> <p>Revenue from sales of goods: Before 1 May 2018, output VAT was calculated as per 17% of the taxable income; after 1 May 2018, output VAT was calculated as per 16% of the taxable income;</p> <p>For the output VAT calculated above, the Group may pay VAT after deducting deductible input VAT for the current period apart from simple calculation and payment.</p> <p>Small-scale taxpayers should pay VAT as per 3% of the taxable income.</p>
Urban maintenance and construction tax	—	<p>It is levied as per the turnover taxes actually paid: For city urban area, tax rate is 7%; for county town, tax rate is 5%; for other areas, tax rate is 1%.</p>
Enterprise income tax	—	<p>It is levied at 25% of the taxable income, except for the subsidiaries subject to tax preference.</p>
Property tax	—	<p>For properties subject to price-based taxation, tax should be paid based on the residual value of the property approved by the tax authorities at a rate of 1.2%; for properties subject to taxation based on rental income, tax should be paid based on the rental income at a rate of 12%. Property tax is declared and paid by the Company and its subsidiaries on their own.</p>
Land use tax	—	<p>Paid as actual tax rate.</p>
Stamp duty	—	<p>Paid as actual tax rate.</p>

All the overseas subsidiaries of the Company (including Hong Kong Special Administrative Region of the PRC) should calculate and pay taxes as per the applicable categories of tax and tax rate required by local tax laws.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

IV. TAXATION (CONTINUED)

2. Tax Preference

Pursuant to Cai Shui [2011] No. 58 Notice on the Taxation Policies for Deepening the Implementation of the Western Development Strategy (《關於深入實施西部大開發戰略有關稅收政策問題的通知》) and Announcement of Taxation on Issues concerning Enterprise Income Tax in Deepening the Implementation of the Western Development Strategy (《關於深入實施西部大開發戰略有關企業所得稅問題的公告》) (SAT [2012] No. 12), Chengdu Red Star Macalline Xinnan Business Management Company Limited (成都紅星美凱龍新南商業管理有限公司), Chongqing Red Star Macalline Shibo Home Living Plaza Company Limited, Chongqing Red Star Macalline Global Home Furnishing Plaza Company Limited, Chengdu Red Star Ogloria Brand Management Company Limited, Red Star Macalline Chengdu Business Management Company Limited, and Red Star Macalline Chengdu Enterprise Management and Consultancy Company Limited are entitled to the enterprise income tax preference policy, and in 2018 and 2017, were subject to a tax rate of 15% upon approval by competent tax authorities as they met relevant conditions.

Red Star Xizhao Investment Company Limited, Red Star Macalline Home Furnishing Mall Management Company Limited, Red Star Zhongying Investment Company Limited (紅星眾盈投資有限公司) and Tibet Red Star Macalline Enterprise Management Company Limited (西藏紅星美凱龍企業管理有限公司) under the Company are entitled to enterprise income tax preference policy and are subject to a tax rate of 15% for the year pursuant to Zangzhengfa [2014] No. 51 Notice Issued by the People's Government of the Tibet Autonomous Region Regarding the Publication of Implementation Rules of Enterprise Income Tax Policy of the Tibet Autonomous Region.

Red Star Macalline Enterprise Management and Consultancy Company Limited (紅星美凱龍企業管理諮詢有限公司), Red Star Ogloria Enterprise Management Company Limited (紅星歐麗洛雅企業管理有限公司) and Khorgos Red Star Macalline Business Management Company Limited (霍爾果斯紅星美凱龍商業管理有限公司), Khorgos Hongju Corporate Management Co., Ltd. (霍爾果斯紅居企業管理有限公司) and Khorgos Yarui Venture Capital Company Limited (霍爾果斯雅睿創業投資有限公司) under the Company are temporarily exempt from enterprise income tax in 2018 pursuant to the Cai Shui [2011] No. 112 Notice on Corporate Income Tax Preferential Policy in the Kashi and Khorgos Special Economic Development Zones in Xinjiang (關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知) and Cai Shui [2016] No. 85 Notice on Improving Xinjiang Depressed Region and Encouraged Development Industries Enterprise Income Tax Incentives Directory (關於完善新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄的通知).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

	2018	2017
Cash on hand	46,557,254.36	47,859,870.87
Bank deposits	7,846,159,974.33	10,315,657,179.08
Other cash and bank	634,890,736.23	263,400,738.59
	8,527,607,964.92	10,626,917,788.54

As at 31 December 2018, in the Group's other cash and bank, RMB80,000,000.00 was used to obtain RMB76,000,000.00 (31 December 2017: RMB32,262,664.29) long-term borrowing pledges from Huaxia Bank, for a term of 1 year; RMB114,002,046.63 (31 December 2017: RMB16,032,670.36) was deposits; RMB206,424,957.55 (31 December 2017: RMB205,655,403.94) was deposit reserve placed with the People's Bank of China by Red Star Macalline Home Furnishing Group Finance Company Limited, a subsidiary of the Group; RMB209,000,000.00 (31 December 2017: RMB9,450,000.00) was frozen by the Court, and such amount cannot be freely withdrawn, RMB25,463,732.05 (31 December 2017: nil) was deposited investment fund placed with securities households.

As at 31 December 2018, the Group's cash and bank deposited overseas was RMB26,563,789.57 (31 December 2017: RMB248,506,719.06).

As at 31 December 2018, the Group's time deposits with maturity of more than three months amounted to RMB278,230,000.00 (31 December 2017: RMB94,223,310.50).

Interest income earned on current deposits is calculated by using the current deposit interest rate. The deposit periods for term time deposits vary from 7 days to 60 months depending on the cash requirements of the Group and earn interest at the respective deposit rates.

When preparing the cash flow statement, the aforesaid restricted other cash and bank and time deposits with maturity of more than three months were excluded from cash and cash equivalents.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Financial Assets Held for Trading (Only Applicable to 2018)

	2018
Financial assets at fair value through profit or loss	
Equity instrument investments	184,031,019.87
Debt instrument investments	52,225,200.00
	236,256,219.87

3. Notes Receivable and Accounts Receivable

	2018	2017
Notes receivable	—	3,000,000.00
Accounts receivable	2,838,666,935.49	1,934,182,197.46
Less: Allowance for bad debts	1,150,748,350.73	766,752,183.69
	1,687,918,584.76	1,170,430,013.77

Notes Receivable

	2018	2017
Bank acceptances	—	3,000,000.00

Notes receivable endorsed or discounted but undue at the balance sheet date were as follows (31 December 2017: nil)

	2018	
	Derecognized	Not derecognized
Bank acceptances	221,400,000.00	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable

Aging analysis of the accounts receivable is as follows:

	2018	2017
Within 1 year	1,149,413,740.85	752,264,745.72
1 to 2 year	499,675,999.32	278,218,511.10
2 to 3 year	277,187,370.23	87,388,124.11
Over 3 year	912,389,825.09	816,310,816.53
Less: Allowance for bad debts in relation to accounts receivable	1,150,748,350.73	766,752,183.69
	1,687,918,584.76	1,167,430,013.77

The movement of allowance for bad debts in relation to accounts receivable are as follows:

	Balance for the previous year	Others (note 1)	Provision for the current year	Reversal for the current year	Written-off for the current year	Closing balance
2018	766,752,183.69	219,371,855.87	183,246,374.86	17,461,239.03	1,160,824.66	1,150,748,350.73
2017	620,348,946.36	—	152,123,237.33	5,720,000.00	—	766,752,183.69

Note 1: Refers to the impacted amount of allowance for bad debts at the beginning of the year under the implementation of the New Standards for Financial Instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

	2018			
	Book balance		Allowance for bad debts	
	Amount	Percentage (%)	Amount	Proportion (%)
Receivables for which bad debts are provided individually	902,007,709.64	31.78	851,684,477.71	94.42
Receivables for which provision for bad debt is recognized by group with distinctive credit risk	1,936,659,225.85	68.22	299,063,873.02	15.44
	2,838,666,935.49	100.00	1,150,748,350.73	40.54

	2017			
	Book balance		Allowance for bad debts	
	Amount	Percentage (%)	Amount	Proportion (%)
Account receivables of significant individual amount and individually provided for bad debts	655,902,174.73	33.91	547,912,155.26	83.54
Account receivables for which provision for bad debts is recognized by group with distinctive credit risk characteristic	1,166,371,380.93	60.30	109,412,710.50	9.38
Account receivables of insignificant individual amount but individually provided for bad debts	111,908,641.80	5.79	109,427,317.93	97.78
	1,934,182,197.46	100.00	766,752,183.69	39.64

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Accounts receivable for which bad debts are provided individually as at 31 December 2018 are as follows:

	Book balance	Bad debt allowance	Expected credit loss rate (%)	Reason for provision
Changzhou Wujin Construction Engineering Co., Ltd. (常州市武進建設工程有限公司)	55,000,000.00	55,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
The Second Construction Group Corporation Limited of Yancheng Jiangsu (江蘇鹽城二建集團有限公司)	30,600,000.00	30,600,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jiangsu Construction Group Co., Ltd. (江蘇省建築工程集團有限公司)	26,000,000.00	23,000,000.00	88.46	Part of the accounts receivable are expected to be unrecoverable
Guangxi Shengli Decoration Engineering Co. Ltd. (廣西晟力裝飾工程有限公司)	24,000,000.00	16,169,863.02	67.37	Part of the accounts receivable are expected to be unrecoverable
Guizhou Jinyuan Huafu Property Co., Ltd. (貴州金源華府置業有限公司)	23,000,000.00	23,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jiangsu Golden Pecker Decoration Engineering Co., Ltd. (江蘇金啄木裝飾工程有限公司)	22,000,000.00	7,317,123.29	33.26	Part of the accounts receivable are expected to be unrecoverable
Xuanwei Xintiandi Real Estate Development Co., Ltd. (宣城市新天地房地產開發有限公司)	20,000,000.00	20,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Fuqing Xingrong Real Estate Co., Ltd. (福清市星融置業有限公司)	17,000,000.00	17,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Shaanxi Jinxiong Industry and Trade Co., Ltd. (陝西錦雄工貿有限公司)	16,500,000.00	16,500,000.00	100.00	Accounts receivable are expected to be unrecoverable.
Jiangsu Jiangdu Construction Group Co., Ltd. (江蘇江都建設集團有限公司)	16,000,000.00	16,000,000.00	100.00	Accounts receivable are expected to be unrecoverable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Accounts receivable for which bad debts are provided individually as at 31 December 2018 are as follows:
(continued)

	Book balance	Bad debt allowance	Expected credit loss rate (%)	Reason for provision
Tonghua Kailong Real Estate Development Company Limited (通化市凱龍房地產開發有限公司)	15,200,000.00	15,200,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jiangsu Jiangzhong Group Company Limited (江蘇江中集團有限公司)	15,000,000.00	15,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Xichang Hongbo Real Estate Co., Ltd. (西昌市鴻博置業有限公司)	15,000,000.00	10,000,000.00	66.67	Part of the accounts receivable are expected to be unrecoverable
Mudanjiang Changxing Real Estate Co., Ltd. (牡丹江昌星置業股份有限公司)	15,000,000.00	15,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Tongliao Wanjiayu Commerce and Trade Co., Ltd. (通遼市萬家福商貿有限公司)	14,600,000.00	14,600,000.00	100.00	Accounts receivable are expected to be unrecoverable
Inner Mongolia Hongtai Real Estate Development Co., Ltd. (內蒙古宏泰房地產開發有限公司)	14,000,000.00	14,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Bozhou Yidu Real Estate Co., Ltd. (亳州億都置業有限公司)	14,000,000.00	14,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Xuchang Fengtai Real Estate Company Limited (許昌豐泰地產有限公司)	13,500,000.00	13,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Shanghai Jiazhan Construction Engineering Company Limited (上海嘉展建築裝潢工程有限公司)	13,000,000.00	13,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Guizhou Wanshang Real Estate Co., Ltd. (貴州萬商置業有限公司)	11,000,000.00	11,000,000.00	100.00	Accounts receivable are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Accounts receivable for which bad debts are provided individually as at 31 December 2018 are as follows:
(continued)

	Book balance	Bad debt allowance	Expected credit loss rate (%)	Reason for provision
Xianyang Lilai Real Estate Development Co., Ltd. (咸陽麗萊房地產開發有限公司)	10,500,000.00	10,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Tongren Jiacheng Real Estate Co., Ltd. (銅仁佳誠置業有限公司)	10,000,000.00	10,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Shanxi Xinghe Real Estate Development Co., Ltd. (山西星河房地產開發有限公司)	10,000,000.00	10,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Mengzixingding Commerce and Trade Co., Ltd. (蒙自星鼎商貿有限公司)	10,000,000.00	10,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Guangxi Yuanchen Hakka Cultural City Investment Co., Ltd. (廣西遠辰客家文化城投資有限公司)	10,000,000.00	10,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jiangsu Ruiibo Real Estate Development Co., Ltd. (江蘇睿博置業發展有限公司)	10,000,000.00	10,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Hunan Jinluowan Real Estate Co., Ltd. (湖南金羅灣置業有限公司)	10,000,000.00	10,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Gansu Xinghong Real Estate Development Co., Ltd. (甘肅星泓房地產開發有限公司)	10,000,000.00	10,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Hubei Outlets Investment Development Co., Ltd. (湖北奧特萊斯投資發展有限公司)	10,000,000.00	10,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Hubei Meihong Real Estate Co., Ltd. (湖北美弘置業有限公司)	9,750,000.00	9,750,000.00	100.00	Accounts receivable are expected to be unrecoverable
Guangzhou City Huan Bo Exhibition Company Limited (廣州市環博展覽有限公司)	9,666,667.68	9,666,667.68	100.00	Accounts receivable are expected to be unrecoverable
Yangquan Haomen Real Estate Development Co., Ltd. (陽泉市豪門房地產開發有限公司)	9,203,503.34	9,203,503.34	100.00	Accounts receivable are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Accounts receivable for which bad debts are provided individually as at 31 December 2018 are as follows:
(continued)

	Book balance	Bad debt allowance	Expected credit loss rate (%)	Reason for provision
Yong'an Haoyuan Real Estate Co., Ltd. (永安市昊元置業有限公司)	9,000,000.00	9,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jiangsu Jindu Property Co., Ltd. (江蘇金都置業有限公司)	8,500,000.00	8,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Wenzhou Red Star International Home Furnishing Plaza Company Limited (溫州紅星國際家居廣場有限公司)	8,465,479.46	8,465,479.46	100.00	Accounts receivable are expected to be unrecoverable
Yantai Beifang Wenzhoucheng Development Co., Ltd. (煙台北方溫州城開發有限公司)	8,102,533.34	8,102,533.34	100.00	Accounts receivable are expected to be unrecoverable
Leshan Wutongqiao District Tiancheng Trading Company (樂山市五通橋區天成商貿有限公司)	8,000,000.00	8,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Guizhou Wanjin Real Estate Company Limited (貴州萬晉置業有限公司)	8,000,000.00	8,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Guizhou Lingzhi Agricultural Group Real Estate Co., Ltd. (貴州靈智農業集團置業有限公司)	8,000,000.00	8,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Anhui Kaiyue Real Estate Development Co., Ltd. (安徽凱越房地產開發有限公司)	7,500,000.00	7,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jingxian Shenxin Property Co., Ltd. (涇縣申鑫置業有限公司)	7,500,000.00	7,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Shanxi Guangyu Investment Group Co., Ltd. (山西光宇投資集團有限公司)	7,500,000.00	7,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jiangxi Lixin Property Investment Group Co., Ltd. (江西立信置業投資集團有限公司)	7,500,000.00	7,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Hangzhou Wenhua Real Estate Co., Ltd. (杭州文華置業有限公司)	7,500,000.00	7,500,000.00	100.00	Accounts receivable are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Accounts receivable for which bad debts are provided individually as at 31 December 2018 are as follows:
(continued)

	Book balance	Bad debt allowance	Expected credit loss rate (%)	Reason for provision
Binzhou Yisen Real Estate Development Co., Ltd. (濱州怡森房地產開發有限公司)	7,451,000.00	6,201,000.00	83.22	Part of the accounts receivable are expected to be unrecoverable
Tea Bohui Investment Co., Ltd. (茶博匯投資有限公司)	7,000,000.00	7,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Ningde Lianxin Real Estate Co., Ltd. (寧德聯信置業有限公司)	7,000,000.00	7,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Hebei Jingao Real Estate Development Co., Ltd. (河北景奧房地產開發有限公司)	7,000,000.00	7,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Shenzhen Buji Sanlian Industrial Development Co., Ltd. (深圳市布吉三聯實業發展有限公司)	6,273,965.27	6,273,965.27	100.00	Accounts receivable are expected to be unrecoverable
Shenzhen Shengshi Julong Investment Co., Ltd. (深圳市盛世聚龍投資有限公司)	6,000,000.00	6,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jinzhong Tianhe Real Estate Development Co., Ltd. (晉中市天河房地產開發有限公司)	6,000,000.00	6,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Guizhou Ruiteng Commercial Operation Management Co., Ltd. (貴州瑞騰商業運營管理有限公司)	6,000,000.00	6,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Nantong Deer Logistics Co., Ltd. (南通德爾物流有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Songyuan Feiyu Home Furnishing Co., Ltd. (松原飛宇家居有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jiangxi Yongkang Property Co., Ltd. (江西永康置業有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Accounts receivable for which bad debts are provided individually as at 31 December 2018 are as follows:
(continued)

	Book balance	Bad debt allowance	Expected credit loss rate (%)	Reason for provision
Sanmenxia Xindu Real Estate Co., Ltd. (三門峽市鑫都置業有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jiangxi Wengan Industrial Development Co., Ltd. (江西溫贛實業發展有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Wuhan New Beacon Holdings Limited (武漢紐賓凱控股有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Chongqing Zhanlun Commercial Management Co., Ltd. (重慶展倫商業管理有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Zhejiang Ganghai Construction Group Co., Ltd. (浙江港海建設集團有限公司)	5,000,000.00	3,979,876.69	79.60	Part of the accounts receivable are expected to be unrecoverable
Shijiazhuang Runxin Real Estate Development Co., Ltd. (石家莊潤鑫房地產開發有限公司)	4,914,383.56	3,570,719.18	72.66	Part of the accounts receivable are expected to be unrecoverable
Hengyang Xingmei Real Estate Development Co., Ltd. (衡陽星美置業發展有限公司)	4,500,000.00	4,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Yuyao Chenglong Metal Materials Co., Ltd. (餘姚市成龍金屬材料有限公司)	4,000,000.00	4,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Chenzhou Donglin Hongzhixing Real Estate Development Co., Ltd. (郴州市東麟紅至星房地產開發有限公司)	4,000,000.00	4,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Chengde Kailong Real Estate Development Co., Ltd. (承德縣凱隆房地產開發有限公司)	4,000,000.00	4,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Anhui Wanshenglong Property Company Limited (安徽皖申隆置業有限公司)	4,000,000.00	4,000,000.00	100.00	Accounts receivable are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Accounts receivable for which bad debts are provided individually as at 31 December 2018 are as follows:
(continued)

	Book balance	Bad debt allowance	Expected credit loss rate (%)	Reason for provision
Baoding Fangbei Real Estate Development Co., Ltd. (保定方北房地產開發有限公司)	3,000,000.00	3,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Weifang Beida Technology Park Construction & Development Co., Ltd. (濰坊北大科技園建設開發有限公司)	3,000,000.00	3,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Korla Longxing Shiye Co., Ltd. (庫爾勒市龍興實業有限責任公司)	3,000,000.00	3,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Guizhou Jinmingda Real Estate Development Co., Ltd. (貴州金銘達房地產開發有限公司)	3,000,000.00	3,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Bole HuiFu Real Estate Development Co., Ltd. (博樂市匯富房地產開發有限公司)	3,000,000.00	3,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jining Haoheng Real Estate Development Co., Ltd. (濟寧浩恆房地產開發有限公司)	3,000,000.00	3,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Sanming Haixin Investment Co., Ltd. (三明市海鑫投資有限公司)	2,833,333.33	2,833,333.33	100.00	Accounts receivable are expected to be unrecoverable
Guizhou Jinyuanda Real Estate Development Co., Ltd. (貴州金源達房地產開發有限公司)	2,500,000.00	2,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Guiyang Putian Dejie Tongde Real Estate Development Co., Ltd. (貴陽普天德傑同德房地產開發有限公司)	2,500,000.00	2,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Hubei Dequan Lvgu Industrial Park Kaiye Co., Ltd. (湖北德荃綠谷產業園開業有限公司)	2,400,000.00	2,400,000.00	100.00	Accounts receivable are expected to be unrecoverable
Chengde Zhaotong Logistics Co., Ltd. (承德兆通物流有限責任公司)	2,220,000.00	2,220,000.00	100.00	Accounts receivable are expected to be unrecoverable
Yuyao Longding Commercial Plaza Co., Ltd.	2,000,000.00	1,800,000.00	90.00	Part of the accounts receivables are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Accounts receivable for which bad debts are provided individually as at 31 December 2018 are as follows:
(continued)

	Book balance	Bad debt allowance	Expected credit loss rate (%)	Reason for provision
Wenzhou Dong'ou Construction Group Co., Ltd. (溫州東甌建設集團有限公司)	2,000,000.00	2,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Yunnan Chuangsen Real Estate Development Co., Ltd. (雲南創森房地產開發有限公司)	2,000,000.00	2,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Inner Mongolia Wind Real Estate Co., Ltd. (內蒙古聞都置業有限責任公司)	2,000,000.00	2,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Kunming Hongkai Real Estate Development Co., Ltd. (昆明紅凱房地產開發有限公司)	2,000,000.00	2,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jiangsu Hurun Real Estate Co., Ltd. (江蘇滬潤置業有限公司)	1,800,000.00	1,800,000.00	100.00	Accounts receivable are expected to be unrecoverable
Zhejiang Yifeng Domestic Building Materials Co., Ltd. (浙江億豐商業投資管理有限公司)	1,696,721.31	1,696,721.31	100.00	Accounts receivable are expected to be unrecoverable
Zhangzhou Shengda Real Estate Development Co., Ltd. (漳州盛達房地產開發有限公司)	1,550,000.00	1,550,000.00	100.00	Accounts receivable are expected to be unrecoverable
Guangxi Guantong Real Estate Co., Ltd. (廣西貫通置業發展有限公司)	1,500,000.00	1,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Baotou Zhongyi Real Estate Co., Ltd. (包頭中益置業有限責任公司)	1,500,000.00	1,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Zhuzhou Xin'anju Property Co., Ltd. (株洲新安居置業有限公司)	1,000,000.00	1,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Tongliao Gao Di Real Estate Development Co., Ltd. (通遼高第房地產開發有限公司)	1,000,000.00	1,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Enshi Modern Home Furnishing Co., Ltd. (恩施州現代家居股份有限公司)	650,000.00	650,000.00	100.00	Accounts receivable are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Accounts receivable for which bad debts are provided individually as at 31 December 2018 are as follows:
(continued)

	Book balance	Bad debt allowance	Expected credit loss rate (%)	Reason for provision
Dalian Yijia House Development Group Co., Ltd. (大連益嘉房屋開發集團有限公司)	524,200.00	524,200.00	100.00	Accounts receivable are expected to be unrecoverable
Others	127,105,922.35	111,109,491.80	87.41	Part of the accounts receivables are expected to be unrecoverable
	902,007,709.64	851,684,477.71		

Accounts receivable that are individually significant and for which bad debts are provided for individually as at 31 December 2017 are as follows:

	Book balance	Bad debt allowance	Expected credit loss rate (%)	Reason for provision
Shijiazhuang Runxin Real Estate Development Co., Ltd. (石家莊潤鑫房地產開發有限公司)	55,914,383.56	13,841,438.36	24.75	Part of the accounts receivables are expected to be unrecoverable
Changzhou Wujin Construction Engineering Co., Ltd. (常州市武進建設工程有限公司)	55,000,000.00	55,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Guangxi Shengli Decoration Engineering Co. Ltd. (廣西晟力裝飾工程有限公司)	54,000,000.00	30,000,000.00	55.56	Part of the accounts receivables are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Accounts receivable that are individually significant and for which bad debts are provided for individually as at 31 December 2017 are as follows: (continued)

	Book balance	Bad debt allowance	Expected credit loss rate (%)	Reason for provision
The Second Construction Group Corporation Limited of Yancheng Jiangsu (江蘇鹽城二建集團有限公司)	31,432,000.00	31,432,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jiangsu Provincial Construction Group Co., Ltd. (江蘇省建築工程集團有限公司)	31,000,000.00	14,071,232.88	45.39	Part of the accounts receivables are expected to be unrecoverable
Jiangsu Jiangzhong Group Company Limited (江蘇江中集團有限公司)	30,000,000.00	30,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jiangsu Golden Pecker Decoration Engineering Co., Ltd. (江蘇金啄木裝飾工程有限公司)	22,000,000.00	4,590,753.42	20.87	Part of the accounts receivables are expected to be unrecoverable
Fuqing Xingrong Real Estate Co., Ltd. (福清市星融置業有限公司)	17,000,000.00	17,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Tonghua Kailong Real Estate Development Company Limited. (通化市凱龍房地產開發有限公司)	16,232,137.90	15,282,137.90	94.15	Part of the accounts receivables are expected to be unrecoverable
Jiangsu Jiangdu Construction Group Co., Ltd. (江蘇江都建設集團有限公司)	16,000,000.00	16,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Shanghai Jiazhan Construction Engineering Company Limited (上海嘉展建築裝潢工程有限公司)	13,000,000.00	13,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jiangxi Lixin Property Investment Group Co., Ltd (江西立信置業投資集團有限公司)	11,500,000.00	11,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Guizhou Lingzhi Agricultural Group Real Estate Co., Ltd. (貴州靈智農業集團置業有限公司)	11,250,000.00	10,350,000.00	92.00	Part of the accounts receivables are expected to be unrecoverable
Guizhou Wanshang Real Estate Co., Ltd. (貴州萬商置業有限公司)	11,000,000.00	11,000,000.00	100.00	Accounts receivable are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Accounts receivable that are individually significant and for which bad debts are provided for individually as at 31 December 2017 are as follows: (continued)

	Book balance	Bad debt allowance	Expected credit loss rate (%)	Reason for provision
Guangxi Yuanchen Hakka Cultural City Investment Co., Ltd. (廣西遠辰客家文化城投資有限公司)	10,000,000.00	10,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Nanning Runjia Real Estate Development Co., Ltd. (南寧潤嘉房地產開發有限公司)	10,000,000.00	10,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Guangzhou City Huan Bo Exhibition Company Limited (廣州市環博展覽有限公司)	9,666,667.68	9,666,667.68	100.00	Accounts receivable are expected to be unrecoverable
Yangquan Haomen Real Estate Development Co., Ltd. (陽泉市豪門房地產開發有限公司)	9,246,575.34	9,246,575.34	100.00	Accounts receivable are expected to be unrecoverable
Guizhou Jinyuan Huafu Property Co., Ltd. (貴州金源華府置業有限公司)	9,000,000.00	9,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Yantai Beifang Wenzhoucheng Development Co., Ltd. (煙台北方溫州城開發有限公司)	8,749,965.52	8,134,904.95	92.97	Part of the accounts receivables are expected to be unrecoverable
Wenzhou Honglian Home Furnishing Company Limited (溫州紅聯家居有限公司)	8,465,479.46	8,465,479.46	100.00	Accounts receivable are expected to be unrecoverable
Guizhou Wanjin Real Estate Company Limited (貴州萬晉置業有限公司)	8,000,000.00	8,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Anhui Kaiyue Real Estate Development Co., Ltd. (安徽凱越房地產開發有限公司)	7,500,000.00	7,500,000.00	100.00	Accounts receivable are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Accounts receivable that are individually significant and for which bad debts are provided for individually as at 31 December 2017 are as follows: (continued)

	Book balance	Bad debt allowance	Expected credit loss rate (%)	Reason for provision
Guizhou Jinyuanda Real Estate Development Co., Ltd. (貴州金源達房地產開發有限公司)	7,500,000.00	7,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Hangzhou Wenhua Real Estate Co., Ltd. (杭州文華置業有限公司)	7,500,000.00	7,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Shanxi Guangyu Investment Group Co., Ltd. (山西光宇投資集團有限公司)	7,500,000.00	7,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Hong Kong Royal Holdings Group Limited (香港皇室控股集團有限公司)	7,500,000.00	7,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Rizhao Huicheng Real Estate Co., Ltd. (日照市匯成置業有限公司)	7,500,000.00	6,300,000.00	84.00	Part of the accounts receivables are expected to be unrecoverable
Binzhou Yisen Real Estate Development Co., Ltd. (濱州怡森房地產開發有限公司)	7,451,000.00	5,076,000.00	68.13	Part of the accounts receivables are expected to be unrecoverable
Tea Bohui Investment Co., Ltd. (茶博匯投資有限公司)	7,000,000.00	7,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Ningde Lianxin Real Estate Co., Ltd. (寧德聯信置業有限公司)	7,000,000.00	7,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Guizhou Xinfeng Pharmaceutical Co., Ltd. (貴州新峰藥業有限公司)	6,870,000.00	6,043,500.00	87.97	Part of the accounts receivables are expected to be unrecoverable
Shaanxi Jinxiong Industry and Trade Co., Ltd. (陝西錦雄工貿有限公司)	6,500,000.00	6,500,000.00	100.00	Accounts receivable are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Accounts receivable that are individually significant and for which bad debts are provided for individually as at 31 December 2017 are as follows: (continued)

	Book balance	Bad debt allowance	Expected credit loss rate (%)	Reason for provision
Shenzhen Buji Sanlian Industrial Development Co., Ltd. (深圳市布吉三聯實業發展有限公司)	6,273,965.27	6,273,965.27	100.00	Accounts receivable are expected to be unrecoverable
Shanxi Xinghe Real Estate Development Co., Ltd. (山西星河房地產開發有限公司)	6,000,000.00	6,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Xuchang Fengtai Real Estate Company Limited (許昌豐泰地產有限公司)	6,000,000.00	6,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Yong'an Haoyuan Real Estate Co., Ltd. (永安市昊元置業有限公司)	6,000,000.00	6,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Yuyao Longding Commercial Plaza Co., Ltd. (餘姚市龍鼎商業廣場有限公司)	6,000,000.00	6,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Xiangfan Yuanchi Industrial Co., Ltd. (襄樊遠馳實業有限公司)	5,800,000.00	5,800,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jilin Province Songyuan Feiyu Real Estate Development Co., Ltd. (吉林省松原飛宇房地產開發有限公司)	5,750,000.00	5,037,500.00	87.61	Part of the accounts receivables are expected to be unrecoverable
Hebei Jingao Real Estate Development Co., Ltd. (河北景奧房地產開發有限公司)	5,500,000.00	5,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Wuhan New Beacon Holdings Limited. (武漢紐賓凱控股有限公司)	5,500,000.00	5,500,000.00	100.00	Accounts receivable are expected to be unrecoverable
Fenyi County Yongkang Real Estate Co., Ltd. (分宜縣永康置業有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Funan County Tianfu Property Development Co., Ltd. (阜南縣天阜置業發展有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Accounts receivable that are individually significant and for which bad debts are provided for individually as at 31 December 2017 are as follows: (continued)

	Book balance	Bad debt allowance	Expected credit loss rate (%)	Reason for provision
Jiangxi Wengan Industrial Development Co., Ltd. (江西溫贛實業發展有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jinzhong Tianhe Real Estate Development Co., Ltd. (晉中市天河房地產開發有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Leshan Wutongqiao District Tiancheng Trading Company (樂山市五通橋區天成商貿有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Mudanjiang Changxing Real Estate Co., Ltd. (牡丹江昌星置業股份有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Nantong Deer Logistics Co., Ltd. (南通德爾物流有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Sanmenxia Xindu Real Estate Co., Ltd. (三門峽市鑫都置業有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Shenzhen Zhongyi Shenfa Investment Development Co., Ltd. (深圳中溢申發投資發展有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Tongren Jiacheng Real Estate Co., Ltd. (銅仁佳誠置業有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Wuhan Zhifeng Real Estate Development Co., Ltd. (武漢致豐房地產開發有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Suzhou City Shengyuan Household Information Co., Ltd. (宿州市晟源家居信息有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Accounts receivable that are individually significant and for which bad debts are provided for individually as at 31 December 2017 are as follows: (continued)

	Book balance	Bad debt allowance	Expected credit loss rate (%)	Reason for provision
Yunnan Jindinggao Industrial Co., Ltd. (雲南金鼎高實業有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Zhejiang Ganghai Construction Group Co., Ltd. (浙江港海建設集團有限公司)	5,000,000.00	5,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Baoding Fangbei Real Estate Development Co., Ltd. (保定方北房地產開發有限公司)	3,000,000.00	3,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Jiangsu Hurun Real Estate Co., Ltd. (江蘇滬潤置業有限公司)	1,800,000.00	1,800,000.00	100.00	Accounts receivable are expected to be unrecoverable
	655,902,174.73	547,912,155.26		

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Details of the accounts receivable for which bad debt is provided by the Group according to aging analysis are as follows:

	Book balance expected to incur credit loss	2018 Expected credit loss rates	Lifetime expected credit loss
Portfolio I: Brand consulting and management services for the early stage of project			
Within 1 year	495,480,000.00	9.00%	44,593,200.00
1 to 2 years	262,720,218.09	14.00%	36,780,830.54
2 to 3 years	216,733,867.43	20.00%	43,346,773.49
3 to 4 years	118,200,000.00	31.50%	37,233,000.00
4 to 5 years	52,346,132.57	48.61%	25,447,254.75
5 to 6 years	14,000,000.00	61.83%	8,656,200.00
Over 6 years	15,500,000.00	100.00%	15,500,000.00
	1,174,980,218.09		211,557,258.78

	Book balance expected to incur credit loss	2018 Expected credit loss rates	Lifetime expected credit loss
Portfolio II: Construction and design services			
Within 1 year	362,663,261.56	11.28%	40,908,439.93
	362,663,261.56		40,908,439.93

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Details of the accounts receivable for which bad debt is provided by the Group according to aging analysis are as follows: (continued)

	Book balance expected to incur credit loss	2018 Expected credit loss rates	Lifetime expected credit loss
Portfolio III: Other consulting service			
Within 1 year	76,007,736.00	10.28%	7,816,860.22
1 to 2 years	90,091,981.97	17.65%	15,901,279.86
2 to 3 years	20,494,520.00	35.61%	7,298,836.37
3 to 4 years	6,306,000.00	100.00%	6,306,000.00
	<u>192,900,237.97</u>		<u>37,322,976.45</u>

	Book balance expected to incur credit loss	2018 Expected credit loss rates	Lifetime expected credit loss
Portfolio IV: rental and related service			
Within 1 year	31,380,914.89	4.50%	1,412,141.17
1 to 2 years	415,346.02	4.50%	18,690.57
	<u>31,796,260.91</u>		<u>1,430,831.74</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

Details of the accounts receivable for which bad debt is provided by the Group according to aging analysis are as follows: (continued)

	Book balance expected to incur credit loss	2018	
		Expected credit loss rates	Lifetime expected credit loss
Portfolio V: Others			
Within 1 year	156,381,828.40	4.50%	7,037,182.28
1 to 2 years	17,937,418.92	4.50%	807,183.84
	174,319,247.32		7,844,366.12

	Book balance	2017	
		Proportion of provision	Provision of bad debt
Within 1 year	752,264,745.72	5.00%	37,613,234.58
1 to 2 years	278,218,511.10	10.00%	27,821,851.10
2 to 3 years	87,388,124.11	20.00%	17,477,624.82
3 to 4 years	44,000,000.00	50.00%	22,000,000.00
Over 5 years	4,500,000.00	100.00%	4,500,000.00
	1,166,371,380.93		109,412,710.50

In 2018, the bad debt allowance was RMB183,246,374.86 (2017: RMB152,123,237.33), and the recovery or reversal of bad debt allowance was RMB17,461,239.03 (2017: RMB5,720,000.00).

In 2018, the actual written-off of accounts receivable was RMB1,160,824.66 (2017:nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes Receivable and Accounts Receivable (Continued)

Accounts receivable (continued)

As at 31 December 2018, the top five amount of accounts receivable is as follows:

	Closing balance	Proportion to total balance of accounts receivable (%)	Closing balance of bad debt allowance
Zhejiang Provincial Directly-Governed Construction Designing Institute (浙江省省直建築設計院)	156,959,944.94	5.53	17,705,081.79
Shandong Taishan Financial Industry Co. Ltd. (山東泰山財金實業有限公司)	69,600,000.00	2.45	7,850,880.00
Changzhou Wujin Construction Engineering Co., Ltd. (常州市武進建設工程有限公司)	55,000,000.00	1.94	55,000,000.00
Changzhou Red Star Plaza Business Management Co., Ltd (常州紅星廣場商業管理有限公司)	41,561,600.00	1.46	4,688,148.48
Chongqing Jinke Zhongjun Real Estate Development Co., Ltd (重慶金科中俊房地產開發有限公司)	33,545,140.00	1.18	3,783,891.79
	356,666,684.94	12.56	89,028,002.06

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Prepayments

Aging analysis of prepayments is as follows:

	2018		2017	
	Book balance	Proportion (%)	Book balance	Proportion (%)
Within 1 year	299,291,002.73	93.69	261,983,675.65	97.84
1 to 2 years	16,412,724.42	5.14	2,591,231.64	0.97
2 to 3 years	1,208,750.77	0.38	980,000.00	0.37
Over 3 years	2,524,825.79	0.79	2,222,200.00	0.82
	319,437,303.71	100.00	267,777,107.29	100.00

As at 31 December 2018, none of the Group's significant prepayments aged more than one year.

Top five prepayments by closing balance collection of prepaid targets:

Name of entity	Amount	Proportion to the total amount of prepayments (%)
Hunan Red Star Modern Market Management Co., Ltd. (湖南紅星現代市場經營有限責任公司)	26,670,000.00	8.35
Khorgas Wonderful Culture Media Co., Ltd. (霍爾果斯奇思妙想文化傳媒有限公司)	19,760,000.00	6.18
Beijing Zhongzhan Weihong Investment Management Company (北京中展偉宏投資管理公司)	10,000,000.00	3.13
IPE S.R.L.	8,737,353.81	2.74
Cheung Kong Graduate School of Business	7,000,000.00	2.19
	72,167,353.81	22.59

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Other Receivables

	2018	2017
Interest receivables	96,854,369.24	22,740,676.88
Other receivables	1,839,171,149.48	1,711,757,447.95
	1,936,025,518.72	1,734,498,124.83

Interest receivables

	2018	2017
Interest income from borrowings	78,807,287.13	30,000.00
Interest income on entrustment loans	13,878,401.63	16,379,295.59
Interest income from Interbank Deposits	4,071,204.74	112,714.63
Interest income from deposits with the central bank	97,475.74	6,218,666.66
	96,854,369.24	22,740,676.88

Other receivables

Aging analysis of other receivables is as follows:

	2018	2017
Within 1 year	1,492,530,358.23	1,497,188,547.63
1 to 2 years	262,905,952.51	70,743,772.57
2 to 3 years	46,751,118.81	47,306,697.25
Over 3 years	321,789,654.77	305,502,689.66
	1,839,171,149.48	1,711,757,447.95
Less: Bad debt allowance in relation to other receivables	284,805,934.84	208,984,259.16
	1,839,171,149.48	1,711,757,447.95

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Other Receivables (Continued)

Other receivables (continued)

The movements of bad debt allowance for other receivables based on 12-month expected credit loss and the lifetime expected credit loss, respectively, are as follows:

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Lifetime expected credit losses (Single evaluation)	Stage 2 Lifetime expected credit losses (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)
	125,758,428.17	—	—	159,047,506.67	284,805,934.84

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Other Receivables (Continued)

Other receivables (continued)

Significant changes on book balance of other receivables that affected the change in bad debt allowance this year include: (1) 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 losses (Single evaluation)	Stage 2 Lifetime expected credit losses (portfolio evaluation)	Stage 3 Credit-impaired financial assets (lifetime)	Total
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
	1,947,371,567.64	–	–	176,605,516.68	2,123,977,084.32

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Other Receivables (Continued)

Other receivables (continued)

	2017			
	Book balance	Bad debt allowance		Proportion (%)
	Amount	Percentage (%)	Amount	
Significant individual amount and individually provided for bad debts	93,162,035.06	4.85	92,922,856.72	99.74
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
Of which: Risk portfolio I	553,075,277.01	28.79	—	—
Risk portfolio II	254,910,612.43	13.27	12,745,530.62	5.00
Risk portfolio III	979,530,595.06	51.00	67,824,097.23	6.92
Insignificant individual amount but individually provided for bad debts	40,063,187.55	2.09	35,491,774.59	88.59
	1,920,741,707.11	100.00	208,984,259.16	10.88

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Other Receivables (Continued)

Other receivables (continued)

Other receivables that are individually significant and for which bad debts are provided for individually as at 31 December 2017 are as follows:

	Book balance	Bad debt allowance	Proportion (%)	Reason for provision
Ningbo Longkai Home Living Shopping Company Limited (寧波隆凱家居生活購物有限公司)	24,000,000.00	24,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Nan Dewei Investment Co., Ltd. (南德威投資有限公司)	16,781,457.96	16,781,457.96	100.00	Accounts receivable are expected to be unrecoverable
Shijiazhuang Runxin Real Estate Development Co., Ltd. (石家莊潤鑫房地產開發有限公司)	15,663,056.33	15,663,056.33	100.00	Accounts receivable are expected to be unrecoverable
Lizhuo Xingyu Entertainment Media Advertising (Beijing) Co., Ltd. (立卓興宇影視傳媒廣告(北京)有限公司)	14,045,187.00	14,045,187.00	100.00	Accounts receivable are expected to be unrecoverable
Weifang Kaili Property Company Limited (濰坊凱利置業有限公司)	12,000,000.00	12,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
Taiyuan Fairview Home Building Materials & Home Decoration Market Co., Ltd. (太原錦繡家園建材家居裝飾市場有限公司)	10,672,333.77	10,433,155.43	97.76	Part of the accounts receivable are expected to be unrecoverable
	93,162,035.06	92,922,856.72		

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Other Receivables (Continued)

Other receivables (continued)

Other receivables for which bad debt allowance is made by other methods are as follows:

	Book balance	2017 Proportion (%)	Bad debt allowance
Risk portfolio I			
Sales proceeds collected on behalf of the tenants	553,075,277.01	—	—

Other receivables for which bad debt allowance is made based on balance percentage method are as follows:

	Book balance	2017 Proportion (%)	Bad debt allowance
Risk portfolio II	254,910,612.43	5.00	12,745,530.62

For the risk portfolio III, other receivables for which the bad debt allowance is made based on aging percentage method by the Group are as follows:

	Book balance	2017 Proportion (%)	Bad debts allowance
Within 1 year	878,873,174.09	5	45,080,692.55
1 to 2 years	48,466,346.02	10	4,846,634.60
2 to 3 years	34,466,339.65	20	6,893,267.93
3 to 4 years	12,978,538.30	50	6,489,269.15
4 to 5 years	1,159,820.00	80	927,856.00
Over 5 years	3,586,377.00	100	3,586,377.00
	979,530,595.06	6.92	67,824,097.23

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Other Receivables (Continued)

Other receivables (continued)

The bad debt allowance in 2018 was RMB88,221,973.37 (2017: RMB100,339,476.76), and the recovery or reversal of bad debt allowance was RMB9,875,798.60.

Other receivables are classified by nature as follows:

	2018	2017
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
	1,839,171,149.48	1,711,757,447.95

Top five entities with the largest amounts of other receivables as at 31 December 2018 are as follows:

	Closing balance	Proportion of the total amount to other receivables (%)	Nature	Aging	Bad debt allowance
Handan Fengfengkuang District Royal Property Development Company Limited (邯鄲市峰峰礦區皇室房地產開發有限公司)	300,000,000.00	14.12	Loan and advances	Within 1 year	23,282,996.53
CHE Jianxing (車建興)	154,384,500.54	7.27	Compensation from Shareholder	Within 1 year	—
Shanghai Mingyi Enterprise Development Co., Ltd. (上海名藝商業企業發展有限公司)	112,200,000.50	5.28	Loan and advances	Over 5 years	5,610,000.03
Chengdu Great-wall Industrial Group Limited (成都長城實業集團有限公司)	75,471,309.69	3.55	Loan and advances	Within 2 years	3,773,565.48
Huaihua Xingqi Real Estate Development Construction Co., Ltd. (懷化星旗房地產開發建設有限公司)	36,000,000.00	1.69	Loan and advances	2 to 3 years	1,855,219.98
	678,055,810.73	31.91			34,521,782.02

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Other Receivables (Continued)

Other receivables (continued)

Top five entities with the largest amounts of other receivables as at 31 December 2017 are as follows:

	Closing balance	Proportion of the total amount to other receivables (%)	Nature	Aging	Bad debt allowance
Changzhou Dongfang New City Construction Co., Ltd. (常州東方新城建設有限公司)	372,910,000.00	19.41	Equity transfer	Within 1 year	18,645,500.00
Shanghai Mingyi Enterprise Development Co., Ltd. (上海名藝商業企業發展有限公司)	105,400,000.50	5.49	Borrowing	4 to 5 years	5,270,000.02
Changzhou Red Star Plaza Business Management Co., Ltd. (常州紅星廣場商業管理有限公司)	90,320,920.55	4.70	Borrowing	Within 1 year	4,516,046.03
Huaihua Xingqi Real Estate Development Construction Co., Ltd. (懷化星旗房地產開發建設有限公司)	49,748,807.08	2.59	Borrowing	1 to 2 years	2,508,170.91
LIU Peng (劉鵬)	36,923,835.54	1.92	Borrowing	2 to 3 years	1,846,191.78
	655,303,563.67	34.11			32,785,908.74

6. Inventories

	2018			2017		
	Book balance	Impairment allowance	Book value	Book balance	Impairment allowance	Book value
Commodities in inventory	203,758,260.30	—	203,758,260.30	97,855,087.49	—	97,855,087.49
Low-value consumables	47,594,242.61	—	47,594,242.61	22,436,272.95	—	22,436,272.95
	251,352,502.91	—	251,352,502.91	120,291,360.44	—	120,291,360.44

As at the current year and the previous year, the Group has made no provision for inventory impairment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Contract Assets (Only for 2018)

	2018		Book value
	Book balance	Impairment allowance	
Construction and design	244,753,296.98	7,342,598.91	237,410,698.07
Charges for the brand consulting and management service for the early stage of the project	610,648,142.87	40,949,067.77	569,699,075.10
	855,401,439.85	48,291,666.68	807,109,773.17

Change in book value of contract asset during current period is primary due to the change of the estimated progress towards the satisfaction of the performance obligations.

Change in impairment allowance of contract asset is as follows:

	Opening balance	Others (Note)	Provision for current year	Reversal for current year	Written-off for current year	Closing balance
2018	—	62,422,871.94	7,342,598.91	21,473,804.17	—	48,291,666.68

Note: Refers to the impacted amount of bad debt allowance at the beginning of the year under the implementation of the New Standards for Financial Instruments.

Contract asset for which impairment allowance is made on aging analysis are as follows:

	2018		
	Book balance of expected credit losses	Expected credit loss rate (%)	Lifetime expected credit loss
Construction and design	244,753,296.98	3.00	7,342,598.91
Charges for the brand consulting and management service for the early stage of the project	610,648,142.87	6.70	40,949,067.77
	855,401,439.85	5.65	48,291,666.68

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Non-current Assets Due within One Year

	2018	2017
Entrusted loans	314,950,000.00	120,000,000.00

9. Other Current Assets

	2018	2017
Factoring receivables (Note 1)	522,880,200.00	—
Tax recoverable	466,767,976.32	274,577,887.53
Financial lease receivables (Note 2)	320,786,666.66	—
Entrusted loans (Note 3)	272,500,000.00	250,000,000.00
Notes receivable (Note 4)	55,000,000.00	—
Available-for-sale financial assets	—	3,000,000.00
	1,637,934,842.98	527,577,887.53

Note 1: Through the commercial factoring company that has been approved by the Shanghai Municipal Commission of Commerce, the Group conducted commercial factoring business since 2018.

Note 2: Financial lease receivables from financial lease business of the Group in 2018 was RMB320,786,666.66. As at 31 December 2018, the unrealized financial income in the above-mentioned financial lease receivables was RMB21,525,700.00 (31 December 2017: Nil).

Note 3: The entrusted loan granted to Zhejiang Borui Holding Group Company Limited by the Group had an interest rate of 8.00% and the principal of borrowings amounted to RMB108,900,000.00 as at the end of the year, with the term from November 2018 to November 2019, all of which were accounted as other current assets as at the end of the year;

The entrusted loan granted to Hebei Zhuohang Real Estate Development Co., Ltd. by the Group had an interest rate of 10.00% and the principal of borrowings amounted to RMB59,400,000.00 as at the end of the year, with the term from March 2018 to March 2019;

The entrusted loan granted to Hancheng Xinding Real Estate Development Co., Ltd. by the Group had an interest rate of 9.00% and the principal of borrowings amounted to RMB49,500,000.00 as at the end of the year, with the term from September 2018 to September 2019;

The entrusted loan granted to Shenzhen Sampo Furniture Co., Ltd. by the Group had an interest rate of 11.88% and the principal of borrowings amounted to RMB24,700,000.00 as at the end of the year, with the term from February 2018 to February 2019;

The entrusted loan granted to Shanxi Yunjinsheng Technology Co., Ltd. by the Group had an interest rate of 12.00% and the principal of borrowings amounted to RMB30,000,000.00 as at the end of the year, with the term from December 2018 to December 2019.

Note 4: The Notes receivable were held by the Group within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and shall be classified as financial assets measured at fair value through other comprehensive income and represented as other current assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Other Current Assets (Continued)

The changes of bad debt allowance for other current assets are as follows:

	Balance for the previous year	Opening balance (Note)	Provision for the current year	Closing balance
2018	600,000.00	1,100,000.00	11,800,000.00	13,500,000.00
2017	481,463.27	—	118,536.73	600,000.00

Note: Refers to the impacted amount of bad debt allowance at the beginning of the year under the implementation of the New Standards for Financial Instruments.

10. Available-for-Sale Financial Assets (Only Applicable to 2017)

	Book balance	2017 Impairment allowance	Book value
Available-for-sale debt instruments	120,000,000.00	—	120,000,000.00
Available-for-sale equity instruments			
measured at fair value	2,200,652,330.85	—	2,200,652,330.85
measured at cost	888,598,934.03	146,800,202.48	741,798,731.55
	3,209,251,264.88	146,800,202.48	3,062,451,062.40

Available-for-sale financial assets measured at fair value:

	Available-for-sale equity instruments	2017 Available-for-sale debt instruments	Total
Cost of equity instruments/amortized cost of debt instruments	157,560,000.00	—	157,560,000.00
Fair value	2,200,652,330.85	—	2,200,652,330.85
Changes of fair value included in other comprehensive income	2,043,092,330.85	—	2,043,092,330.85
Amount of provision for impairment	—	—	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Available-for-Sale Financial Assets (Only Applicable to 2017) (Continued)

Available-for-sale financial assets measured at cost:

2017

Investee	Book balance				Impairment allowance			Closing balance	Proportion of shareholding (%)	Cash dividend for this year
	Opening balance	Increase for the year	Decrease for the year	Closing balance	Opening balance	Increase for the year	Decrease for the year			
Beijing Bluepower Technology Co., Ltd. (北京藍海華業科技股份有限公司)	44,151,221.29	—	—	44,151,221.29	—	—	—	—	/	—
Jinan Caijin Fosun Weishi Equity Investment Fund Joint Venture (LIMITED PARTNERSHIP) (濟南財金復星惟實股權投資基金合夥企業(有限合夥))	45,000,000.00	—	—	45,000,000.00	—	—	—	—	7.50%	—
Beijing Tingjandan Information Technology Co., Ltd. (北京停單單信息技術有限公司)	32,500,000.00	—	—	32,500,000.00	—	—	—	—	5.70%	—
Soccer World (Shanghai) Sports Development Co., Ltd. (索福德(上海)體育發展有限公司)	25,000,000.00	—	—	25,000,000.00	—	—	—	—	5.00%	—
Beijing Haozu Technology Development Co., Ltd. (北京好租科技發展有限公司)	20,000,000.00	—	—	20,000,000.00	—	—	—	—	2.60%	—
Guangdong Animation Cartoon Game Life Technology Co., Ltd. (廣州酷漫居動漫科技有限公司)	24,740,000.00	—	—	24,740,000.00	—	—	—	—	4.73%	—
Shanghai Harbour Home Investment Centre (LIMITED PARTNERSHIP) (上海海寓投資中心(有限合夥))	50,000,000.00	—	50,000,000.00	—	—	—	—	—	35.36%	—
Guangzhou Snimay Home Furnishing Co., Ltd. (廣州市詩尼曼家居有限公司)	—	33,610,000.00	—	33,610,000.00	—	—	—	—	4.99%	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Available-for-Sale Financial Assets (Only Applicable to 2017) (Continued)

Available-for-sale financial assets measured at cost: (continued)

2017 (continued)

Investee	Book balance				Impairment allowance			Closing balance	Proportion of shareholding (%)	Cash dividend for this year
	Opening balance	Increase for the year	Decrease for the year	Closing balance	Opening balance	Increase for the year	Decrease for the year			
Aupu Home Co., Ltd. (奧普家居股份有限公司)	–	240,527,474.60	–	240,527,474.60	–	–	–	–	4.24%	–
Oriental Standard Human Resources Holdings Limited	–	55,503,660.66	–	55,503,660.66	–	–	–	–	10.00%	–
Sinostone (Guangdong) Co., Ltd. (廣東中旗新材料科技有限公司)	–	32,980,000.00	–	32,980,000.00	–	–	–	–	4.85%	–
Keeson Technology Corporation Limited (麟盛科技股份有限公司)	–	75,430,875.00	–	75,430,875.00	–	–	–	–	4.50%	–
Foshan Junda Enterprise Management Co., Ltd. (佛山郡達企業管理有限公司)	–	20,607,000.00	–	20,607,000.00	–	–	–	–	19.00%	–
Shanghai Scholar Home Enterprise Management Consulting Centre (LIMITED PARTNERSHIP) (上海禮歙企業管理諮詢中心(有限合夥))	–	19,960,000.00	–	19,960,000.00	–	–	–	–	26.62%	–
YunDing Network Technology (Beijing) Co., Ltd. (雲丁網絡技術(北京)有限公司)	–	15,790,000.00	–	15,790,000.00	–	–	–	–	4.01%	–
Qingdao Yeelink Information Technology Co., Ltd. (青島億聯客信息技術有限公司)	–	14,700,000.00	–	14,700,000.00	–	–	–	–	5.00%	–
Xi'an Jiahexing Household Co., Ltd. (西安佳和興家居有限責任公司)	–	11,400,000.00	–	11,400,000.00	–	–	–	–	11.40%	–
Ningbo Longkai Home Living Shopping Company Limited (寧波隆凱家居生活購物有限公司)	138,225,202.48	–	–	138,225,202.48	122,225,202.48	16,000,000.00	–	138,225,202.48	20.00%	–
Others	29,450,000.00	9,273,500.00	250,000.00	38,473,500.00	–	8,575,000.00	–	8,575,000.00	/	–
	409,066,423.77	529,782,510.26	50,250,000.00	888,598,934.03	122,225,202.48	24,575,000.00	–	146,800,202.48	/	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Available-for-Sale Financial Assets (Only Applicable to 2017) (Continued)

Changes on impairment allowance for available-for-sale financial assets measured at cost are as follows:

	2017		Total
	Available-for-sale equity instruments	Available-for-sale debt instruments	
Impairment allowance at the beginning of the year	122,225,202.48	—	122,225,202.48
Provision for the year	24,575,000.00	—	24,575,000.00
Impairment allowance at the end of the year	146,800,202.48	—	146,800,202.48

11. Long-term Receivables

	2018		
	Book balance	Impairment allowance	Book value
Deposits (note 1)	192,430,066.30	(192,430.07)	192,237,636.23
Project loan (note 2)	1,517,530,859.86	(15,175,308.60)	1,502,355,551.26
Lease deposit	100,667,404.92	(100,667.40)	100,566,737.52
	1,810,628,331.08	(15,468,406.07)	1,795,159,925.01

	2017		
	Book balance	impairment allowance	Book value
Deposits (note 1)	160,192,806.30	—	160,192,806.30
Project loan (note 2)	1,047,335,102.98	—	1,047,335,102.98
Lease deposit	94,257,385.02	—	94,257,385.02
	1,301,785,294.30	—	1,301,785,294.30

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Long-term Receivables (Continued)

The changes on bad debt allowance made for long-term receivables in accordance with expected credit loss in the next 12 months and lifetime expected credit loss are as follows:

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Lifetime expected credit losses (single evaluation)	Stage 2 Lifetime expected credit losses (portfolio evaluation)	Stage 3 Credit-impaired financial assets (lifetime)	Total
Balance on 1 January 2018	—	—	—	—	—
Opening adjustments	10,727,801.22	—	—	—	10,727,801.22
Provision during the period	4,740,604.85	—	—	—	4,740,604.85
	15,468,406.07	—	—	—	15,468,406.07

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term Equity Investments

2018

	Opening balance	Increase in investment	Decrease in investment	Increase/decrease during the year						Carrying amounts at the end of year	Impairment allowance at the end of year
				Investment gain/loss under equity method	Other comprehensive income	Other changes to equity	Cash dividend declared	Provision made for impairment			
Joint ventures											
Chengdu Dongtai Shopping Mall Company Limited (成都東泰商城有限公司)	802,517,821.89	-	-	95,780,508.53	-	-	-	-	-	898,298,330.42	-
Shanghai Mingyi Enterprise Development Co., Ltd. (上海名藝商業企業發展有限公司)	19,733,335.25	-	-	21,278,661.38	-	-	-	-	-	41,011,996.63	-
Xiamen Baoxiang Red Star Macalline Home Furnishing Plaza Company Limited (廈門寶象紅星美凱龍家居生活廣場有限公司)	4,279,068.25	-	-	(3,555,120.84)	-	-	-	-	-	723,947.41	-
Nanchang Red Star Macalline Global Home Expo Center Co., Ltd. (南昌紅星美凱龍環球家居博覽中心有限責任公司)	27,000,000.00	-	-	(9,013,425.68)	-	-	-	-	-	17,986,574.32	-
Wuhu Red Star Macalline Equity Investment Fund Management Company Limited (蕪湖紅星美凱龍股權投資基金管理有限公司)	9,781,445.02	-	-	-	-	-	-	-	-	9,781,445.02	-
Shanghai Zhongmao Macalline Economic And Trade Development Co., Ltd. (上海中貿美凱龍經貿發展有限公司)	-	61,462,800.23	-	-	-	-	-	-	-	61,462,800.23	-
Yongqing Yintai New City Development Co., Ltd. (永清銀泰新城建設開發有限公司)	-	29,709,049.90	-	(11,428.32)	-	-	-	-	-	29,697,621.58	-

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term Equity Investments (Continued)

2018 (continued)

	Opening balance	Increase in investment	Decrease in investment	Increase/decrease during the year			Cash dividend declared	Provision made for impairment	Carrying amounts at the end of year	Impairment allowance at the end of year
				Investment gain/loss under equity method	Other comprehensive income	Other changes to equity				
Joint ventures (continued)										
Yongqing Yintong Construction And Development Co., Ltd. (永清銀通建設開發有限公司)	-	15,000,000.00	-	-	-	-	-	-	15,000,000.00	-
Shenzhen Red Star Macalline Business Management Company Limited (深圳紅星美凱龍商業管理有限公司)	-	180,000.00		(5,968.28)					174,031.72	
Associates										
Shenzhen Red Star Macalline Century Center Home Furnishing Plaza Company Limited (深圳紅星美凱龍世紀中心家居生活廣場有限公司)	45,255,063.01	-	(45,255,063.01)	-	-	-	-	-	-	-
Hangzhou Red Star Macalline Global Home Living Company Limited (杭州紅星美凱龍環球家居有限公司)	58,626,478.44	-	-	5,229,752.57	-	-	-	-	63,856,231.01	-
Meiwu 365 (Tianjin) Technology Company Limited (美屋三五(天津)科技有限公司)	17,900,796.13	-	-	(783,921.88)	-	-	-	-	17,116,874.25	-
Shanghai Reyi Network Technology Company Limited (上海熱一網絡科技有限公司)	5,274,701.29	-	(5,000,000.00)	(274,701.29)	-	-	-	-	-	-
Shanghai Jiazhan Construction Engineering Company Limited (上海嘉展建築裝潢工程有限公司)	7,304,104.60	-	-	330,718.29	-	-	-	-	7,634,822.89	-

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term Equity Investments (Continued)

2018 (continued)

	Opening balance	Increase in investment	Decrease in investment	Increase/decrease during the year			Cash dividend declared	Provision made for impairment	Carrying amounts at the end of year	Impairment allowance at the end of year
				Investment gain/loss under equity method	Other comprehensive income	Other changes to equity				
Associates (continued)										
Wuhan Zhengkai Logistics Co., Ltd. (武漢市正凱物流有限公司)	127,000,000.00	-	-	(16,825.42)	-	-	-	-	126,983,174.58	-
Haier Consume Financing Company Limited (海爾消費金融有限公司)	140,817,361.27	125,000,000.00	-	41,928,801.17	-	-	-	-	307,746,162.44	-
Klas International Home Living Company Limited (克拉斯國際家居有限公司)	60,732,340.93	-	-	7,402,829.38	-	-	-	-	68,135,170.31	-
ArtPollo Network Technology (Beijing) Company Limited (愛波羅網絡科技(北京)有限公司)	14,074,848.66	-	-	(474,854.12)	-	-	-	-	13,599,994.54	-
Shanghai Harbour Home Investment Management Co., Ltd. (上海灣寓投資管理有限公司)	750,000.00	-	-	(750,000.00)	-	23,066,408.08	-	-	23,066,408.08	-
Shanghai Tianhe Smart Home Technology Company Ltd. (上海天合智能科技股份有限公司)	59,983,419.00	-	-	3,797,894.54	-	-	-	-	63,781,313.54	-
Chengdu Jujatong Engineering Consultant Inc (成都居家通物流有限責任公司)	40,000,000.00	-	-	(3,025,584.64)	-	-	-	-	36,974,415.36	-
Ant live (Tianjin) Network Technology Co., Ltd. (犇安居(天津)網絡技術有限公司)	50,000,000.00	-	-	(4,797,961.55)	-	-	-	-	45,202,038.45	-
Shanghai UIOT Technology Company Limited (上海紫光樂聯物聯網絡科技有限公司)	23,988,527.38	-	-	1,650,943.07	-	-	-	-	25,639,470.45	-

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term Equity Investments (Continued)

2018 (continued)

	Opening balance	Increase in investment	Decrease in investment	Increase/decrease during the year			Cash dividend declared	Provision made for impairment	Carrying amounts at the end of year	Impairment allowance at the end of year
				Investment gain/loss under equity method	Other comprehensive income	Other changes to equity				
Associates (continued)										
Wuhu Meihe Asset Management Company Limited (蕪湖美和資產管理有限公司)										
	490,000.00	–	–	–	–	–	–	–	490,000.00	–
SUNSEAPARKING INC.										
	98,308,983.63	46,010,735.66	–	1,306,256.40	–	–	–	–	145,625,975.69	–
Shenyudao Cultural Tourism Holding Co., Ltd. (神玉島文化旅遊控股股份有限公司)										
	–	200,000,000.00	–	(5,236,546.49)	–	–	–	–	194,763,453.51	–
Qianzhi (Shanghai) Home Living Company Limited (乾智(上海)家居有限公司)										
	–	1,500,000.00	–	–	–	–	–	–	1,500,000.00	–
Shaanxi Red Star Heji Home Shopping Plaza Company Limited (陝西紅星和記家居購物廣場有限公司)										
	–	4,500,000.00	–	–	–	–	–	–	4,500,000.00	–
Guangzhou Huoshu Yinhua Information Technology Co., Ltd. (廣州火數銀花信息科技有限公司)										
	–	5,000,000.00	–	(124,731.30)	–	–	–	–	4,875,268.70	–
Shanghai Qiangshang Environmental Technology Company Limited (上海強尚環保科技有限公司)										
	–	30,000,000.00	–	985,316.61	–	–	–	–	30,985,316.61	–
Handan Fengfengkuang District Royal Property Development Company Limited (邯鄲市峰峰礦區皇室房地產開發有限公司)										
	–	10,000,000.00	–	–	–	–	–	–	10,000,000.00	–
Handan Red Star Royal Properties Co., Ltd. (邯鄲市紅星皇室置業有限公司)										
	–	4,000,000.00	–	–	–	–	–	–	4,000,000.00	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term Equity Investments (Continued)

2018 (continued)

	Opening balance	Increase in investment	Decrease in investment	Increase/decrease during the year			Cash dividend declared	Provision made for impairment	Carrying amounts at the end of year	Impairment allowance at the end of year
				Investment gain/loss under equity method	Other comprehensive income	Other changes to equity				
Guangdong Sanweijia Information Technology Co., Ltd. (廣東三維家信息科技有限公司)	-	180,302,200.00	-	(14,298,304.34)	-	-	-	-	166,003,895.66	-
Shenzhen Red Star Macalline Century Center Home Furnishing Plaza Company Limited (深圳紅星美凱龍世紀中心家居生活廣場有限公司)	-	1,850,000.00	-	40,361,841.58	-	-	(25,000,000.00)	-	17,211,841.58	-
Suzhou Supin Furniture Company Limited (蘇州市蘇品傢俱有限公司)	-	61,666,711.00	-	551,407.86	-	-	-	-	62,218,118.86	-
Beijing Canny-Robot Technology Co., Ltd.	-	13,200,000.00	-	16,093.81	-	-	-	-	13,216,093.81	-
Liaoning Cheng'an Construction Co., Ltd. (遼寧誠安建設有限公司)	-	60,000,000.00	-	2,031,744.40	-	-	-	-	62,031,744.40	-
Weifang Binxing Properties Co., Ltd. (濰坊濱星置業有限公司)	-	90,000,000.00	-	-	-	-	-	-	90,000,000.00	-
LEAWOD door and window profiles company	-	60,500,000.00	-	1,627,865.88	-	-	-	-	62,127,865.88	-
Zhejiang Zhongguang Electric Appliances Co., Ltd. (浙江中廣電器股份有限公司)	-	78,800,000.00	-	2,124,647.56	-	-	-	-	80,924,647.56	-
Shanghai Yibaimi Network Technology Company Limited (上海壹佰米網絡科技有限公司)	-	68,500,000.00	-	(6,145,356.51)	-	-	-	-	62,354,643.49	-

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term Equity Investments (Continued)

2018 (continued)

	Opening balance	Increase in investment	Decrease in investment	Increase/decrease during the year			Cash dividend declared	Provision made for impairment	Carrying amounts at the end of year	Impairment allowance at the end of year
				Investment gain/loss under equity method	Other comprehensive income	Other changes to equity				
Associates (continued)										
Jiangsu Baili Aijia Home Technology Co., Ltd. (江蘇佰麗愛家居科技有限公司)	-	30,000,000.00	-	683,610.39	-	-	-	-	30,683,610.39	-
Zhongshan Weifa Household Products Co., Ltd. (中山市威法家居製品有限公司)	-	80,000,000.00	-	5,491,488.31	-	-	-	-	85,491,488.31	-
Shenzhen Huasheng Home Furnishing Group Co., Ltd. (深圳華生大家居集團有限公司)	-	3,571,428.00	-	-	-	-	-	-	3,571,428.00	-
BigZone Information Technology (Shanghai) Company Limited (大域信息科技(上海)有限公司)	-	20,250,000.00	-	(597,087.18)	-	-	-	-	19,652,912.82	-
	1,613,818,294.75	1,281,002,924.79	(50,255,063.01)	183,468,563.89	-	23,066,408.08	(25,000,000.00)	-	3,026,101,128.50	-

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term Equity Investments (Continued)

2017

	Opening balance	Increase in investment	Increase/decrease during the year		Carrying amount at the end of the year
			Decrease in investment	Investment gain/loss under equity method Other	
Joint ventures					
Shanghai Mingyi Enterprise Development Co., Ltd. (上海名藝商業企業發展有限公司)	8,667,939.77	—	—	11,065,395.48	— 19,733,335.25
Chengdu Dongtai Shopping Mall Company Limited (成都東泰商城有限公司)	699,245,619.69	—	—	103,272,202.20	— 802,517,821.89
Wuhu Red Star Macalline Equity Investment Fund Management Company Limited (蕪湖紅星美凱龍股權投資基金管理有限公司)	10,000,000.00	—	—	(218,554.98)	— 9,781,445.02
Xiamen Baoxiang Red Star Macalline Home Furnishing Plaza Company Limited (廈門寶象紅星美凱龍家居生活廣場有限公司)	4,557,376.00	—	—	(278,307.75)	— 4,279,068.25
Nanchang Red Star Macalline Global Home Expo Center Co., Ltd. (南昌紅星美凱龍環球家居博覽中心有限責任公司)	—	27,000,000.00	—	—	— 27,000,000.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term Equity Investments (Continued)

2017 (continued)

	Opening balance	Increase in investment	Increase/decrease during the year			Carrying amount at the end of the year
			Decrease in investment	Investment gain/loss under equity method	Other	
Associates						
Shenzhen Red Star Macalline Century Center Home Furnishing Plaza Company Limited (深圳紅星美凱龍世紀中心家居生活廣場有限公司)						
	44,408,709.73	—	—	846,353.28	—	45,255,063.01
Haier Consume Financing Company Limited (海爾消費金融有限公司)						
	128,895,326.08	—	—	11,922,035.19	—	140,817,361.27
Wuhan Red Star Macalline Zhengda Logistics Company Limited (武漢紅星美凱龍正達物流有限公司)						
	19,119,602.56	—	(10,119,602.56)	—	(9,000,000.00)	—
Hangzhou Red Star Macalline Global Home Living Company Limited (杭州紅星美凱龍環球家居有限公司)						
	56,965,000.00	—	—	1,661,478.44	—	58,626,478.44
Meiwu 365 (Tianjin) Technology Company Limited (美屋三六五(天津)科技有限公司)						
	20,000,000.00	—	—	(2,099,203.87)	—	17,900,796.13
Shanghai Jiazhan Construction Engineering Company Limited (上海嘉展建築裝潢工程有限公司)						
	6,667,000.00	—	—	637,104.60	—	7,304,104.60
ArtPollo Network Technology (Beijing) Company Limited (愛菠蘿網絡科技(北京)有限公司)						
	14,120,000.00	—	—	(45,151.34)	—	14,074,848.66
Klas International Home Living Company Limited (克拉斯國際家居有限公司)						
	—	60,000,000.00	—	732,340.93	—	60,732,340.93
Shanghai Reyli Network Technology Company Limited (上海熱一網絡科技有限公司)						
	—	5,000,000.00	—	274,701.29	—	5,274,701.29
Wuhu Meihe Asset Management Company Limited (蕪湖美和資產管理有限公司)						
	—	490,000.00	—	—	—	490,000.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term Equity Investments (Continued)

2017 (continued)

	Opening balance	Increase in investment	Increase/decrease during the year		Carrying amount at the end of the year	
			Decrease in investment	Investment gain/loss under equity method Other		
Associates (continued)						
Shanghai UIOT Technology Company Limited (上海紫光樂聯物聯網科技有限公司)	—	22,500,000.00	—	1,488,527.38	—	23,988,527.38
Shanghai Tianhe Smart Home Technology Company Ltd. (上海天合智能科技股份有限公司)	—	59,983,419.00	—	—	—	59,983,419.00
Chengdu Jujiatong Engineering Consultant Inc (成都居家通物流有限責任公司)	—	40,000,000.00	—	—	—	40,000,000.00
Ant live (Tianjin) Network Technology Co., Ltd. (蟻安居(天津)網路技術有限公司)	—	50,000,000.00	—	—	—	50,000,000.00
Wuhan Zhengkai Logistics Co., Ltd. (武漢市正凱物流有限公司)	—	127,000,000.00	—	—	—	127,000,000.00
Shanghai Harbour Home Investment Management Co., Ltd. (上海灣寓投資管理有限公司)	—	750,000.00	—	—	—	750,000.00
SUNSEAPARKING INC.	—	98,308,983.63	—	—	—	98,308,983.63
	1,012,646,573.83	491,032,402.63	(10,119,602.56)	129,258,920.85	(9,000,000.00)	1,613,818,294.75

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term Equity Investments (Continued)

Other instructions

Joint ventures: Pursuant to the articles of association of the investees, significant events are required to obtain unanimous approval in general meetings, and therefore the Group and other shareholders have joint control over such investees. The Group accounts for it as a joint venture.

Associates: The Group has appointed representatives to the board of directors or similar power of authority of the investees, and is entitled to substantive participation and decision-making rights accordingly, and thereby having material influence over the investees. Therefore, the Group accounts for it as an associate.

There are no impairment allowances for long-term equity investments in 2018 (2017: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Other Equity Instrument Investments (Only Applicable to 2018)

2018

	Cost	Changes in fair value accumulated in other comprehensive income	Fair value	Dividend income in the year	
				Equity instruments derecognized during the year	Equity instruments held
Oppein Home Group Inc. (歐派家居集團股份有限公司)	142,594,709.42	1,242,545,153.50	1,385,139,862.92	—	17,375,061.00
Chengdu Xinchao Media Group Co., Ltd. (成都新潮傳媒集團有限公司)	200,000,000.00	64,909,000.00	264,909,000.00	—	—
AUPU Home Co., Ltd. (奧普家居股份有限公司)	240,527,474.60	18,560,064.09	259,087,538.69	—	1,509,995.52
Ningbo Meishan Bonded Port Area Qijun Equity Investment Partnership (LIMITED PARTNERSHIP) (寧波梅 山保稅港區奇君股權投資合夥企業 (有限合夥))	200,000,000.00	5,763,854.57	205,763,854.57	—	17,548,328.67
Keeson Technology Corporation Limited (麒盛科技股份有限公司)	75,430,875.00	62,418,314.44	137,849,189.44	—	—
Jinan Caijin Fosun Weishi Equity Investment Fund Joint Venture (LIMITED PARTNERSHIP) (濟南財 金復星惟實股權投資基金合夥企業 (有限合夥))	120,000,000.00	12,851,349.61	132,851,349.61	—	—
MengBaihe Home Furnishing Science & Technology Joint Stock Co., Ltd. (夢百合家居科技股份有限公司)	87,422,859.36	(11,786,859.36)	75,636,000.00	—	—
Oriental Standard Human Resources Holdings Limited	55,503,660.66	20,110,780.15	75,614,440.81	—	—
Beijing Bayi Space LCD Technology Co., Ltd. (北京八億時空液晶科技 股份有限公司)	85,437,352.00	(20,715,352.00)	64,722,000.00	—	—
Zhejiang Entive Intellectual Kitchen Electricity Co., Ltd (浙江億田智能廚電股份有限公司)	63,000,000.00	—	63,000,000.00	—	—
YunDing Network Technology (Beijing) Co., Ltd. (雲丁網路技術(北 京)有限公司)	15,790,000.00	46,887,130.19	62,677,130.19	—	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Other Equity Instrument Investments (Only Applicable to 2018) (Continued)

2018 (continued)

	Cost	Changes in fair value accumulated in other comprehensive income	Fair value	Dividend income in the year	
				Equity instruments derecognized during the year	Equity instruments held
Beijing Parking Easy Information Technology co.LTD (北京停簡單信息技術有限公司)	42,500,000.00	17,922,535.21	60,422,535.21	—	—
Guangzhou Snimay Home Furnishing Co., Ltd. (廣州市詩尼曼家居有限公司)	33,610,000.00	17,033,836.12	50,643,836.12	—	709,030.60
Sinostone (Guangdong) Co. Ltd (廣東中旗新材料科技有限公司)	32,980,000.00	17,629,624.25	50,609,624.25	—	—
Shanghai Scholar Home Enterprise Management Consulting Centre (LIMITED PARTNERSHIP) (上海禮敘企業管理諮詢中心(有限合夥))	19,960,000.00	20,167,892.60	40,127,892.60	—	—
Beijing Bilin Hongke Technology Company Limited (北京比鄰弘科科技有限公司)	40,000,000.00	—	40,000,000.00	—	—
Plus Space (Shanghai) International Corp. Ltd. (璞勒仕建築工程(上海)股份有限公司)	20,000,000.00	17,968,166.08	37,968,166.08	—	—
Beijing Bluepower Technology Co., Ltd. (北京藍海華業科技股份有限公司)	44,151,221.29	(11,835,597.29)	32,315,624.00	—	—
Beijing Haozu Technology Development Co., Ltd. (北京好租科技發展有限公司)	20,000,000.00	9,410,958.90	29,410,958.90	—	—
Zhejiang Xingyue Electric Equipment Co., Ltd (浙江星月電器有限公司)	28,942,000.00	—	28,942,000.00	—	—
Guangzhou Animation Cartoon Game Life Technology Co, Ltd. (廣州酷漫居動漫科技有限公司)	24,740,000.00	2,718,660.84	27,458,660.84	—	—
DESSMANN (China) Machinery & Electronic Co., Ltd. (德施曼機電(中國)有限公司)	21,700,000.00	1,906,811.40	23,606,811.40	—	—
Foshan Junda Enterprise Management Co., Ltd. (佛山郡達企業管理有限公司)	20,607,000.00	—	20,607,000.00	—	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Other Equity Instrument Investments (Only Applicable to 2018) (Continued)

2018 (continued)

	Cost	Changes in fair value accumulated in other comprehensive income	Fair value	Dividend income in the year	
				Equity instruments derecognized during the year	Equity instruments held
Harbin Sayyas Windows Stock Co., Ltd. (哈爾濱森鷹窗業股份有限公司)	22,372,350.00	(4,492,350.00)	17,880,000.00	—	—
Qingdao Yeelink Information Technology Co., Ltd. (青島億聯客 信息技術有限公司)	14,700,000.00	—	14,700,000.00	—	—
Hangzhou Water Show Culture GROUP Co., Ltd (杭州水秀文化集 團有限公司)	13,473,000.00	—	13,473,000.00	—	—
Black Sesame International Holding Limited	12,493,744.08	—	12,493,744.08	—	—
Xi'an Jiahexing Household Co., Ltd. (西安佳和興家居有限責任公司)	11,400,000.00	—	11,400,000.00	—	—
Soccer World (Shanghai) Sports Development Co., Ltd. (索福德上 海體育發展有限公司)	25,000,000.00	(15,006,122.85)	9,993,877.15	—	—
Wenzhou Honglian Home Living Company Limited (溫州紅聯家居有 限公司)	17,150,000.00	(8,575,000.00)	8,575,000.00	—	—
Ningbo Longkai Home Living Shopping Plaza Company Limited (寧波隆凱家居生活購物有限公司)	138,225,202.48	(138,225,202.48)	—	—	—
Others	37,643,500.00	7,225,870.71	44,869,370.71	—	—
	1,927,354,948.89	1,375,393,518.68	3,302,748,467.57	—	37,142,415.79

As the Group held the above investments not for the purpose of trading, thus the Group will appoint them as investments at FVTOCI.

The Group disposed other equity instrument investments of RMB175,107,162.74, and accumulated profit and loss totaling RMB164,401,529.65 were carried forward from other comprehensive income to retained income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Other Non-Current Financial Assets (Only Applicable to 2018)

	2018
Financial assets at FVTPL Equity interests with fixed income	324,850,000.00

15. Investment Property

Subsequent measurement by adopting the fair value model:

2018

	Houses and buildings	Properties under construction	Total
Opening balance	67,864,000,000.00	2,967,000,000.00	70,831,000,000.00
Purchase	643,631,281.17	2,205,289,554.33	2,848,920,835.50
Transfer from properties under construction to completed properties	165,000,000.00	(165,000,000.00)	—
Business combinations not involving enterprises under common control	736,177,185.50	—	736,177,185.50
Assets acquisition	1,530,222,806.01	766,506,055.54	2,296,728,861.55
Changes in fair value	864,968,727.32	955,204,390.13	1,820,173,117.45
Closing balance	71,804,000,000.00	6,729,000,000.00	78,533,000,000.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Investment Property (Continued)

2017

	Houses and buildings	Properties under construction	Total
Opening balance	62,062,000,000.00	4,886,000,000.00	66,948,000,000.00
Purchase	439,170,974.54	3,562,559,268.51	4,001,730,243.05
Transfer from properties under construction to completed properties	5,042,000,000.00	(5,042,000,000.00)	—
Business combinations not involving enterprises under common control	516,261,490.33	250,719,588.62	766,981,078.95
Disposal or retirement	2,304,000,000.00	577,900,016.30	2,881,900,016.30
Changes in fair value	2,108,567,535.13	(112,378,840.83)	1,996,188,694.30
	67,864,000,000.00	2,967,000,000.00	70,831,000,000.00

Such investment properties are rented to the third party under operating lease.

As at 31 December 2018, the investment properties valued RMB59,492,974,400.00 was held by the Group as security to acquire borrowings of RMB17,593,008,300.02. Please refer to Note (V) 64. Assets with Restricted Ownership or Use Right.

As at 31 December 2018, the investment properties at fair value of RMB1,555,000,000.00 held by the Group was located in the land with the use rights owned by project partners, which was used for scientific research and designs and whose type of use rights was for allocation use. Pursuant to relevant agreement entered into with project partners, the Group recognized the investment properties as investment properties leased by financial lease. The Group held no ownership certificate for such investment properties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Investment Property (Continued)

As at 31 December 2018, the investment properties with ownership certificate not settled are as follows:

	Carrying value	Reason for not yet settling ownership certificate
Shanghai Home Furnishing Expo	2,441,000,000.00	Application for ownership certificate is in progress
Nanjing International Home Living Plaza	1,489,000,000.00	Application for ownership certificate is in progress
Home Furnishing Shopping Mall Business Division of Dalian Red Star Macalline Investment Development Company Limited	1,229,000,000.00	Application for ownership certificate is in progress
Tianjin Home Furnishings Plaza	1,005,000,000.00	Application for ownership certificate is in progress
Changsha Yinhong Home Furnishing Plaza	833,000,000.00	Application for ownership certificate is in progress
Suzhou Mudu Mall	729,000,000.00	Application for ownership certificate is in progress
Chongqing Chayuan Plaza	528,000,000.00	Application for ownership certificate is in progress
Lanzhou Shibo Home Furnishing Plaza	441,000,000.00	Application for ownership certificate is in progress
Chongqing Zhongkun Home Living Plaza	323,000,000.00	Application for ownership certificate is in progress
Hangzhou Shibo Furniture Plaza	276,000,000.00	Application for ownership certificate is in progress
	9,294,000,000.00	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Fixed Assets

	2018		2017	
Fixed assets	192,418,042.50		158,862,688.00	
2018				
	Special equipment	Transportation equipment	Electronic equipment, appliances and fixtures	Total
Initial value				
Opening balance	23,386,540.68	135,132,898.04	234,362,847.49	392,882,286.21
Purchase	4,749,142.34	22,308,212.45	47,195,283.39	74,252,638.18
Transfer from construction in progress	—	—	15,591,518.40	15,591,518.40
Business combinations not involving enterprises under common control	—	2,898,472.00	6,140,486.08	9,038,958.08
Disposal or retirement	1,633,995.83	8,609,331.41	21,946,357.08	32,189,684.32
Closing balance	26,501,687.19	151,730,251.08	281,343,778.28	459,575,716.55
Accumulated depreciation				
Opening balance	2,609,667.09	90,101,807.75	141,308,123.37	234,019,598.21
Provision	1,605,786.02	13,385,221.44	38,844,136.13	53,835,143.59
Business combinations not involving enterprises under common control	—	2,708,423.40	4,977,042.65	7,685,466.05
Disposal or retirement	1,432,210.50	7,702,466.08	19,247,857.22	28,382,533.80
Closing balance	2,783,242.61	98,492,986.51	165,881,444.93	267,157,674.05
Carrying value				
Closing	23,718,444.58	53,237,264.57	115,462,333.35	192,418,042.50
Opening	20,776,873.59	45,031,090.29	93,054,724.12	158,862,688.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Fixed Assets (Continued)

2017

	Special equipment	Transportation equipment	Electronic equipment, appliances and fixtures	Total
Initial value				
Opening balance	23,734,818.98	119,535,484.35	239,887,312.80	383,157,616.13
Purchase	—	23,806,228.23	30,693,889.73	54,500,117.96
Transfer from construction in progress	—	—	14,444,926.42	14,444,926.42
Disposal or retirement	(348,278.30)	6,125,014.61	(10,330,265.96)	16,803,558.87
Decrease upon disposal of subsidiaries	—	2,083,799.93	(40,333,015.50)	42,416,815.43
Closing balance	23,386,540.68	135,132,898.04	234,362,847.49	392,882,286.21
Accumulated depreciation				
Opening balance	2,726,031.21	83,435,291.84	155,333,480.94	241,494,803.99
Provision	148,908.20	14,563,021.50	29,537,926.37	44,249,856.07
Disposal or retirement	(265,272.32)	6,034,079.71	(8,617,529.36)	14,916,881.39
Decrease upon disposal of subsidiaries	—	1,862,425.88	(34,945,754.58)	36,808,180.46
Closing balance	2,609,667.09	90,101,807.75	141,308,123.37	234,019,598.21
Carrying value				
Closing	20,776,873.59	45,031,090.29	93,054,724.12	158,862,688.00
Opening	21,008,787.77	36,100,192.51	84,553,831.86	141,662,812.14

As at the end of this year, the Group held no temporarily vacant fixed assets, fixed assets rented out under operating lease or fixed assets with ownership certificate not settled.

As at the end of this year, the management of the Group assessed fixed assets and considered no provision for impairment is necessary.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Construction in Progress

	2018			2017		
	Book balance	Impairment allowance	Book value	Book balance	Impairment allowance	Book value
Construction in Progress	84,866,598.69	—	84,866,598.69	66,100,052.88	—	66,100,052.88

As at the end of this year, the management of the Group assessed construction in progress and considered no provision for impairment is necessary.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Intangible Assets

2018

	Software	Trademark use right (Note)	Others	Total
Initial value				
Opening balance	127,336,311.10	525,000,000.00	9,166,275.37	661,502,586.47
Purchase	5,115,216.97	—	1,451,303.14	6,566,520.11
Internal research and development	30,899,222.46	—	—	30,899,222.46
Business combinations not involving enterprises under common control	98,803.42	—	—	98,803.42
Transfer from construction in progress	104,962.58	—	—	104,962.58
Closing balance	163,554,516.53	525,000,000.00	10,617,578.51	699,172,095.04
Accumulated amortization				
Opening balance of the period	34,794,817.50	59,060,916.99	9,029,806.56	102,885,541.05
Provision	21,371,549.80	13,881,182.40	202,890.28	35,455,622.48
Closing balance	56,166,367.30	72,942,099.39	9,232,696.84	138,341,163.53
Impairment allowance				
Opening and closing balance	—	100,000,000.00	—	100,000,000.00
Carrying value				
Closing	107,388,149.23	352,057,900.61	1,384,881.67	460,830,931.51
Opening	92,541,493.60	365,939,083.01	136,468.81	458,617,045.42

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Intangible Assets (Continued)

2017

	Software	Trademark use right (Note)	Others	Total
Initial value				
Opening balance	72,088,227.03	525,000,000.00	9,166,275.37	606,254,502.40
Purchase	3,347,782.77	—	—	3,347,782.77
Internal research and development	39,250,382.70	—	—	39,250,382.70
Transfer from construction in progress	14,230,597.84	—	—	14,230,597.84
Decrease upon disposal of subsidiaries	1,580,679.24	—	—	1,580,679.24
Closing balance	127,336,311.10	525,000,000.00	9,166,275.37	661,502,586.47
Accumulated amortization				
Opening balance of the period	23,226,750.08	45,208,333.33	8,965,016.58	77,400,099.99
Provision	11,709,473.08	13,852,583.66	64,789.98	25,626,846.72
Decrease upon disposal of subsidiaries	141,405.66	—	—	141,405.66
Closing balance	34,794,817.50	59,060,916.99	9,029,806.56	102,885,541.05
Impairment allowance				
Opening and closing balance	—	100,000,000.00	—	100,000,000.00
Book balance				
Closing	92,541,493.60	365,939,083.01	136,468.81	458,617,045.42
Opening	48,861,476.95	379,791,666.67	201,258.79	428,854,402.41

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Intangible Assets (Continued)

As at 31 December 2018, intangible assets formed through internal research and development accounted for 4.42% of the book value of intangible assets as at the end of the year (31 December 2017: 5.93%).

Note: RMB525,000,000.00 in the initial carrying amount of the right to use the trademarks is used to purchase the right to use the registered trademark of Jisheng Wellborn ("JSWB") from Shanghai Jisheng Wellborn Furniture Company Limited (上海吉盛偉邦家居市場經營管理有限公司) by the Company. In May 2014, the Company and the controlling shareholders of the JSWB Furniture entered into the Registered Trademark Licensing Contract, pursuant to which, Shanghai Jisheng Wellborn Furniture Company Limited authorizes the Company to use eight of its registered trademarks (the "licensed trademarks") on an exclusive basis, and the Company has the right to use the licensed trademarks in our Portfolio Shopping Mall or Managed Shopping Mall and in the business operation course related with those shopping malls. Meanwhile, the Company has the right to authorize any third parties to use the licensed trademarks within the properties of the shopping malls from 1 June 2014 to 30 May 2044.

The Company shall pay an annual fee in standard for establishing shopping malls to use the licensed trademarks in addition to the nonrecurring trademark licensing fee of RMB525,000,000.00, the period for payment is the period from the opening date of the shopping mall to the day when the shopping mall ceases to use the licensing trademarks. The right to use the trademark was amortized on a straight-line basis within 30 years of the licensed period contracted by the Group since June 2014. As at the end of the current year, impairment of the right to use the trademarks of JSWB determined amounted to RMB100,000,000.00.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Development Expenditure

2018

	Increase in the current year		Decrease in the current year		Closing balance
	Opening balance	Internal research and development	Capitalized as intangible assets	Recognized in profit or loss	
Home improvement and data platform	29,418,402.19	1,480,820.27	30,899,222.46	—	—

2017

	Increase in current year		Decrease in current year		Closing balance
	Opening balance	Internal research and development	Recognized as intangible assets	Recognized in profit or loss	
Main APP of Red Star Macalline	38,967,363.83	283,018.87	39,250,382.70	—	—
Home improvement and data platform	—	29,418,402.19	—	—	29,418,402.19
	38,967,363.83	29,701,421.06	39,250,382.70	—	29,418,402.19

The Group started to develop an application platform for online sale in 2016 to capitalize the expenses qualified to be capitalized in the development stage.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Goodwill

2018

	Increase in the current year		Decrease in the current year	
	Opening balance	Business combinations not involving enterprises under common control	Disposal group/disposal allocated to held for sale	Closing balance
Suzhou Industry Park Zhongxiang Meitong Storage Company Limited	16,592,357.41	—	—	16,592,357.41

2017

	Increase in the current year		Decrease in the current year	
	Opening balance	Business combinations not involving enterprises under common control	Disposal group/disposal allocated to held for sale	Closing balance
Suzhou Industry Park Zhongxiang Meitong Storage Company Limited	16,592,357.41	—	—	16,592,357.41

As at the end of the current year, the Group assessed the recoverable amount of goodwill of Suzhou Industry Park Zhongxiang Meitong Storage Company Limited, and the recoverable amount of goodwill was determined based on the present value of estimated future cash flows. Future cash flows was determined based on the financial budget for 2019–2023 approved by the management with adopting applicable discount rate and the cash flows after 2023 was calculated based on nil increase rate. The management of the Group considers that any reasonable changes in above assumptions will not cause the carrying amounts of the goodwill of the Group exceeding the recoverable amount of the goodwill, and recognize that the goodwill has not been impaired.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Long-term Prepaid Expenses

2018

	Opening balance	Increase in the current year	Amortized in the current year	Closing balance
Improvement expenditures for fixed assets rented (Note)	200,547,530.02	166,072,610.08	64,386,457.29	302,233,682.81
Others	28,785,889.46	98,658,872.31	28,946,504.05	98,498,257.72
	229,333,419.48	264,731,482.39	93,332,961.34	400,731,940.53

2017

	Opening balance	Increase in the current year	Amortized in the current year	Closing balance
Improvement expenditures for fixed assets rented (Note)	144,757,310.44	114,708,629.64	58,918,410.06	200,547,530.02
Others	26,450,302.33	7,917,649.20	5,582,062.07	28,785,889.46
	171,207,612.77	122,626,278.84	64,500,472.13	229,333,419.48

Note: Improvement expenditures for fixed assets rented represents improvement expenditures for Portfolio Shopping Malls rented, which may be evenly amortized by the Group in stages during an estimated beneficial period of 10 years and the lease term from renting Portfolio Shopping Malls (whichever is shorter).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Deferred Tax Assets/Liabilities

Deferred tax assets and deferred income tax liabilities that are not offset:

	2018		2017	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Deferred tax assets				
Provision for impairment of assets	1,612,814,358.32	394,374,195.44	1,647,260,664.98	406,422,478.87
Deductible loss	604,145,722.29	151,036,430.57	878,507,808.80	219,626,952.22
Provision for unpaid expenses	1,001,771,480.32	238,027,030.94	535,238,613.89	125,796,168.54
Asset-related deferred income	212,454,480.78	53,113,620.20	192,141,221.74	48,035,305.43
Cost overruns for advertising expenses	173,542,163.46	43,329,619.20	78,352,856.34	19,574,636.88
Long-term assets capitalized in Group's internal transaction	237,870,091.12	59,467,522.78	133,710,109.02	33,427,527.26
	3,842,598,296.29	939,348,419.13	3,465,211,274.77	852,883,069.20

	2018		2017	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Deferred tax liabilities				
Changes in the fair value of available-for-sale financial assets	—	—	2,043,092,330.85	306,463,849.63
Change in the fair value of investment in other equity instruments	1,384,879,030.52	222,391,208.03	—	—
Changes in fair value of investment properties	42,268,944,184.12	10,420,105,853.23	38,213,805,669.90	9,517,499,475.44
Adjustment to the fair value arising from business combination	1,932,980,078.72	483,245,019.68	98,966,007.76	24,741,501.94
	45,586,803,293.36	11,125,742,080.94	40,355,864,008.51	9,848,704,827.01

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Deferred Tax Assets/Liabilities (Continued)

Offsetting of balances of Deferred tax assets and Deferred tax liabilities:

	2018		2017	
	Offset amount	Balance after offset	Offset amount	Balance after offset
Deferred tax assets	117,079,269.71	822,269,149.42	134,304,003.12	718,579,066.08
Deferred tax liabilities	117,079,269.71	11,008,662,811.23	134,304,003.12	9,714,400,823.89

Deductible temporary difference and deductible loss, for which Deferred tax assets are not recognized, are as follows:

	2018	2017
Deductible temporary difference	120,207,604.78	253,746,414.80
Deductible loss	4,657,287,842.82	2,926,306,881.98
	4,777,495,447.60	3,180,053,296.78

Deductible temporary difference and deductible loss, for which Deferred tax assets are not recognized, will expire in the following years:

	2018	2017
2018	—	238,160,300.10
2019	534,573,048.53	280,045,959.73
2020	678,304,787.68	521,345,844.86
2021	584,110,635.84	545,544,877.93
2022	1,191,191,220.12	1,341,209,899.36
2023	1,669,108,150.65	—
	4,657,287,842.82	2,926,306,881.98

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. Other Non-Current Assets

	2018	2017
Prepayments for construction	1,054,474,837.71	820,469,683.34
Earning right related to land consolidation (Note 1)	1,835,867,940.18	—
Prepayments for purchasing an office premise (Note 2)	2,023,201,395.18	2,117,929,865.00
Entrusted loan (Note 3)	416,421,312.81	250,985,284.28
Prepayments for equity transfer (Note 4)	301,323,500.00	166,100,000.00
Prepayments for repurchase	247,705,000.00	247,705,000.00
Prepayments for land (Note 5)	210,862,580.50	—
Deposits	92,700,000.00	—
Capital contribution to investees	—	178,350,000.00
Construction contributions	—	179,034,293.38
	6,182,556,566.38	3,960,574,126.00

Note 1: In August 2018, the Group acquired 70% equity interest in Yintai (Yongqing) New Town Investment Co., Ltd. (銀泰(永清)新城投資有限公司) at a consideration of RMB1 billion, and acquired an earning right related to land consolidation simultaneously. Please refer to note VI. 1. Business combinations not involving enterprises under common control for specific details.

Note 2: The Group entered into a pre-sale contract of commodity houses with respect to the purchase of an office property (with an estimated total GFA of approximately 57,900 sq.m.) in Minhang District, Shanghai in the amount of RMB2,006,081,395.18 in 2016. Pursuant to such pre-sale contract, the payment method is installment payment. In 2017, the Group has paid the consideration in full and handled the online registration procedures for the presale of commodity houses. Meanwhile, the Group also subscribed for the use right of the first floor underground, right-to-use parking space and property right parking space of such office property in 2017, and paid a deposit of RMB17,120,000.00 pursuant to the subscription agreement. As at the date of the financial statements, the abovementioned property has not been completed and accepted upon examination.

Note 3: The entrusted loan granted by the Group to Oppein Home Group Inc. (歐派家居集團股份有限公司) had an interest rate of 10%, and which will expire from December 2021 to January 2022. The principal balance of the loan was RMB134,000,000.00 and presented in other non-current assets as at the end of the period;

The entrusted loan granted by the Group to Shanxi Chongkang Real Estate Development Co., Ltd. (山西崇康房地產開發有限公司) had an interest rate of 9% with the maturity date from 26 December 2018 to 31 December 2020. The principal balance of the borrowings was RMB92,085,164.45 and presented in other non-current assets as at the end of the period;

The entrusted loan granted by the Group to Zhoukou Railway Engineering Co., Ltd. (周口鐵路工程有限公司) had an interest rate of 15% with the maturity date from 25 December 2018 to 24 June 2021, the principal balance of the borrowings was RMB80,000,000.00 and presented in other non-current assets as at the end of the period;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. Other Non-Current Assets (Continued)

Note 3: (Continued)

The entrusted loan granted by the Group to Henan Zhongheng Construction Development Co., Ltd. (河南中亨建設開發有限公司) had an interest rate of 5.225% with the maturity date from November 2018 to August 2020, the principal balance of the borrowings was RMB47,550,000.00 and presented in other non-current assets as at the end of the period;

The entrusted loan granted by the Group to Langfang Urban Real Estate Development Co., Ltd. (廊坊市城區房地產開發有限公司) had an interest rate of 6% with the maturity date from 11 September 2017 to 10 September 2027, the principal balance of the borrowings was RMB45,750,000.00 and presented in other non-current assets as at the end of the period;

In respect of the above mentioned entrusted loans, the Group has provided impairment allowance of RMB32,356,447.32 according to the expected credit losses to offset Initial amount of the other non-current assets.

Note 4: The Group entered into an agreement with Shaanxi Jiaxin Weiye Industry Development Co., Ltd. (陝西佳鑫偉業實業發展有限責任公司), pursuant to which, the Group acquired 18.6% equity interest in Xi'an Jiahexing Household Co., Ltd. (西安佳和興家居有限責任公司), which held by Shaanxi Jiaxin Weiye Industry Development Co., Ltd. At of 31 December 2018, the prepayment for equity transfer made by the Group pursuant to the agreement amounted to RMB18,600,000.00;

The Group acquired 16% equity interest in a project company (namely, Nanchang Red Star Macalline Global Home Expo Center Co., Ltd. (南昌紅星美凱龍環球家居博覽中心有限責任公司), which held by Jiangxi Hengmao (江西恒茂). At of 31 December 2018, the prepayment for equity transfer made by the Group pursuant to the agreement amounted to RMB34,659,500.00;

The Group entered into an agreement with Chongqing Jinke Zhongjun Real Estate Development Co., Ltd (重慶金科中俊房地產開發有限公司) to acquire its home furnishing commercial property valued at RMB720,500,000.00. At of 31 December 2018, the prepayment for equity transfer made by the Group pursuant to the agreement amounted to RMB200,000,000.00;

The Group entered into an agreement with Sheng Bao (Shanghai) Furniture Co., Ltd. (晟葆(上海)傢俱有限公司), pursuant to which, to increase the capital and subscribe 10% of equity after that. At of 31 December 2018, the prepayment for equity transfer made by The Group pursuant to the agreement amounted to RMB13,000,000.00;

The Group entered into an agreement with Shanghai Kaizhuang Construction Technology Co., Ltd. (上海開裝建築科技有限公司), pursuant to which, the Company agreed to accept the registered capital of RMB135,269 transferred and held by Guo Fengling (郭鳳玲) and Li Ji (李季), representing 14.61% of equity interest. At of 31 December 2018, the prepayment for equity transfer made by The Company pursuant to the agreement amounted to RMB35,064,000.00.

Note 5: Prepayments for land were credited to other non-current assets, which was due to the land parcels purchased are still in the process of obtaining the land certificates. Upon obtaining of the land certificates, the prepayments for land will be transferred to investment properties

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Impairment Allowance of Assets

2018

	Opening balance	Opening adjustment (Note)	Provision for the current year	Decrease for the year		Closing balance
				Reversal	writing-off/ written-off	
Bad debt allowance	975,736,442.85	216,847,356.78	271,468,348.23	(27,337,037.63)	(1,160,824.66)	1,435,554,285.57
Impairment allowance of Long-term receivables	—	10,727,801.22	4,740,604.85	—	—	15,468,406.07
Impairment allowance of contract assets	—	62,422,871.94	7,342,598.91	(21,473,804.17)	—	48,291,666.68
Impairment allowance of other current assets	600,000.00	1,100,000.00	11,800,000.00	—	—	13,500,000.00
Impairment allowance of non-current assets due within one year	—	—	50,000.00	—	—	50,000.00
Impairment allowance of other non-current assets	17,600,000.00	13,852,448.52	903,998.80	—	—	32,356,447.32
Impairment allowance of available-for-sale assets	146,800,202.48	(146,800,202.48)	—	—	—	—
Impairment allowance of intangible assets	100,000,000.00	—	—	—	—	100,000,000.00
	1,240,736,645.33	158,150,275.98	296,305,550.79	(48,810,841.80)	(1,160,824.66)	1,645,220,805.64

Note: It is the impact amount of bad debt allowance at the beginning of the year under the new financial instruments standard.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Impairment Allowance of Assets (Continued)

2017

	Opening balance	Provision for the current year	Decrease for the year		Closing balance
			Reversal	writing-off/ written-off	
Bad debt allowance	728,993,728.76	252,462,714.09	(5,720,000.00)	—	975,736,442.85
Impairment allowance of long-term receivables	—	—	—	—	—
Impairment allowance of contract assets	—	—	—	—	—
Impairment allowance of other current assets	481,463.27	118,536.73	—	—	600,000.00
Impairment allowance of non-current assets due within one year	—	—	—	—	—
Impairment allowance of other non-current assets	5,000,000.00	12,000,000.00	—	—	17,000,000.00
Impairment allowance of available-for-sale assets	122,225,202.48	24,575,000.00	—	—	146,800,202.48
Impairment allowance of intangible assets	100,000,000.00	—	—	—	100,000,000.00
	956,700,394.51	289,156,250.82	(5,720,000.00)	—	1,240,136,645.33

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. Short-term Loans

	2018	2017
Mortgage loans	3,126,756,740.00	—
Pledge loans	981,760,000.00	10,000.00
Credit loans	700,000,000.00	300,000,000.00
Guaranteed loans	285,000,000.00	—
Mortgage and guaranteed loans	55,000,000.00	—
	5,148,516,740.00	300,010,000.00

As at 31 December 2018, the aforesaid borrowings carried interest at 4.35% to 6.80% (31 December 2017: 4.35% to 5.00%).

As at 31 December 2018, there were no overdue (31 December 2017: nil).

26. Notes Payable and Accounts Payable

Accounts Payable

Accounts payable bear no interests, and generally be liquidated within one year.

	2018	2017
Amount payables for engineering	616,071,095.78	154,437,546.05
Amount payables for advertisements and purchase of goods	354,045,884.56	336,777,472.61
	970,116,980.34	491,215,018.66

As at 31 December 2018, the Group has no material accounts payable aged more than one year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27. Advance from Customers

	2018	2017
Rental and relevant payments	1,249,019,601.25	1,264,772,652.06
Charges for the brand consulting and management service for the early stage of the project	—	1,004,930,781.91
Charges for annual brand consulting and management service for the project	—	190,995,805.46
Charges for commercial management and consultation service for construction project	—	76,000,000.00
Revenue from commercial consultation fees and tenant sourcing commissions	—	166,761,415.53
Advertising expenses	—	7,527,882.45
Others	—	357,293,763.75
	1,249,019,601.25	3,068,282,301.16

As at 31 December 2018, the Group had no significant advance from customers aged more than 1 year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28. Contract Liabilities

	Balance for the previous year	Opening balance	Increase of this year	Recognised revenue	Closing balance
Charges for the brand consulting and management service for the early stage of the project	—	1,210,843,853.80	1,523,634,441.73	1,563,958,422.45	1,170,519,873.08
Charges for annual brand consulting and management service for the project	—	180,184,722.13	1,956,983,510.34	1,919,812,820.55	217,355,411.92
Commercial management and consultation service for construction project	—	71,698,113.21	214,024,562.76	215,024,528.31	70,698,147.66
Revenue from commercial consultation fees and tenant sourcing commissions	—	157,322,090.12	908,405,391.29	477,982,822.95	587,744,658.46
Construction and design service	—	—	1,618,699,203.88	1,479,553,020.36	139,146,183.52
Others	—	298,968,786.95	1,487,827,738.35	1,370,282,292.21	416,514,233.09
	—	1,919,017,566.21	7,709,574,848.35	7,026,613,906.83	2,601,978,507.73

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Payroll Payable

2018

	Opening balance	Increase in the Year	Decrease in the Year	Closing balance
Short-term compensation	786,271,323.97	3,237,577,016.06	3,126,394,594.02	897,453,746.01
Retirement benefits (defined contribution) plans	11,091,542.77	298,192,087.68	294,522,114.84	14,761,515.61
Termination benefits	3,174,249.30	13,225,452.07	14,628,939.47	1,770,761.90
	800,537,116.04	3,548,994,555.81	3,435,545,648.33	913,986,023.52

2017

	Opening balance	Increase in the Year	Decrease in the Year	Closing balance
Short-term compensation	530,570,893.22	2,765,535,362.79	2,509,834,932.04	786,271,323.97
Retirement benefits (defined contribution) plans	8,655,884.13	218,274,557.55	215,838,898.91	11,091,542.77
Termination benefits	869,400.00	13,664,872.71	11,360,023.41	3,174,249.30
	540,096,177.35	2,997,474,793.05	2,737,033,854.36	800,537,116.04

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Payroll Payable (Continued)

Details of short-term compensation are as follows:

2018

	Opening balance	Increase in the Year	Decrease in the Year	Closing balance
Wages or salaries, bonuses, allowances and subsidies	771,713,934.86	2,861,452,475.43	2,753,423,273.38	879,743,136.91
Staff welfare	31,843.00	91,315,990.69	89,954,783.79	1,393,049.90
Social insurance	5,547,812.41	145,494,612.05	144,327,084.45	6,715,340.01
Including: Medical insurance	4,845,563.84	128,191,530.12	127,064,533.98	5,972,559.98
Work injury insurance	250,815.97	6,028,245.89	6,066,053.68	213,008.18
Maternity insurance	451,432.60	11,274,836.04	11,196,496.79	529,771.85
Housing fund	5,942,810.26	127,623,974.66	126,687,859.80	6,878,925.12
Labour union and staff education fund	3,034,923.44	11,689,963.23	12,001,592.60	2,723,294.07
	786,271,323.97	3,237,577,016.06	3,126,394,594.02	897,453,746.01

2017

	Opening balance	Increase in the Year	Decrease in the Year	Closing balance
Wages or salaries, bonuses, allowances and subsidies	518,678,137.31	2,387,642,897.87	2,134,607,100.32	771,713,934.86
Staff welfare	85,535.00	144,412,177.67	144,465,869.67	31,843.00
Social insurance	4,511,349.88	109,963,291.47	108,926,828.94	5,547,812.41
Including: Medical insurance	3,963,195.47	96,502,199.43	95,619,831.06	4,845,563.84
Work injury insurance	272,213.92	5,448,274.20	5,469,672.15	250,815.97
Maternity insurance	275,940.49	8,012,817.84	7,837,325.73	451,432.60
Housing fund	4,263,155.48	95,306,970.88	93,627,316.10	5,942,810.26
Labour union and staff education fund	3,032,715.55	28,210,024.90	28,207,817.01	3,034,923.44
	530,570,893.22	2,765,535,362.79	2,509,834,932.04	786,271,323.97

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Payroll Payable (Continued)

Defined contribution plans as follows:

2018

	Opening balance	Increase in the Year	Decrease in the Year	Closing balance
Basic pension insurance premium	10,636,518.95	289,888,161.21	286,560,170.28	13,964,509.88
Unemployment insurance premium	455,023.82	8,303,926.47	7,961,944.56	797,005.73
	11,091,542.77	298,192,087.68	294,522,114.84	14,761,515.61

2017

	Opening balance	Increase in the Year	Decrease in the Year	Closing balance
Basic pension insurance premium	8,232,097.07	211,375,216.32	208,970,794.44	10,636,518.95
Unemployment insurance premium	423,787.06	6,899,341.23	6,868,104.47	455,023.82
	8,655,884.13	218,274,557.55	215,838,898.91	11,091,542.77

The Group participates in pension insurance and unemployment insurance plans established by government institutions as required. According to such plans, the Group makes contribution to such plans based on the staff's basic wage and the percentage specified by local governments. Besides above monthly contributions, the Group will not undertake further payment obligation. The corresponding cost charges to the profit or loss for the current period or the cost of a relevant asset when occurs.

30. Taxes Payable

	2018	2017
Enterprise income tax	273,769,447.40	588,091,629.40
VAT	263,960,675.63	260,895,356.26
Property tax	38,104,146.22	39,649,408.65
Others	31,842,470.73	38,630,245.19
	607,676,739.98	927,266,639.50

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Other Payables

	2018	2017
Interest payables	215,310,507.17	178,691,354.69
Dividends payable	16,556,410.95	61,960,000.00
Other payables	8,480,341,163.12	7,338,709,537.17
	8,712,208,081.24	7,579,360,891.86

Interest payables

	2018	2017
Interests on long-term loans with periodic payments of interest and return of principal at maturity	33,131,060.84	31,581,648.86
Interests on corporate bonds	124,493,601.14	108,977,193.75
Interests on short-term loans	18,138,361.70	1,667,512.08
Interests on commercial mortgage-backed securities ("Financial Report V. 38. Other Non-current Liabilities")	39,547,483.49	36,465,000.00
	215,310,507.17	178,691,354.69

Dividends payable

	2018	2017
Shanghai Tailang Enterprise Management Center (Limited Partnership)	10,916,410.95	—
JIN Yan	2,820,000.00	4,000,000.00
Shanghai Xinchangzheng (Group) Company Limited (上海新長征(集團)有限公司)	2,820,000.00	6,000,000.00
Zhejiang Mingdu Investment Company Limited (浙江名都投資有限公司)	—	51,960,000.00
	16,556,410.95	61,960,000.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Other Payables (Continued)

Other payables

	2018	2017
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
Amounts due to and from partners	1,438,160,139.88	962,221,874.67
Amounts payable to construction contractors	800,535,460.58	900,281,717.08
Rental deposits from tenants	708,621,532.51	751,021,735.06
Amount payables to equity transfer	512,739,975.11	—
Accrued expenses	277,643,310.09	217,405,781.98
Lease expenses	57,739,035.70	50,917,834.27
Amount payables to prepaid cards	16,165,219.09	73,420,850.89
Others	235,692,786.81	220,680,904.08
	8,480,341,163.12	7,338,709,537.17

As at 31 December 2018, the Group had no significant other payables aged more than 1 year.

32. Non-Current Liabilities Due Within One Year

	2018	2017
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
	3,948,619,684.75	9,550,075,473.97

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33. Other Current Liabilities

	2018	2017
Output VAT to be transferred	161,684,557.80	—
Super Short-term Commercial Papers (note 1)	1,000,000,000.00	—
	1,161,684,557.80	—

Note 1: On 25 November 2016, the National Association of Financial Market Institutional Investors published the Notice for Acceptance of Registration (Zhong Shi Xie Zhu [2016] No. SCP400), indicating its consent for acceptance of the registration for the issuance of Super Short-term Commercial Papers by the Company with the amount for registration of Super Short-term Commercial Papers reaching RMB3 billion and the registered amount would be effective for 2 years since 25 November 2016. The Company can issue Super Short-term Commercial Papers in installments during the registration period. The Group has issued the 2018 first tranche of Super Short-term Commercial Papers on 18 July 2018 and net proceeds have been received on 19 July 2018. The Company has issued the 2018 second tranche of Super Short-term Commercial Papers on 20 September 2018 and net proceeds have been received on 25 September 2018.

34. Long-term Loans

	2018	2017
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
	14,306,362,773.00	11,372,664,484.81

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Long-term Loans (Continued)

* The maturity date analysis of long-term loans is as follows:

	2018	2017
Due within 1 year or repayment on demand	—	—
Due within 2 years	2,767,247,618.02	1,673,166,438.48
Due between 3 to 5 years (include 3 and 5 year)	6,015,593,155.04	5,388,256,651.78
Above 5 years	5,523,521,999.94	4,311,241,394.55
	14,306,362,773.00	11,372,664,484.81

As of 31 December 2018, the aforesaid borrowings carried interest rates at 4.28% to 7.36% per annum (31 December 2017: 2.30% to 7.59%).

Part of the long-term loans of the Group this year was divided into the long-term loans due within one year due to the non-compliance with the restrictive terms in the long-term loan contracts, totaling RMB352,000,000.00.

Description of the classification of long-term loans:

Pledge loans: Represents the loans obtained by pledging all of the operating revenue of the shopping malls and the equity of our group during the loan period.

Mortgage loans: Represents the loans obtained by securing with the investment properties.

Credit loans: Represents the loans obtained by providing guarantees by the companies within the Group.

Mortgage and pledge loans: Represents the loans obtained by securing with the investment properties and pledging with all of the operating revenue of the shopping malls during the loan period.

Mortgage and guaranteed loans: Represents the loans obtained by securing with the investment properties and providing guarantee by the related parties.

Mortgage, pledge and guaranteed loans: Represents the loans obtained by securing the investment properties and pledging cash and bank and all of the operating revenue of the shopping mall during the loan period and providing guarantee by related parties.

As at the end of this year, there were no long-term loans that were overdue.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Bonds Payable

	2018	2017
Public offering of Corporate Bonds of 2018 of Red Star Macalline Group Corporation Ltd. (First tranche)	2,978,214,472.44	—
5-year US\$-denominated bonds of Hong Kong Red Star Macalline in 2017	2,028,377,647.84	1,923,565,824.50
7-year Corporate Bonds of 2016 of Red Star Macalline Group Corporation Ltd. (First tranche)	1,486,702,860.36	1,482,044,142.78
First tranche of the medium-term notes of 2018 of Red Star Macalline Group Corporation Ltd.	495,097,539.32	—
Corporate Bonds of 2015 of Red Star Macalline Group Corporation Ltd. (First tranche)	168,002,000.00	—
5-year Corporate Bonds of 2016 of Red Star Macalline Group Corporation Ltd. (First tranche)	—	1,490,868,192.87
	7,156,394,519.96	4,896,478,160.15

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Bonds Payable (Continued)

As at 31 December 2018, balances of bonds payable present as follows:

Name of bonds	Par value	Issue date	Maturity	Issue amount	Opening balance	Issued in the year	Accrued interest in the year	Amortization of premium and for discount	Repayments in the year	Exchange gains and losses	Closing balance
First tranche of the medium-term notes of 2013 of Red Star Macalline Group Corporation Ltd.	500,000,000.00	11 September 2013	5 years	492,200,000.00	498,726,366.25	—	25,000,000.00	1,273,633.75	(537,500,000.00)	—	—
First tranche of corporate bonds of Red Star Macalline Group Corporation Ltd. in 2015 (Note 1)	5,000,000,000.00	10 November 2015	5 years	4,958,670,000.00	4,987,987,922.63	—	193,750,000.00	12,012,077.37	(5,056,998,000.00)	—	168,002,000.00
Second tranche of 5-year corporate bonds of Red Star Macalline Group Corporation Ltd. (Note 2)	1,500,000,000.00	14 July 2016	5 years	1,483,202,830.18	1,490,868,192.87	—	52,500,000.00	5,705,527.92	(52,500,000.00)	—	1,496,573,720.79
Second tranche of 7-year corporate bonds of Red Star Macalline Group Corporation Ltd. (Note 2)	1,500,000,000.00	14 July 2016	7 years	1,476,127,358.48	1,482,044,142.78	—	64,350,000.00	4,658,717.58	(64,350,000.00)	—	1,486,702,860.36
5-year US\$-denominated bonds of Hong Kong Red Star Macalline in 2017 (Note 3)	US\$300,000,000	21 September 2017	5 years	1,937,306,895.63	1,923,565,824.50	—	15,986,446.88	7,273,336.12	(15,986,446.88)	97,538,487.22	2,028,377,647.84
Type 1 of the publicly issued corporate bonds in 2018 (the first tranche) of Red Star Macalline Group Corporation Ltd. (Note 4)	3,000,000,000.00	6 November 2018	3 years	2,976,304,150.94	—	2,976,304,150.94	31,500,000.00	1,910,321.50	—	—	2,978,214,472.44
First tranche of the medium-term notes of 2018 of Red Star Macalline Group Corporation Ltd. (Note 5)	500,000,000.00	23 October 2018	3 years	494,828,301.89	—	494,828,301.89	5,150,000.00	269,237.43	—	—	495,097,539.32
Total				13,818,639,537.12	10,383,192,449.03	3,471,132,452.83	388,236,446.88	33,102,851.67	(5,727,334,446.88)	97,538,487.22	8,652,968,240.75
less: Bonds payable due within one year					5,486,714,288.88						1,496,573,720.79
Bonds payable due after one year					4,896,478,160.15						7,156,394,519.96

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Bonds Payable (Continued)

As at 31 December 2017, balances of bonds payable present as follows:

Name of bonds	Par value	Issue date	Maturity	Issue amount	Opening balance	Issued in the year	Accrued interest in the year	Amortization of premium and for discount	Repayments in the year	Exchange gains and losses	Closing balance
Second tranche of the medium-term notes of 2012 of Red Star Macalline Group Corporation Ltd.	900,000,000.00	13 December 2012	5 years	875,775,000.00	894,941,194.51	–	52,161,370.97	5,058,805.49	(954,990,000.00)	–	–
First tranche of the medium-term notes of 2013 of Red Star Macalline Group Corporation Ltd.	500,000,000.00	11 September 2013	5 years	492,200,000.00	497,030,960.08	–	37,500,000.00	1,695,416.17	(37,500,000.00)	–	498,726,366.25
First tranche non-public debt financing instruments of 2014 of Red Star Macalline Group Corporation Ltd.	1,000,000,000.00	8 December 2014	3 years	987,700,000.00	994,526,878.83	–	73,333,333.33	5,473,121.17	(1,080,000,000.00)	–	–
Corporate bonds of 2015 of Red Star Macalline Group Corporation Ltd. (the first tranche)	5,000,000,000.00	10 November 2015	5 years	4,958,670,000.00	4,973,682,713.22	–	225,000,000.00	14,305,209.41	(225,000,000.00)	–	4,987,987,922.63
Second tranche of 5-year Corporate bonds of Red Star Macalline Group Corporation Ltd.	1,500,000,000.00	14 July 2016	5 years	1,483,202,830.18	1,485,447,044.30	–	52,500,000.00	5,421,148.57	(52,500,000.00)	–	1,490,868,192.87
Second tranche of 7-year Corporate bonds of Red Star Macalline Group Corporation Ltd.	1,500,000,000.00	14 July 2016	7 years	1,476,127,358.48	1,477,939,985.71	–	64,350,000.00	4,104,157.07	(64,350,000.00)	–	1,482,044,142.78
5-year US\$-denominated bonds of Hong Kong Red Star Macalline in 2017 (the first tranche)	US\$300,000,000	21 September 2017	5 years	1,937,306,895.63	–	1,937,306,895.63	16,539,693.75	1,782,601.37	–	(15,523,672.50)	1,923,565,824.50
Total				12,210,982,084.29	10,323,568,766.65	1,937,306,895.63	521,404,398.05	37,840,459.25	(2,414,340,000.00)	(15,523,672.50)	10,383,192,449.03
Less: Bonds payable due within one year					1,889,468,073.34	–	–	–	–	–	5,486,714,288.88
Bonds payable due after one year					8,434,100,693.31	–	–	–	–	–	4,896,478,160.15

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Bonds Payable (Continued)

Others:

Note 1: In November 2015, the Company was approved by China Securities Regulatory Commission to issue corporate bonds of no more than RMB10 billion in the PRC to qualified investors, the maturity of the bonds was no more than seven years, and the issuance price was RMB100 par value. The Company issued the first tranche of corporate bonds totally RMB5 billion in November 2015, which referred as "15 Hongmei 01" (the bond code: 136032), with the issuance price of RMB100 par value with a fixed rate of interest, at a coupon rate of 4.5%. The maturity of the bond is five years, and shall be paid annually. And the bond is attached with the Company's option to adjust the coupon rate and the investors' option to sell back at the end of the third year. The valid number of declaring for selling back in the year for 15 Hongmei 01 was 48,319,980, the amount of selling back was RMB4,831,998,000.00 (excluding interest) and the remaining custodian number was 1,680,020. After two years of the maturity of the bond (from 10 November 2018 to 9 November 2020), the coupon rates of the bonds shall be adjusted to 5.90%.

Note 2: The Company issued the second tranche of corporate bonds in July 2016. The second tranche of corporate bonds comprised of two types of bonds, the first type: referred as "16 Hongmei 01" with the issuance price of RMB100 par value with a fixed rate of interest, at a coupon rate of 3.5%. The bond shall be payable annually in five years, and was attached with the Company's option to adjust the coupon rate and the investors' option to sell back at the end of the third year and the company expected the investors will exercise the rights of selling back at the end of the third year; the second type: referred as "16 Hongmei 02" with the issuance price of RMB100 par value with a fixed rate of interest, at a coupon rate of 4.29%. The bond shall be payable annually in seven years and was attached with the Company's option to adjust the coupon rate and the investors' option to sell back at the end of the fifth year.

Note 3: Hong Kong Red Star Macalline Global Home Furnishing Company Limited, a subsidiary of the Group, issued the US\$-denominated bonds totally US\$300 million on 21 September 2017, the bond code: B2022(5278), with a fixed rate of interest, at a coupon rate of 3.375%. The maturity of the bond is five years, and shall be paid semi-annually. The Company provided unconditional irrevocable guarantee for the US\$-denominated bonds this time issued by Hong Kong Red Star Macalline Global Home Furnishing Company Limited.

Note 4: The Group publicly issued the first tranche of corporate bonds in 2018 (hereinafter referred to as the "Bonds"), which classified into two types. The total issuance scale of the type 1, type 2 was RMB1 billion and established the over-allotment option, of which the quota of over-allotment was no more than RMB2 billion (including RMB2 billion). The issuance was made by adopting a form of book-building for qualified investors through offline, with an issuance price of RMB100 per piece. The maturity of the type 1 of the Bonds is three years and was attached with the issuers' option to adjust the coupon rate and the bondholders' option to sell back at the end of the second year; the maturity of the type 2 is five years and was attached with the issuers' option to adjust the coupon rate and the bondholders' option to sell back at the end of the third year. The issuance of the Bonds has been ended on 6 November 2018, and the actual issuance scale was RMB3 billion, of which the type 1 of the Bonds had an issuance scale of RMB3 billion with a coupon rate of 6.30%; the type 2 was not issued.

Note 5: On 12 September 2018, the Company received the Notice for Acceptance of Registration (Zhong Shi Xie Zhu [2018] No. MTN506) issued by National Association of Financial Market Institutional Investors (hereafter "NAFMII"), which indicating its consent for acceptance of the registration for the issuance of the medium-term notes by the Company, with the registered amount of RMB5 billion, and the registered quota would be effective within the two years since the date of the issuance of the Notice for Acceptance of Registration by "NAFMII". As of 23 October 2018, the Company had successfully issued the first tranche of the medium-term notes of 2018, which referred as "18 Red Star Home Furnishing MTN001" (bond code: 101801197), with the issuance price of RMB100 par value, at an issuance rate of 6.18%. The bonds shall be payable annually in three years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36. Long-term Payables

Long-term payables	2018	2017
Long-term rental	307,809,170.14	344,655,634.92
Compensation fees due to breach of contract	1,940,585.02	1,940,585.02
Financial lease payables (Note 1)	410,225,225.70	415,215,826.20
Amounts due to and from partners (Note 2)	476,565,127.50	464,505,129.78
Contributions from minority shareholders	189,380,899.49	189,380,899.50
	1,385,921,007.85	1,415,698,075.42

Note 1: Financial lease payable occurs when the Group leases buildings from the lessors within the term of the building use rights. Please see below table for details.

Minimum lease payment	2018	2017
First year after the balance sheet date	31,249,088.04	36,183,376.08
Second year after the balance sheet date	31,249,088.04	31,249,088.04
Third year after the balance sheet date	31,249,088.04	31,249,088.04
Subsequent years	840,847,393.11	864,558,102.44
Total minimum lease payment	934,594,657.23	963,239,654.60
Less: Unrecognized financing charge	510,862,254.59	534,746,735.18
Financial lease payables	423,732,402.64	428,492,919.42
Including: Financial lease payables due within one year	13,507,176.94	13,277,093.22
Financial lease payables due after one year	410,225,225.70	415,215,826.20

Note 2: Amounts due to and from partners are the borrowings provided by the minority shareholders of certain subsidiaries of the Group, and shall be repaid by agreements after the completion of relevant cooperation projects and existing surplus or be repaid on demands after one year. Therefore, such amounts shall be recorded as long-term payables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36. Long-term Payables (Continued)

*The due date for Long-term payables is analyzed as follows:

	2018	2017
Due within one year or repayment on demand	—	—
Due within 2 years	296,146,670.64	700,621,729.74
Due within 3 to 5 years (including 3 and 5 years)	508,669,243.20	184,193,851.37
Over 5 years	581,105,094.01	530,882,494.31
	1,385,921,007.85	1,415,698,075.42

37. Deferred Income

2018	Opening balance	Increase in the year	Decrease in the year	Closing balance
Government grant	192,141,221.74	26,444,069.65	6,129,246.96	212,456,044.43

2017	Opening balance	Increase in the year	Decrease in the year	Closing balance
Government grant	195,413,309.31	10,110,000.00	13,382,087.57	192,141,221.74

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37. Deferred Income (Continued)

As at 31 December 2018, the liability items involving government grants are as follows:

	Opening balance	Increase in the year	Recognized in other income of the year	Closing balance	Asset/income-related
Subsidy for land supporting expenses	192,141,221.74	26,444,069.65	6,129,246.96	212,456,044.43	Asset-related

As at 31 December 2017, the liability items involving government grants are as follows:

	Opening balance	Increase in the year	Recognized in other income of the year	Closing balance	Asset/income-related
Subsidy for land supporting expenses	193,996,084.31	10,110,000.00	11,964,862.57	192,141,221.74	Asset-related
Subsidy for gas and air conditioning equipment	1,417,225.00	—	1,417,225.00	—	Asset-related
	195,413,309.31	10,110,000.00	13,382,087.57	192,141,221.74	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38. Other Non-Current Liabilities

	2018	2017
Charges for the brand consulting and management service for the early stage of the project (Note 1)	1,394,664,911.20	415,120,500.00
Commercial mortgage-backed securities (Note 2)	4,786,623,154.06	2,359,400,000.00
	6,181,288,065.26	2,774,520,500.00

Note 1: Representing the contract liabilities of the Company recognized based on management service contract, as the management expected that it would be more than 1 year to recognize the corresponding revenue, these amounts were included in other non-current liabilities.

Note 2: The Company issued the home furnishing shopping mall asset-backed securities, namely the First Tranche of Red Star Macalline Home Furnishing Marketplace Asset-Backed Special Project, on 22 September 2017. Such asset-back special project is pledged with the assets of two shopping malls of the Group in Shanghai and Tianjin and their rental income rights, which included Class A Preferred Securities (securities abbreviation: "Macalline 1A", securities code: 146550) and Class B Preferred Securities (securities abbreviation: "Macalline 1B", securities Code: 146551). Macalline 1A had an issuance size of RMB1,350 million, with an annualized return of 5.00%, the principal and interest of which shall be repaid annually. The relevant amounts of Macalline 1A due within one year have been included in the non-current liabilities due within one year. Macalline 1B had an issuance size of RMB1,050 million, with an annualized return of 6.20% and a maturity of 18 years, the principal of which shall be repaid in a one-off manner upon maturity.

The Company issued the home furnishing shopping mall asset-backed securities, namely Red Star Macalline Asset-Backed Special Project, on 12 July 2018. Such asset-back special project is pledged with the assets of two shopping malls of the Group in Beijing and Yantai and their rental income rights, which included Class A Preferred Securities (securities abbreviation: "18 Hongmei A1", securities code: 156486), Class B Preferred Securities (securities abbreviation: "18 Hongmei A2", securities Code: 156487) and subordinated Securities (securities abbreviation: "18 Hongmei", securities Code: 156488). 18 Hongmei A1 had an issuance size of RMB2,289 million, with an annualized return of 5.80% and a maturity of 18 years, the principal and interest of which shall be repaid annually. The relevant amounts of 18 Hongmei A1 due within one year have been included in the non-current liabilities due within one year. 18 Hongmei A2 had an issuance size of RMB211 million, with an annualized return of 6.30% and a maturity of 18 years, the principal of which shall be repaid in a one-off manner upon maturity. The Group, as a posterior investor of 18 Hongmei, subscribed RMB100 million with no annualized return and a maturity of 18 years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39. Share Capital

2018	Opening balance	Changes in the current year			Closing balance
		New shares issued	Repurchase shares	Subtotal	
RSM Holding (紅星美凱龍控股)	2,480,315,772.00	—	—	—	2,480,315,772.00
Shanghai Ping'an Pharmacy Limited Company (上海平安大藥房有限公司)	3,688,206.00	—	—	—	3,688,206.00
Shanghai Jinghai Assets Management Center (Limited Partnership) (上海晶海資產管理中心 (有限合夥))	56,849,998.00	—	—	—	56,849,998.00
Shanghai Kaixing Business Administration Center (Limited Partnership) (上海凱星企業管理中心 (有限合夥))	7,589,999.00	—	—	—	7,589,999.00
Shanghai Hongmei Investment Management Center (Limited Partnership) (上海弘美投資管理中心 (有限合夥))	12,659,994.00	—	—	—	12,659,994.00
Overseas-listed Foreign Shares (H Shares)	1,062,813,069.00	—	(388,917,038.00)	(388,917,038.00)	673,896,031.00
Domestic-listed Domestic Shares (A Shares)	—	315,000,000.00	—	315,000,000.00	315,000,000.00
	3,623,917,038.00	315,000,000.00	(388,917,038.00)	(73,917,038.00)	3,550,000,000.00

2017	Opening balance	Changes in the current year			Closing balance
		New shares issued	Repurchase shares	Subtotal	
RSM Holding	2,480,315,772.00	—	—	—	2,480,315,772.00
Shanghai Ping'an Pharmacy Limited Company	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 Shares)	1,062,813,069.00	—	—	—	1,062,813,069.00
	3,623,917,038.00	—	—	—	3,623,917,038.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. Capital Reserve

2018	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Share premium	5,362,115,385.55	2,912,458,758.24	3,784,555,248.36	4,490,018,895.43
Including:				
Capital invested by investors	5,786,331,727.05	—	—	5,786,331,727.05
A Shares offering	—	2,735,007,849.63	—	2,735,007,849.63
H Shares repurchase	—	—	3,523,954,372.77	(3,523,954,372.77)
Acquisition of non-controlling interest	—	—	260,600,875.59	(260,600,875.59)
The difference arising from business combinations involving enterprises under common control	(180,578,073.16)	—	—	(180,578,073.16)
Others	(243,638,268.34)	177,450,908.61	—	(66,187,359.73)
	5,362,115,385.55	2,912,458,758.24	3,784,555,248.36	4,490,018,895.43

Others:

As at 9 January 2018, the Group publicly issued 315,000,000 RMB-denominated ordinary shares (A Shares) with a par value of RMB1.00 per share, after deducting issuance expenses, and the net proceeds raised amounted to RMB3,050,007,849.63. Among which, RMB315,000,000.00 is included in share capital and RMB2,735,007,849.63 is included in capital reserve.

As at 17 July 2018, the Group repurchased the cancelled part of H shares, cancelling 388,917,038 shares H shares, after deducting issuance expenses, the total repurchase amounted to RMB3,912,871,410.77. Among which, a decrease of share capital amounted to RMB388,917,038.00, and RMB3,523,954,372.77 has been adjusted against capital reserve.

2017	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Share premium	5,620,013,738.96	—	257,898,353.41	5,362,115,385.55
Including:				
Capital invested by investors	5,786,331,727.05	—	—	5,786,331,727.05
The difference arising from business combinations involving enterprises under common control	(180,578,073.16)	—	—	(180,578,073.16)
Others	14,260,085.07	—	257,898,353.41	(243,638,268.34)
	5,620,013,738.96	—	257,898,353.41	5,362,115,385.55

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. Other Comprehensive Income

The accumulated balance of other comprehensive income in the consolidated balance sheet attributable to the Company's shareholders:

	1 January 2018	Changes of accounting policy	Changes	31 December 2018
Changes in fair value of other equity instrument investments	1,562,965,633.10	114,069,393.88	(449,258,187.71)	1,227,776,839.27

The accumulated balance of other comprehensive income in the consolidated balance sheet attributable to the Company's shareholders:

	1 January 2017	Changes	31 December 2017
Changes in fair value of available-for-sale financial assets	—	1,562,965,633.10	1,562,965,633.10

The current amount of other comprehensive income in the consolidated income statement:

2018	The amount before tax	Less: previously included in other comprehensive income converted to current retained earnings	Less: income tax	Attributable to the shareholders of the Company	Attributable to non-controlling interests
Other comprehensive income that will not be reclassified to profit or loss					
Changes in fair value of other equity instrument investments	(631,139,988.10)	(164,401,529.65)	(116,684,614.60)	(284,856,658.06)	(65,197,185.788)

Note 1: The Group reduced the holding of 1,230,864.00 of Oppein Home Group Inc., and transferred the previous accumulated gains of other comprehensive income approximately RMB164,401,529.65 into retained earnings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. Other Comprehensive Income (Continued)

The current amount of other comprehensive income in the consolidated income statement: (continued)

	The amount before tax	Less: previously included in other comprehensive income converted to current profit and loss	Less: income tax	Attributable to the shareholders of the Company	Attributable to non-controlling interests
2017					
Other comprehensive income that will not be reclassified to profit or loss					
Changes in fair value of available-for- sale financial assets	2,315,504,641.63	—	578,876,160.41	1,562,965,633.10	173,662,848.12

42. Surplus Reserve

2018	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Statutory surplus reserve	1,623,080,808.19	193,766,313.37	—	1,816,847,121.56

2017	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Statutory surplus reserve	1,226,111,855.65	396,968,952.54	—	1,623,080,808.19

Statutory surplus reserve was appropriated pursuant to the Company Law and the Articles of Association of the Company at 10% of the net profit. When the accumulative statutory surplus reserve amounted to more than 50% of the registered capital of the Company, it may no longer be appropriated.

After appropriating the statutory surplus reserve, the Company could appropriate any surplus reserve. After approved, any surplus reserve could be used to cover the loss of the Company for previous years or increase the share capital.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43. Retained Earnings

	2018	2017
Closing balance of retained earnings for last year before adjustment	28,254,693,080.77	26,095,809,439.81
Retroactive adjustment of change in accounting policy	(812,868,228.22)	—
Opening balance of retained earnings after adjusting	27,441,824,852.55	26,095,809,439.81
Other comprehensive income converted to retained earnings	164,401,529.65	—
Net profits attributable to shareholders of the Company	4,477,411,242.46	4,077,897,749.46
Less: Appropriation to statutory surplus reserve	193,766,313.37	396,968,952.54
Cash dividend payable for ordinary shares (Note 1)	1,260,453,452.16	1,522,045,155.96
Closing balance of retained earnings	30,629,417,859.13	28,254,693,080.77

Note 1: On 15 June 2018, as approved by the 2017 Annual General Meeting and based on 3,938,917,038 issued shares, the Company paid cash dividend RMB3.20 to all shareholders per 10 shares; on 8 June 2017, as approved by the 2016 general meeting of the Company, and based on 3,623,917,038 issued shares, the Company paid cash dividend RMB4.20 to all shareholders per 10 shares.

44. Revenue and Costs of Sales

	2018		2017	
	Revenue	Cost	Revenue	Cost
Principal business	13,818,321,170.25	4,708,683,899.77	10,822,788,477.84	3,134,520,069.54
Other business	421,471,330.19	105,015,921.30	136,724,191.93	28,673,446.84
	14,239,792,500.44	4,813,699,821.07	10,959,512,669.77	3,163,193,516.38

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44. Revenue and Costs of Sales (Continued)

The revenue and costs of sales set out as follows:

	2018		2017	
	Revenue	Cost of sales	Revenue	Cost of sales
Rental and related income	7,167,976,016.22	1,607,276,015.02	6,394,481,799.81	1,460,260,678.12
Revenue from the brand consulting and management service for the early stage of the project	1,563,958,422.45	344,158,994.34	1,587,200,094.98	186,492,653.19
Revenue from annual brand consulting and management service for the project	1,919,812,820.55	1,249,086,087.95	1,539,295,456.42	1,071,511,136.30
Revenue from commercial management and consultation service for construction project	215,024,528.31	15,481,766.04	140,191,047.20	10,448,737.89
Revenue from commercial consultation fees and tenant sourcing commissions	477,982,822.95	47,125,752.98	362,048,979.18	41,508,962.61
Revenue from construction and design service	1,479,553,020.36	995,054,981.41	56,129,950.62	43,039,708.61
Revenue from sales of goods and home decoration	466,289,187.59	309,325,890.09	294,256,196.34	202,426,401.48
Other revenues	949,195,682.01	246,190,333.24	585,909,145.22	147,505,238.18
	14,239,792,500.44	4,813,699,821.07	10,959,512,669.77	3,163,193,516.38

Decomposition of revenue

Reporting segments	Lease-related	Entrusted management-related	Construction and designation	Sales of good and home decoration	Others	Total
Principal operating region						
Mainland China	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
Time of recognizing revenue						
Recognizing revenue at some point	—	—	—	133,912,170.20	669,293,676.58	803,205,846.78
Recognize revenue within a period of time	7,167,976,016.22	4,176,778,594.26	1,479,553,020.36	332,377,017.39	279,902,005.43	13,436,586,653.66
Total	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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44. Revenue and Costs of Sales (Continued)

Related information of the expected recognized of revenue for the remaining performance obligations of the contract

	2019	2020 and future	Total
Revenue from the brand consulting and management service for the early stage of the project	1,170,519,873.08	1,289,778,218.12	2,460,298,091.20
Revenue from annual brand consulting and management service for the project	217,355,411.92	—	217,355,411.92
Revenue from commercial management and consultation service for construction project	70,698,147.66	—	70,698,147.66
Revenue from commercial consultation fees and tenant sourcing commissions	587,744,658.46	—	587,744,658.46
Revenue from construction and design service	139,146,183.52	—	139,146,183.52
Other revenues	416,514,233.09	—	416,514,233.09
	2,601,978,507.73	1,289,778,218.12	3,891,756,725.85

45. Taxes and Surcharges

	2018	2017
Property tax	271,788,916.59	216,862,552.49
Urban maintenance and construction tax	36,512,281.41	31,714,076.16
Education surcharge	30,200,298.20	28,439,091.86
Land use tax	24,065,295.96	18,723,657.58
Stamp duty	11,758,877.25	10,709,183.66
Others	13,044,304.82	10,880,957.30
	387,369,974.23	317,329,519.05

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46. Distribution and Selling Expenses

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

47. General and Administrative Expenses

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

*In 2018, the remuneration for the auditor of the Group was RMB8,000,000.00 (2017: RMB6,500,000.00).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. Research and Development Costs

	2018	2017
Salary, bonus and allowances	35,721,638.25	—
Depreciation and amortization	554,111.08	—
Others	6,890,120.18	—
	43,165,869.51	—

49. Financial Expenses

	2018	2017
Interest expenses	1,873,767,131.68	1,481,716,865.07
Less: Interest income	301,034,720.66	125,689,801.56
Less: Amounts to interest capitalization	203,009,008.25	220,390,374.37
Foreign exchange differences	139,958,434.14	(22,054,553.37)
Others	23,469,535.44	18,257,907.88
	1,533,151,372.35	1,131,840,043.65

The amounts to interest expenses capitalization have been included in investment properties.

Details of interest income are as follows:

	2018	2017
Cash and bank	137,377,000.40	81,523,764.90
Debt investment	163,657,720.26	44,166,036.66
	301,034,720.66	125,689,801.56

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50. Impairment Losses of Assets

	2018	2017
Losses of bad debts	—	258,861,250.82
Impairment losses of available-for-sale financial assets	—	24,575,000.00
	—	283,436,250.82

51. Impairment Losses of Credit (Only Applicable to 2018)

	2018	2017
Bad debt losses of notes receivable and accounts receivable	165,785,135.83	—
Impairment losses of contract assets	(14,131,205.26)	—
Bad debt losses of other receivables	78,346,174.77	—
Impairment losses of other current assets	11,800,000.00	—
Impairment losses of non-current assets due within one year	50,000.00	—
Bad debt losses of long-term receivables	4,740,604.85	—
Impairment losses of other non-current assets	903,998.80	—
	247,494,708.99	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52. Other Income

	2018	2017
Subsidy for land supporting expenses and subsidy for gas-fired air conditioning equipment	6,129,246.96	13,382,087.57
Other government grants relating to daily operational activities	105,030,642.46	48,905,918.26
	111,159,889.42	62,288,005.83

Other government grants relating to daily activities are as follows:

	2018	2017	Related to assets/profit
Subsidies (Note 1)	18,952,925.52	17,007,742.33	Related to profit
Special government grants (Note 2)	26,441,029.06	19,661,079.89	Related to profit
Reward support (Note 3)	59,636,687.88	12,237,096.04	Related to profit
	105,030,642.46	48,905,918.26	

Note 1: Subsidy mainly refers to the tax refund and subsidies received from the government.

Note 2: Special government grants mainly refer to the special industry-supporting fund received from the government.

Note 3: Reward support mainly refer to other policy reward support funds received from the government.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53. Investment Income

	2018	2017
Long-term equity interest investment income calculated by equity method	183,468,563.89	129,258,920.85
Bonuses received from other equity instruments	37,142,415.79	—
Bonuses received from other non-current financial assets	20,301,299.92	1,025,000.00
Investment gain on disposal of other non-current financial assets	17,500,000.00	—
Investment loss from disposal of financial assets held for trading	(289,640.30)	—
Investment gain or loss from disposal of associates	(28,449,710.38)	880,397.44
Investment gain from disposal of available-for-sale financial assets	—	8,000,000.00
Investment gain on disposal of subsidiaries	—	494,732,793.04
	229,672,928.92	633,897,111.33

54. Gains on Fair Value Changes

	2018	2017
Financial assets at FVTPL	(53,163,503.89)	—
Including: Investment in equity instruments held for trading	(53,163,503.89)	—
Investment properties measured at fair value	1,820,173,117.45	1,996,188,694.30
	1,767,009,613.56	1,996,188,694.30

55. Gains from Disposal of Assets

	2018	2017
Gains (losses) from disposal of fixed assets	(656,552.23)	35,964,572.41

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

56. Non-Operating Income

	2018	2017	Amount included in non-recurring profit or loss for 2018
Profit or loss from enterprise integration	9,857,414.57	—	9,857,414.57
Income from project termination	9,433,962.26	4,245,283.00	9,433,962.26
Income from default compensation	2,847,757.85	77,399,032.54	2,847,757.85
Others (Note)	16,373,631.99	30,605,913.81	16,373,631.99
	38,512,766.67	112,250,229.35	38,512,766.67

Note: Others mainly refer to other income not relating to ordinary operation such as accounts without payment.

57. Non-Operating Expenses

	2018	2017	Amount included in non-recurring profit or loss for 2018
Compensation expenses (Note)	126,155,948.41	16,906,543.41	126,155,948.41
Charitable donations	10,576,739.79	10,947,206.75	10,576,739.79
Others	13,258,272.92	14,794,019.23	13,258,272.92
	149,990,961.12	42,647,769.39	149,990,961.12

Note: In this year, the litigations between the Group and Changsha Ideal were closed and the Group was adjudicated to pay Changsha Ideal a compensation totaling RMB110 million which was included in non-operating expenses this year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

58. Government Grants

The Group does not have government grants calculated on a net basis.

For the rest of government grants, please see Note V. 52.

Category	Amount	Presented Item	Amount included in profit and loss
Related to profit	59,636,687.88	Reward support fund	59,636,687.88
Related to profit	26,441,029.06	Special government grants	26,441,029.06
Related to profit	18,952,925.52	Subsidies	18,952,925.52
Related to assets	212,456,044.43	Land matching grants	6,129,246.96

59. Expenses by Nature

The supplementary information on the Group's operating costs, sales expenses, administrative expenses and research and development costs classified by nature is as follows:

	2018	2017
Salary	3,548,994,555.81	2,997,474,793.05
Construction contracts	1,437,023,046.84	441,593,506.01
Advertising and promotional expenses	1,182,270,802.23	1,092,246,840.32
Site-leasing expenses	529,946,786.54	380,793,542.16
Energy and maintenance expenses	496,248,368.58	409,473,821.04
Office and administrative expenses	365,878,479.62	302,328,580.59
Professional services expenses	159,097,086.69	136,534,432.14
Depreciation and amortization	182,623,727.41	134,377,174.92
After-sales service expenses	57,432,792.44	40,980,641.59
Audit expenses	11,613,680.32	13,784,168.31
Others	77,035,072.20	89,223,604.43
	8,048,164,398.68	6,038,811,104.56

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

60. Income Tax Expenses

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

The relationship between income tax expenses and total profit is as follows:

	2018	2017
Total profit	6,019,319,731.41	5,986,036,595.52
Income tax expenses calculated based on statutory tax rate	1,504,829,932.86	1,496,509,148.87
Impact of different tax rates applicable to subsidiaries	(334,417,800.94)	(558,579,070.31)
Adjustments on the income tax of previous periods (Note 1)	(382,558,906.00)	19,786,831.51
Profits and losses attributable to joint ventures and associates	(45,867,140.97)	(47,562,997.57)
Tax impact of non-deductible costs, expenses and losses	55,504,679.98	45,022,046.02
Deductible losses utilized from previous years	(3,793,958.10)	(4,331,532.07)
Tax impact of deductible temporary difference and deductible loss previously not recognized	520,175,621.47	248,111,343.09
Tax impact of disposal of subsidiaries	—	509,067,005.69
Income tax expense calculated based on the effective tax rate of the Group	1,313,872,428.30	1,708,022,775.23

Note 1: Red Star Macalline Home Furnishing Mall Management Company Limited (紅星美凱龍家居商場管理有限公司) ("Red Star Management"), a subsidiary of the Group, entered into an equity transfer agreement with Yantai Red Star International Home Furnishing Management Company Limited (煙台紅星國際家居管理有限公司) ("Yantai Red Star") in May 2017, to acquire the long-term equity investment of Yantai Red Star in Zhengzhou Juankai Enterprise Management Consultation Company Limited (鄭州雋凱企業管理諮詢有限公司), a wholly-owned subsidiary of Yantai Red Star ("Zhengzhou Juankai") (the fair value of the assessment on the trading day was RMB2,650 million). The consideration shall be payable by Red Star Management by way of long-term equity investment in its two wholly-owned subsidiaries, namely Tianjin Red Star Macalline International Home Furnishings Construction Materials Company Limited (天津紅星美凱龍國際傢俱建材廣場有限公司) and Tianjin Red Star Macalline International Home Furnishings Malls Company Limited (天津紅星美凱龍國際家居廣場有限公司) (collectively referred to as "Two Subsidiaries of Tianjin") (the fair value of the assessment on the trading day was RMB2,624 million and the book value was RMB170 million) ("equity payment"), plus a cash RMB26 million ("non-equity payment"). The aforesaid transaction was hereinafter referred to as "Business Restructuring". On 31 December 2017, as the Review Report on Settlement and Payment of Enterprise Income Tax (《企業所得稅匯算清繳納稅審核報告》) issued by the taxation firm in relation to Business Restructuring had not been obtained, and the annual corporate income tax declaration and related filing procedures for 2017 had not been completed, the Group believed that

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

60. Income Tax Expenses (Continued)

Note 1: (continued)

there existed significant uncertainty in the corporate income tax involved in the business restructuring, and therefore the provision for corporate income tax involved in the business restructuring had been made, totaling RMB370 million. In 2018, Beijing Zhongrui Yuehua Taxation Office issued the Review Report on Settlement and Payment of Enterprise Income Tax, and the Group completed the 2017 annual corporate income tax declaration, therefore, the enterprise income tax corresponding to the equity payment in the enterprise income tax withdrawn at the end of 2017 was reversed, totaling RMB366 million, and the remaining RMB4 million was paid in 2018.

61. Earnings per Share

	2018 RMB/share	2017 RMB/share
Basic earnings per share continuing operations	1.20	1.13
Diluted earnings per share continuing operations	N/A	N/A

The basic earnings per share is calculated by dividing the net profit of the current period attributable to the ordinary shareholders of the Company by the weighted average number of outstanding ordinary shares.

The calculation of basic earnings per share is detailed as follows:

	2018	2017
Earnings		
Net profit of the current period attributable to ordinary shareholders of the Company	4,477,411,242.46	4,077,897,749.46

	2018	2017
Shares		
Weighted average number of the ordinary shares outstanding of the Company	3,746,302,941.16	3,623,917,038.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

62. Notes to the Cash Flow Statements

	2018	2017
Other cash received in connection with operating activities		
Deposits received	362,921,102.49	875,964,049.84
Proceeds collected and paid on behalf of others	104,475,144.55	842,954,110.27
Recovery of small loans	—	275,496,848.64
Non-operating income and government grants	160,130,064.21	171,266,147.61
Interest income	137,377,000.40	116,959,614.61
	764,903,311.65	2,282,640,770.97
Other cash paid in connection with operating activities		
Payment of expenses and other proceeds	2,043,046,415.22	1,868,095,826.99
Bank charges and other expenses	9,366,518.79	4,724,075.43
Non-operating expenses	36,107,406.12	42,340,125.98
Small loans extended	—	292,392,650.00
Reserves with central bank	769,553.61	205,655,403.94
	2,089,289,893.74	2,413,208,082.34
Other cash received in connection with investing activities		
Current account in connection with projects	308,370,584.46	306,869,685.79
Recovery of the entrusted loan in connection with projects	464,881,571.44	110,694,880.86
Interest income from loans	89,544,027.90	8,730,186.95
Redemption of the wealth management products	3,000,000.00	374,000,000.00
Recovery of restricted funds	57,745,334.65	353,533,407.10
Redemption of fixed bank deposits due after over 3 months	94,223,310.50	158,230,595.44
	1,017,764,828.95	1,312,058,756.14

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

62. Notes to the Cash Flow Statements (Continued)

	2018	2017
Other cash paid in connection with investing activities		
Project-related current account	2,354,569,000.04	823,475,106.39
Granting the project-related entrusted loan	1,665,973,226.85	533,385,000.00
Purchase of wealth management products	55,000,000.00	277,000,000.00
Restricted cash payment	428,465,778.68	323,563,198.54
Fixed bank deposits over 3 months after maturity	278,230,000.00	94,729,041.70
	4,782,238,005.57	2,052,152,346.63
Other cash received in connection with financing activities		
Project-related current account	—	6,099,043.31
Other cash paid in connection with financing activities		
Project-related current account	29,777,067.57	31,446,128.92
Loan charges	14,103,016.65	13,556,050.00
Acquisition of non-controlling interest	371,800,000.00	269,899,085.21
Repurchase of ordinary shares	3,912,871,410.77	—
	4,328,551,494.99	314,901,264.13

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

63. Supplementary Information of Cash Flows Statements

(1) Supplementary information of cash flows statements

Reconciliation of net profits to cash flow from operating activities:		
	2018	2017
Net profits	4,705,447,303.11	4,278,013,820.29
Add: Impairment losses of credit	247,494,708.99	
Impairment losses of assets	—	283,436,250.82
Depreciation of fixed assets	53,835,143.59	44,249,856.07
Amortization of intangible assets	35,455,622.48	25,626,846.72
Amortization of long-term prepaid expenses	93,332,961.34	64,500,472.13
Amortization of deferred income	(6,129,246.96)	(3,272,087.57)
Losses/(gains) on disposal of fixed assets, intangible assets and other long-term assets	656,552.23	(35,964,572.41)
Gains from changes in fair value	(1,767,009,613.56)	(1,996,188,694.30)
Financial expense	1,661,161,853.96	1,221,804,465.25
Investment income	(229,672,928.92)	(633,897,111.33)
Increase in deferred tax assets	(103,689,134.14)	(123,974,608.73)
Increase in deferred tax liabilities	1,294,261,987.34	610,054,940.97
Decrease in inventories	(131,061,142.47)	(74,953,160.63)
Increase in operating receivables	(1,698,852,561.09)	(1,209,743,569.00)
Increase in operating payables	1,702,699,198.45	4,078,776,080.55
Net cash flows from operating activities	5,857,930,704.35	6,528,468,928.83
Net change in cash and cash equivalents:		
Cash balance at the end of the year	7,614,487,228.69	10,269,293,739.45
Less: Cash balance at the beginning of the year	10,269,293,739.45	5,892,424,707.42
Net increase in cash and cash equivalents	(2,654,806,510.76)	4,376,869,032.03

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

63. Supplementary Information of Cash Flows Statements (Continued)

(2) Information for acquisition or disposal of subsidiaries and other business units

Information for acquisition of subsidiaries and other business units

	2018	2017
Price for acquisition of subsidiaries and other business units	2,648,440,001.00	744,072,700.00
Cash and cash equivalents paid for acquisition of subsidiaries and other business units	2,202,795,001.00	744,072,700.00
Less: Cash and cash equivalents hold for acquisition of subsidiaries and other business units	229,788,223.17	3,787,025.90
Net cash paid for acquisition of subsidiaries and other business units	1,973,006,777.83	740,285,674.10

Information for disposal of subsidiaries and other business units

	2018	2017
Price for disposal of subsidiaries and other business units	5,000,000.00	2,953,179,200.00
Cash and cash equivalents received from disposal of subsidiaries and other business units	5,000,000.00	2,953,179,200.00
Less: Cash and cash equivalents hold for acquisition of subsidiaries and other business units	4,604.39	172,059,603.77
Net cash received from disposal of subsidiaries and other business units	4,995,395.61	2,781,119,596.23

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

63. Supplementary Information of Cash Flows Statements (Continued)

(3) Cash and cash equivalents

	2018	2017
Cash	7,614,487,228.69	10,269,293,739.45
Including: Cash on hand	46,557,254.36	47,859,870.87
Bank deposits readily to be withdrawn on demand	7,567,929,974.33	10,221,433,868.58
Cash and cash equivalents balance at the end of the year	7,614,487,228.69	10,269,293,739.45

64. Assets with Restricted Ownership or use Right

	2018	2017	Reasons for limitation
Cash and bank	80,000,000.00	32,262,664.29	Loan pledge
Cash and bank	14,002,046.63	16,032,670.36	Engineering deposit
Cash and bank	100,000,000.00	—	Bank acceptance bill deposit
Cash and bank	209,000,000.00	9,450,000.00	Court freezing
Cash and bank	25,463,732.05	—	Deposited investment fund
Cash and bank	206,424,957.55	205,655,403.94	Reserves deposited in the Central Bank
Investment properties	59,492,974,400.00	54,025,000,000.00	Loans, "CMBS", Trust pledge/mortgage
Investments in other equity instruments	1,385,139,862.92	—	Loan pledge
	61,513,004,999.15	54,288,400,738.59	

Others:

As at the end of the year, the revenue of operations from Nanjing Kazimen Mall, Shanghai Zhenbei Shopping Mall, Jinan Red Star Shopping Mall, Zhengzhou Red Star Shopping Mall, Shanghai Jinqiao Shopping Mall, Zhengzhou Red Star, Harbinxi Railway Station and Beijing West Fourth Ring Mall during relevant loan periods was used for loan pledge and mortgage. The revenue of property operation from Xinglong Home Furnishing, Tianjin Hedong, Beijing Red Star and Yantai Red Star during relevant periods was used for CMBS pledge.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

65. Monetary Items Denominated in Foreign Currency

	2018			2017		
	Original currencies	Exchange rate	RMB equivalent	Original currencies	Exchange rate	RMB equivalent
Cash and bank						
USD	652,314.78	6.8632	4,476,966.80	37,632,036.13	6.5342	245,895,250.48
HKD	5,167,917.39	0.8762	4,528,129.20	120,764.37	0.8359	100,948.14
Bonds payable						
USD	296,697,389.29	6.8632	2,036,293,522.18	294,384,289.51	6.5342	1,923,565,824.50
Short-term loans						
HKD	1,057,699,850.00	0.8762	926,756,740.00	—	—	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VI. CHANGES IN CONSOLIDATION SCOPE

1. Business Combinations not Involving Enterprises under Common Control

In August 2018, the Group obtained the 70% equity interest held by Yintai (Yongqing) New City Investment Co., Ltd. (銀泰(永清)新城投資有限公司) (“Yintai New City Investment”) with a cash of RMB1 billion. Since the combining enterprises are not ultimately controlled by the same party or parties before and after the combination, the combination is not involving enterprises under common control. The Group has obtained the control right over Yintai New City Investment since 1 September 2018, and completed the business registration for such change on 4 September 2018. Therefore, the acquisition date was determined to be 1 September 2018.

In June 2018, the Company accepted the transfer of 80% equity interest held by Ningbo Red Star Macalline Home Shopping Plaza Co., Ltd. (寧波紅星美凱龍家居購物廣場有限公司) (“Ningbo Aoyang”) pursuant to the equity transfer agreement that has been entered into. Since the combining enterprises are not ultimately controlled by the same party or parties before and after the combination, the combination is not involving enterprises under common control. On 19 June 2018, Ningbo Aoyang completed the business registration, and the Company obtained the control over Ningbo Aoyang. Therefore, the purchase date was determined to be 19 June 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VI. CHANGES IN CONSOLIDATION SCOPE (CONTINUED)

1. Business Combinations not Involving Enterprises under Common Control (Continued)

The fair value and book value of Identifiable assets and liabilities of Yintai New City Investment and Ningbo Aoyang on acquisition date are as follows:

	Fair value on acquisition date	Book value on acquisition date
Cash and bank balance	22,615,966.78	22,615,966.78
Prepayments	9,775,075.00	9,775,075.00
Other receivables	31,661,887.11	31,661,887.11
Investment properties	736,177,185.50	736,177,185.50
Long-term equity investments	44,529,049.90	44,529,049.90
Fixed assets	2,730,385.40	1,184,461.37
Other non-current assets	2,109,876,919.98	250,015,771.38
Other assets	3,451,588.87	3,451,588.87
Short-term loans	(160,000,000.00)	(160,000,000.00)
Accounts payable	(3,223,785.78)	(3,223,785.78)
Advance from customers	(15,216,809.54)	(15,216,809.54)
Other payables	(542,558,670.77)	(542,558,670.77)
Long-term loans	(288,000,000.00)	(288,000,000.00)
Deferred tax liabilities	(506,197,031.16)	(22,578,225.84)
Other liabilities	(2,968,310.91)	(2,968,310.91)
	1,442,653,450.38	64,865,183.07
Non-controlling interests	432,796,034.81	19,459,554.62
	1,009,857,415.57	45,405,628.45
Amount over the combination cost and included in the current profit and loss	9,857,414.57	
	1,000,000,001.00 (note)	

Note: The amount of RMB1,000,000,001.00 was paid in cash by the Group in business combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VI. CHANGES IN CONSOLIDATION SCOPE (CONTINUED)

1. Business Combinations not Involving Enterprises under Common Control (Continued)

The operating results and cash flows of Yintai New City Investment and Ningbo Aoyang from the acquisition date to the end of the year are presented as follows:

	Period from the acquisition date to 31 December
Operating revenue	42,356,255.81
Net losses	(7,825,611.80)
Net cash flow	(10,089,913.83)

2. Other Reasons for Consolidated Scope Changes

Assets acquisition

Assets acquisitions completed by the Group for the year are as follows:

In March 2018, the Group entered into an equity transfer agreement with Capital Retail China Developments (B) Pte. Ltd., and acquired 100% equity interest in Kunshan Kaide Commercial Real Estate Co., Ltd. ("Kunshan Kaide") at consideration of RMB50,000,000.00.

In April 2018, the Group entered into an equity transfer agreement with China DRTV, Inc., and acquired 100% equity interest in Shanghai Ozing Digital Technology Co., Ltd. ("Shanghai Ozing") at consideration of RMB360,000,000.00.

In May 2018, the Group entered into an equity transfer agreement with Beijing Jinke Zhanhao Real Estate Co., Ltd. (北京金科展昊置業有限公司), and acquired 100% equity interest in Suzhou Xingkaike Home Furnishing Company Limited ("Suzhou Xingkaike") at consideration of RMB1,220,000,000.00.

In August 2018, the Group entered into an equity transfer agreement with Zhengzhou Huashanghai Holdings Co., Ltd. (鄭州華商匯控股有限公司), and acquired 55% equity interest in Zhengzhou Huashanghai Huarong Real Estate Co., Ltd. (鄭州華商匯華融置業有限公司) ("Zhengzhou Huashanghai") at consideration of RMB5,500,000.00.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VI. CHANGES IN CONSOLIDATION SCOPE (CONTINUED)

2. Other Reasons for Consolidated Scope Changes (Continued)

Assets acquisition (continued)

The management of the Group considers that none of the above transactions constitutes the combination of businesses, and considers these acquisitions as assets acquisition.

Name of the Acquired Assets	Date of acquisition	Cost on equity acquisition	Percentage of equity acquisition (%)	Acquisition method	Determination basis for the acquisition date
Kunshan Kaide	20 March 2018	50,000,000.00	100.00%	Cash	The date when acquiree's asset control right is transferred to acquirer
Suzhou Xingkaike	30 April 2018	1,220,000,000.00	100.00%	Cash	The date when acquiree's asset control right is transferred to acquirer
Shanghai Ozing	27 April 2018	360,000,000.00	100.00%	Cash	The date when acquiree's asset control right is transferred to acquirer
Zhengzhou Huashanghai	31 August 2018	5,500,000.00	55.00%	Cash	The date when acquiree's asset control right is transferred to acquirer

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VI. CHANGES IN CONSOLIDATION SCOPE (CONTINUED)

2. Other Reasons for Consolidated Scope Changes (Continued)

Newly-incorporated

Company name	Main business site	Place of incorporation	Nature of business	Shareholding ratio		Reasons for changes
				Direct	Indirect	
Chengdu Red Star Macalline Logistics Company Limited (成都紅星美凱龍物流有限公司)	Sichuan	Sichuan	Warehouse Logistics	—	100.00	Newly established company
Shanghai Beimei Logistics Company Limited (上海倍美物流有限公司)	Shanghai	Shanghai	Warehouse Logistics	—	100.00	Newly established company
Jilin Red Star Macalline Logistics Company Limited (吉林紅星美凱龍物流有限公司)	Jilin	Jilin	Warehouse Logistics	—	100.00	Newly established company
Shanghai Beimao Logistics Company Limited (上海倍茂物流有限公司)	Shanghai	Shanghai	Warehouse Logistics	—	100.00	Newly established company
Shanghai Beimai Logistics Company Limited (上海倍邁物流有限公司)	Shanghai	Shanghai	Warehouse Logistics	—	100.00	Newly established company
Shanghai Beihao Logistics Company Limited (上海倍皓物流有限公司)	Shanghai	Shanghai	Warehouse Logistics	—	100.00	Newly established company
Anhui Red Star Macalline Logistics Company Limited (安徽紅星美凱龍物流有限公司)	Anhui	Anhui	Warehouse Logistics	—	100.00	Newly established company
Shanghai Beibang Logistics Company Limited (上海倍邦物流有限公司)	Shanghai	Shanghai	Warehouse Logistics	—	100.00	Newly established company
Shanghai Beiyao Logistics Company Limited (上海倍耀物流有限公司)	Shanghai	Shanghai	Warehouse Logistics	—	100.00	Newly established company
Shanghai Beiyue Logistics Company Limited (上海倍躍物流有限公司)	Shanghai	Shanghai	Warehouse Logistics	—	100.00	Newly established company
Shanghai Beilang Logistics Company Limited (上海倍朗物流有限公司)	Shanghai	Shanghai	Warehouse Logistics	—	100.00	Newly established company
Shanghai Hongyue Logistics Company Limited (上海宏岳物流有限公司)	Shanghai	Shanghai	Warehouse Logistics	—	100.00	Newly established company
Chongqing Red Star Ogloria Hone Furnishing Limited (重慶紅星歐麗洛雅家居有限公司)	Chongqing	Chongqing	Site leasing management	100.00	—	Newly established company
Changzhou Meilong Trading Company Limited (常州美龍貿易有限公司)	Jiangsu	Jiangsu	Sale of home furniture	100.00	—	Newly established company

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VI. CHANGES IN CONSOLIDATION SCOPE (CONTINUED)

2. Other Reasons for Consolidated Scope Changes (Continued)

Newly-incorporated (continued)

Company name	Main business site	Place of incorporation	Nature of business	Shareholding ratio		Reasons for changes
				Direct	Indirect	
Shanghai Ditu Home Furnishing Company Limited (上海締圖家居有限公司) (Note 1)	Shanghai	Shanghai	Import and export	—	55.00	Newly established company
Taiyuan Red Star Macalline Shibo Home Furnishing Company Limited (太原紅星美凱龍世博家居廣場有限公司)	Shanxi	Shanxi	Site leasing management	60.00	—	Newly established company
Nantong Hongmei Shibo Home Furnishing Company Limited (南通紅美世博家居廣場有限公司)	Jiangsu	Jiangsu	Site leasing management	100.00	—	Newly established company
Guangzhou Red Star Macalline Home Building Material Co., Ltd. (廣州紅星美凱龍家居建材有限公司)	Guangdong	Guangdong	Site leasing management	95.00	—	Newly established company
Nanning Red Star Macalline Shibo Furniture Exhibition Center Company Limited (南寧紅星美凱龍世博家居展覽中心有限公司)	Guangxi	Guangxi	Site leasing management	100.00	—	Newly established company
Khorgos Hongju Corporate Management Co., Ltd. (霍爾果斯紅居企業管理有限公司)	Xinjiang	Xinjiang	Enterprise management and consultancy	70.00	—	Newly established company
Chengdu Red Star Macalline Xinnan Business Management Company Limited (成都紅星美凱龍新南商業管理有限公司)	Sichuan	Sichuan	Enterprise management and consultancy	100.00	—	Newly established company
Shanghai Huojing Business Management Company Limited (上海或京商業管理有限公司)	Shanghai	Shanghai	Enterprise management and consultancy	65.00	—	Newly established company
Shanghai Xingyijia Brand Management Company Limited (上海星藝佳品牌管理有限公司)	Shanghai	Shanghai	Brand management	—	100.00	Newly established company
Shanghai Mengsheng Industrial Company Limited (上海夢晟實業有限公司)	Shanghai	Shanghai	Enterprise management and consultancy	—	100.00	Newly established company
Suzhou Industrial Park Huojinju Commercial Management Company Limited (蘇州工業園區霍金聚商業管理有限公司)	Jiangsu	Jiangsu	Enterprise management and consultancy	—	100.00	Newly established company
Shanghai Red Star Macalline Decoration Design Company Limited (上海紅星美凱龍住建裝配設計有限公司)	Shanghai	Shanghai	Construction decoration	—	100.00	Newly established company

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VI. CHANGES IN CONSOLIDATION SCOPE (CONTINUED)

2. Other Reasons for Consolidated Scope Changes (Continued)

Newly-incorporated (continued)

Company name	Main business site	Place of incorporation	Nature of business	Shareholding ratio		Reasons for changes
				Direct	Indirect	
Shanghai Red Star Macalline Decoration Technology Company Limited (上海紅星美凱龍住建裝配科技有限公司)	Shanghai	Shanghai	Construction decoration	—	100.00	Newly established company
Xiaogan Betterhome Decoration Technology Co., Ltd. (孝感家倍得建築裝飾科技有限公司)	Hubei	Hubei	Construction decoration	—	70.00	Newly established company
Xi'an Red Star Macalline Shibo Home Furnishing Company Limited (西安紅星美凱龍世博家居有限公司)	Shaanxi	Shaanxi	Site leasing management	100.00	—	Newly established company
Taiyuan Red Star Macalline Global Home Furnishing Plaza Company Limited (太原紅星美凱龍全球家居廣場有限公司)	Shanxi	Shanxi	Site leasing management	51.00	—	Newly established company
Foshan Red Star Macalline Home Furnishing Plaza Company Limited (佛山紅星美凱龍家居生活廣場有限公司)	Guangdong	Guangdong	Site leasing management	100.00	—	Newly established company
Khorgos Yarui Venture Capital Company Limited (霍爾果斯雅睿創業投資有限公司)	Xinjiang	Xinjiang	Investment management	90.00	—	Newly established company
Khorgos Red Star Yiming Venture Capital Company Limited (霍爾果斯紅星易鳴創業投資有限公司)	Xinjiang	Xinjiang	Investment management	90.00	—	Newly established company
Shanghai Red Star Ogloria Enterprise Management Company Limited (上海紅星歐麗洛雅品牌管理有限公司)	Shanghai	Shanghai	Brand management	100.00	—	Newly established company
Ningbo Meishan Bonded Port Area Xingkaiying Asset Management Company Limited (寧波梅山保稅港區星凱贏資產管理有限公司)	Zhejiang	Zhejiang	Investment management	—	51.00	Newly established company
Shanghai Jiajinsuo Investment Management Company Limited (上海家金所投資管理有限公司)	Shanghai	Shanghai	Investment management	—	100.00	Newly established company
Shanghai Xingju Supply Chain Management Company Limited (上海星聚供應鏈管理有限公司)	Shanghai	Shanghai	Supply chain management	—	60.00	Newly established company
Shanghai Red Star Macalline Commercial Factoring Company Limited (上海紅星美凱龍商業保理有限公司)	Shanghai	Shanghai	Financing of accounts receivable	—	100.00	Newly established company

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VI. CHANGES IN CONSOLIDATION SCOPE (CONTINUED)

2. Other Reasons for Consolidated Scope Changes (Continued)

Newly-incorporated (continued)

Company name	Main business site	Place of incorporation	Nature of business	Shareholding ratio		Reasons for changes
				Direct	Indirect	
Shanghai Huaixing Culture Company Limited (上海懷星文化發展有限公司)	Shanghai	Shanghai	Cultural exchange	80.00	—	Newly established company
Shanghai Red Star Macalline Cloud Design Information Technology Company Limited (上海紅星美凱龍設計雲信息科技有限公司)	Shanghai	Shanghai	Network technology	100.00	—	Newly established company
Tibet Macalline Business Management Company Limited (西藏紅星美凱龍企業管理有限公司)	Tibet	Tibet	Enterprise management and consultancy	100.00	—	Newly established company
Shanghai Red Star Macalline Exhibition Service Company Limited (上海紅星美凱龍展覽服務有限公司)	Shanghai	Shanghai	Exhibition	55.00	—	Newly established company
Ganzhou Red Star Macalline Shibo Furniture Plaza Company Limited (贛州紅星美凱龍世博家居廣場有限公司)	Jiangxi	Jiangxi	Site leasing management	70.00	—	Newly established company
Shanghai Jiajinsuo Enterprise Credit Service Company Limited (上海家金所企業徵信服務有限公司) (Note 2)	Shanghai	Shanghai	Investment management	—	70.00	Newly established company

Note 1: The Company holds 55.00% equity of Shanghai Red Star Macalline International Trade Company Limited which holds 55.00% equity of Shanghai Ditu Home Furnishing Company Limited (上海締圖家居有限公司).

Note 2: Shanghai Jiajinsuo Enterprise Credit Service Company Limited (上海家金所企業徵信服務有限公司) is a company newly established by the Group in 2018, the equity interests of which has been transferred to Red Star Macalline Holding Group Company Limited** (紅星美凱龍控股集團有限公司) in 2018.

Subsidiary Deregistered

In this year, the subsidiary deregistered by the Group was Nanjing Red Star International Living Plaza Management Service Company Limited.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES

1. Interests in Major Subsidiaries

Information of the Company's subsidiaries is as follows:

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital RMB0'000	Shareholding ratio(%)		Comments
					Direct	Indirect	
Subsidiaries acquired through establishment, investment or other ways							
Hefei Red Star Macalline Logistics Company Limited (合肥紅星美凱龍物流有限公司)	Anhui	Anhui	Warehouse/Logistics	5,000.00	—	100.00	
Shanxi Red Star Macalline Logistics Company Limited (陝西紅星美凱龍物流有限公司)	Shaanxi	Shaanxi	Warehouse/Logistics	5,000.00	—	100.00	
Chongqing Red Star Macalline Logistics Company Limited (重慶紅星美凱龍物流有限公司)	Chongqing	Chongqing	Warehouse/Logistics	15,000.00	—	100.00	
Tianjin Red Star Macalline Logistics Company Limited (天津紅星美凱龍物流有限公司)	Tianjin	Tianjin	Warehouse/Logistics	5,000.00	—	60.00	
Guizhou Red Star Macalline Logistics Company Limited (貴州紅星美凱龍物流有限公司)	Guizhou	Guizhou	Warehouse/Logistics	6,500.00	—	100.00	
Chengdu Red Star Macalline Logistics Company Limited	Sichuan	Sichuan	Warehouse/Logistics	5,500.00	—	100.00	
Shanghai Beimei Logistics Company Limited	Shanghai	Shanghai	Warehouse/Logistics	6,000.00	—	100.00	
Jilin Red Star Macalline Logistics Company Limited	Jilin	Jilin	Warehouse/Logistics	4,000.00	—	100.00	
Shanghai Beimao Logistics Company Limited	Shanghai	Shanghai	Warehouse/Logistics	6,500.00	—	100.00	
Shanghai Beimai Logistics Company Limited	Shanghai	Shanghai	Warehouse/Logistics	10,000.00	—	100.00	
Shanghai Beihao Logistics Company Limited	Shanghai	Shanghai	Warehouse/Logistics	6,000.00	—	100.00	
Anhui Red Star Macalline Logistics Company Limited	Anhui	Anhui	Warehouse/Logistics	10,000.00	—	100.00	
Shanghai Beibang Logistics Company Limited	Shanghai	Shanghai	Warehouse/Logistics	12,500.00	—	100.00	
Shanghai Beiyao Logistics Company Limited	Shanghai	Shanghai	Warehouse/Logistics	15,000.00	—	100.00	
Shanghai Beiyue Logistics Company Limited	Shanghai	Shanghai	Warehouse/Logistics	6,000.00	—	100.00	
Shanghai Beiliang Logistics Company Limited	Shanghai	Shanghai	Warehouse/Logistics	6,000.00	—	100.00	
Shanghai Hongyue Logistics Company Limited	Shanghai	Shanghai	Warehouse/Logistics	6,300.00	—	100.00	
Changsha Red Star Macalline Home Furnishing Plaza Company Limited	Hunan	Hunan	Site leasing management	500.00	100.00	—	
Shanghai Red Star Macalline Global Home Furnishing Design Expo Company Limited (上海紅星美凱龍環球家居設計博覽有限公司)	Shanghai	Shanghai	Site leasing management	5,000.00	—	94.00	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital RMB0'000	Shareholding ratio(%)		Comments
					Direct	Indirect	
Subsidiaries acquired through establishment, investment or other ways (continued)							
Hangzhou Red Star Macalline Shibo Furniture Plaza Company Limited	Zhejiang	Zhejiang	Site leasing management	2,000.00	100.00	—	
Chongqing Red Star Macalline Global Home Furnishing Plaza Company Limited	Chongqing	Chongqing	Site leasing management	1,000.00	100.00	—	
Wuhan Red Star Macalline Shibo Home Furnishing Plaza Development Company Limited	Hubei	Hubei	Site leasing management	55,287.87	100.00	—	
Beijing Xingkai Jingzhou Furniture Plaza Company Limited (北京星凱京洲傢俱廣場有限公司)	Beijing	Beijing	Site leasing management	3,000.00	—	51.00	
Shanghai Red Star Macalline Home Furnishing Design Expo Company Limited	Shanghai	Shanghai	Site leasing management	44,500.00	100.00	—	
Yantai Red Star Macalline Home Furnishing Company Limited (煙台紅星美凱龍家居有限公司)	Shandong	Shandong	Site leasing management	17,500.00	100.00	—	
Shenyang Mingdu Home Furnishing Plaza Company Limited (瀋陽名都家居廣場有限公司)	Liaoning	Liaoning	Site leasing management	25,500.00	60.00	—	
Beijing Century Europe and America Business Investment Company Limited	Beijing	Beijing	Site leasing management	5,000.00	—	80.00	
Chongqing Red Star Macalline Expo Home Furnishing Plaza Company Limited	Chongqing	Chongqing	Site leasing management	28,000.00	100.00	—	
Changsha Yinhong Home Furnishing Company Limited (長沙市銀紅家居有限公司)	Hunan	Hunan	Site leasing management	25,000.00	100.00	—	
Tianjin Red Star Macalline Home Furnishings Plaza Co., Ltd (天津紅星美凱龍家居家飾生活廣場有限公司)	Tianjin	Tianjin	Site leasing management	42,487.87	100.00	—	
Panjin Red Star Macalline Global Home Furnishings Plaza Co., Ltd. (盤錦紅星美凱龍全球家居生活廣場有限公司)	Liaoning	Liaoning	Site leasing management	9,000.00	100.00	—	
Shenyang Red Star Macalline Home Furnishing Company Limited	Liaoning	Liaoning	Site leasing management	3,000.00	100.00	—	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital RMB0'000	Shareholding ratio(%)		Comments
					Direct	Indirect	
Subsidiaries acquired through establishment, investment or other ways (continued)							
Harbin Red Star Macalline Shibo Furniture Plaza Company Limited (哈爾濱紅星美凱龍世博家居廣場有限公司)	Heilongjiang	Heilongjiang	Site leasing management	31,000.00	100.00	—	
Chongqing Red Star Macalline Zhongkun Home Living Plaza Company Limited (重慶紅星美凱龍中坤家居生活廣場有限責任公司)	Chongqing	Chongqing	Site leasing management	10,000.00	55.00	—	
Zhongshan Red Star Macalline Shibo Furniture Plaza Company Limited (中山紅星美凱龍世博家居廣場有限公司)	Guangdong	Guangdong	Site leasing management	14,993.93	100.00	—	
Shenyang Dadong Red Star Macalline Home Furnishing Company Limited	Liaoning	Liaoning	Site leasing management	300.00	100.00	—	
Xi'an Red Star Macalline Home Furnishing Plaza Company (西安紅星美凱龍家居生活廣場有限公司)	Shaanxi	Shaanxi	Site leasing management	20,000.00	75.00	—	
Daqing Red Star Macalline Shibo Furniture Company Limited (大慶紅星美凱龍世博家居有限公司)	Heilongjiang	Heilongjiang	Site leasing management	10,000.00	70.00	—	
Beijing Century Kailong Business Investment Company Limited (北京世紀凱隆商業投資有限公司)	Beijing	Beijing	Site leasing management	1,000.00	100.00	—	
Tianjin Red Star Macalline Home Fashion Plaza Company Limited	Tianjin	Tianjin	Site leasing management	500.00	100.00	—	
Shenyang Red Star Macalline Shibo Home Furnishing Company Limited	Liaoning	Liaoning	Site leasing management	4,675.74	100.00	—	
Shanghai Red Star Macalline Bulk Purchasing of Construction and Furnishing Materials Trading Company (上海紅星美凱龍住建集採商貿有限公司)	Shanghai	Shanghai	Site leasing management	2,000.00	100.00	—	
Lanzhou Red Star Macalline Shibo Home Furnishing Plaza Company Limited (蘭州紅星美凱龍世博家居廣場有限公司)	Gansu	Gansu	Site leasing management	3,000.00	100.00	—	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital RMB0'000	Shareholding ratio(%)		Comments
					Direct	Indirect	
Subsidiaries acquired through establishment, investment or other ways (continued)							
Urumchi Red Star Macalline Shibo Furniture Plaza Company Limited (烏魯木齊紅星美凱龍家居世博廣場有限公司)	Xinjiang Autonomous region	Xinjiang Autonomous region	Site leasing management	5,000.00	100.00	—	
Dongguan Red Star Macalline Shibo Furniture Plaza Company Limited (東莞紅星美凱龍世博家居廣場有限公司)	Guangdong	Guangdong	Site leasing management	10,000.00	70.00	—	
Changsha Red Star Macalline Shibo Home Furnishing Plaza Company Limited (長沙紅星美凱龍世博家居生活廣場有限公司)	Hunan	Hunan	Site leasing management	1,000.00	100.00	—	
Shanghai Red Star Macalline Xinglong Home Furnish Company Limited (上海紅星美凱龍星龍家居有限公司)	Shanghai	Shanghai	Site leasing management	3,900.00	100.00	—	
Red Star Macalline Shibo (Tianjin) Home Furnishing Plaza Company Limited	Tianjin	Tianjin	Site leasing management	14,200.00	100.00	—	
Changshu Red Star Macalline Global Home Furnishing Company Limited (常熟紅星美凱龍全球家居有限公司)	Jiangsu	Jiangsu	Site leasing management	100.00	—	100.00	
Shanghai Red Star Macalline Kaiheng Household Company Limited	Shanghai	Shanghai	Site leasing management	500.00	100.00	—	
Chengdu Red Star Macalline Tianfu Expo Home Furnishing Plaza Company Limited (成都紅星美凱龍天府世博家居廣場有限公司)	Sichuan	Sichuan	Site leasing management	5,000.00	100.00	—	
Chengdu Tianfu New District Red Star Macalline World Trade Home Furnishing Company Limited (成都天府新區紅星美凱龍世貿家居有限公司)	Sichuan	Sichuan	Site leasing management	21,000.00	100.00	—	
Changsha Red Star Macalline Jinxia Home Living Plaza Company Limited (長沙紅星美凱龍金霞家居生活廣場有限公司)	Hunan	Hunan	Site leasing management	12,000.00	100.00	—	
Wuhan Red Star Macalline Global Home Furnishing Plaza Development Company Limited (武漢紅星美凱龍全球家居廣場發展有限公司)	Hubei	Hubei	Site leasing management	1,000.00	100.00	—	
Xining Red Star Macalline Shibo Home Furnishing Plaza Company Limited (西寧紅星美凱龍世博家居廣場有限公司)	Qinghai	Qinghai	Site leasing management	18,000.00	100.00	—	
Suzhou Red Star Macalline Shibo Home Furnishing Plaza Company Limited (蘇州紅星美凱龍世博家居廣場有限公司)	Jiangsu	Jiangsu	Site leasing management	8,000.00	60.00	—	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital	Shareholding ratio(%)		Comments
				RMB0'000	Direct	Indirect	
Subsidiaries acquired through establishment, investment or other ways (continued)							
Kunming Red Star Macalline Shibo Home Furnishing Plaza Company Limited (昆明紅星美凱龍世博家居廣場有限公司)	Yunnan	Yunnan	Site leasing management	500.00	—	87.47	
Chongqing Red Star Macalline International Home Furnishing Plaza Company Limited (重慶紅星美凱龍國際家居生活廣場有限責任公司)	Chongqing	Chongqing	Site leasing management	5,000.00	100.00	—	
Shanghai Jinshan Red Star Macalline Global Home Furnishing Company Limited	Shanghai	Shanghai	Site leasing management	2,500.00	100.00	—	
Yunnan Red Star Macalline Home Furnishing Plaza Company Limited (雲南紅星美凱龍家居生活廣場有限公司)	Yunnan	Yunnan	Site leasing management	8,000.00	87.47	—	
Nanchang Red Star Macalline Global Home Furnishing Plaza Company Limited	Jiangxi	Jiangxi	Site leasing management	3,000.00	51.00	—	
Xi'an Red Star Macalline Shibo Home Furnishing Company Limited (西安紅星美凱龍世博家居有限公司)	Shaanxi	Shaanxi	Site leasing management	10,000.00	100.00	—	
Kunshan Red Star Macalline Decoration Materials Company Limited (昆山紅星美凱龍裝飾材料有限公司)	Jiangsu	Jiangsu	Site leasing management	13,962.17	100.00	—	
Suzhou Xingkaik Home Furnishing Company Limited (蘇州星凱科家居有限公司)	Jiangsu	Jiangsu	Site leasing management	68,190.88	—	100.00	
Taiyuan Red Star Macalline Global Home Furnishing Plaza Company Limited	Shanxi	Shanxi	Site leasing management	1,000.00	51.00	—	
Foshan Red Star Macalline Home Furnishing Plaza Company Limited	Guangdong	Guangdong	Site leasing management	5,000.00	100.00	—	
Changzhou Meilong Trading Co., Ltd. (常州美龍貿易有限公司)	Jiangsu	Jiangsu	Sale of home furnishings	50.00	100.00	—	
Xiaogan Betterhome Building and Decoration Technology Co., Ltd. (孝感家倍得建築裝飾科技有限公司)	Hubei	Hubei	Construction decorating	100.00	—	70.00	
Shanghai Ditu Home Furnishing Co., Ltd. (上海締圖家居有限公司)	Shanghai	Shanghai	Site leasing management	1,000.00	—	30.00	1

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital RMB0'000	Shareholding ratio(%)		Comments
					Direct	Indirect	
Subsidiaries acquired through establishment, investment or other ways (continued)							
Taiyuan Red Star Macalline Shibo Home Furnishing Company Limited (太原紅星美凱龍世博家居廣場有限公司)	Shanxi	Shanxi	Site leasing management	5,000.00	60.00	—	
Nantong Hongmei Shibo Home Furnishing Company Limited (南通紅美世博家居廣場有限公司)	Jiangsu	Jiangsu	Site leasing management	15,000.00	100.00	—	
Guangzhou Red Star Macalline Home Furnishing Building Material Co., Ltd. (廣州紅星美凱龍家居建材有限公司)	Guangdong	Guangdong	Site leasing management	5,000.00	95.00	—	
Ganzhou Red Star Macalline Shibo Home Furnishing Plaza Company Limited (贛州紅星美凱龍世博家居廣場有限公司)	Jiangxi	Jiangxi	Site leasing management	1,000.00	70.00	—	
Red Star Zhongying Investment Company Limited	Tibet Autonomous Region	Tibet Autonomous Region	Investment management	5,000.00	100.00	—	
Khorgos Yarui Venture Capital Company Limited	Xinjiang Autonomous Region	Xinjiang Autonomous Region	Investment management	3,000.00	90.00	—	
Khorgos Red Star Yiming Venture Capital Company Limited (霍爾果斯紅星易鳴創業投資有限公司)	Xinjiang Autonomous Region	Xinjiang Autonomous Region	Investment management	5,000.00	90.00	—	
Red Star Macalline Group Finance Company Limited (紅星美凱龍家居集團財務有限責任公司)	Shanghai	Shanghai	Loan service	30,000.00	90.00	10.00	
Shanghai Hongmei E-commerce Company Limited	Shanghai	Shanghai	E-commerce	1,840.00	—	100.00	
Shanghai Red Star Macalline Network Technology Company Limited (上海紅星美凱龍網絡技術有限公司)	Shanghai	Shanghai	E-commerce	3,000.00	—	66.80	
Shanghai Red Star Macalline Decorating Public Network Technology Company Limited (上海紅星美凱龍裝修公網絡技術有限公司)	Shanghai	Shanghai	E-commerce	3,000.00	—	66.80	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital RMB0'000	Shareholding ratio(%)		Comments
					Direct	Indirect	
Subsidiaries acquired through establishment, investment or other ways (continued)							
Shanghai Anjia Network Technology Company Limited (上海安家網絡科技有限公司)	Shanghai	Shanghai	E-commerce	100.00	—	66.80	
Shanghai Aiguangjia E-commerce Company Limited (上海愛逛家電子商務有限公司)	Shanghai	Shanghai	E-commerce	100.00	—	66.80	
Shanghai Jia Ju Information Technology Co., Ltd. (上海家聚信息技術有限公司)	Shanghai	Shanghai	E-commerce	100.00	—	66.80	
Shanghai Hongmei Network Technology Company Limited (上海紅美網絡科技有限公司)	Shanghai	Shanghai	E-commerce	100.00	—	100.00	
Shanxi Xingyi Tonghui Network Technology Company Limited (山西星易通匯網絡科技有限公司)	Shanxi	Shanxi	E-commerce	10,000.00	—	100.00	
Shanghai Red Star Macalline Yuejia Network Technology Company Limited (上海紅星美凱龍悅家互聯網科技有限公司)	Shanghai	Shanghai	E-commerce	20,000.00	—	76.00	
Tibet Macalline Business Management Company Limited (西藏紅星美凱龍企業管理有限公司)	Tibet Autonomous Region	Tibet Autonomous Region	Enterprise management and Consultancy	30,000.00	100.00	—	
Shanghai Xingju Supply Chain Management Company Limited (上海星聚供應鏈管理有限公司)	Shanghai	Shanghai	Supply chain management	750.00	—	60.00	
Chongqing Red Star Ogioria Home Furnishing Company Limited (重慶紅星歐麗洛雅家居有限公司)	Chongqing	Chongqing	Site leasing management	5,000.00	100.00	—	
Shanghai Red Star Macalline Yijia Home Decorating Company Limited (上海紅星美凱龍億家裝飾工程有限公司)	Shanghai	Shanghai	Home decoration design	2,000.00	—	100.00	
Shanghai Meihao Home Decorating Design Company Limited (上海美昊裝飾設計工程有限公司)	Shanghai	Shanghai	Home decoration design	250.00	—	100.00	
Shanghai Fengdilong Home Decorating Design Company Limited (上海峰迪龍裝飾設計工程有限公司)	Shanghai	Shanghai	Home decoration design	200.00	—	80.00	
Shanghai Jiading Construction Home Decorating Design Company Limited (上海家鼎建築裝飾設計工程有限公司)	Shanghai	Shanghai	Home decoration design	500.00	—	80.00	
Chongqing Jiaxin Home Decorating Design Company Limited (重慶家欣裝飾設計工程有限公司)	Chongqing	Chongqing	Home decoration design	200.00	—	70.00	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital RMB0'000	Shareholding ratio(%)		Comments
					Direct	Indirect	
Subsidiaries acquired through establishment, investment or other ways (continued)							
Shanghai Xinghe Zhaipei Home Furnishing Service Company Limited (上海星和宅配家居服務有限公司)	Shanghai	Shanghai	Home decoration design	2,000.00	100.00	—	
Shanghai Red Star Macalline Construction and decoration design Co., Ltd. (上海紅星美凱龍住建裝配設計有限公司)	Shanghai	Shanghai	Home decoration design	500.00	—	100.00	
Shanghai Xingjia Decoration and Building Materials Company Limited	Shanghai	Shanghai	Construction material markets	2,000.00	—	100.00	
Shanghai Betterhome Industrial Company Limited (上海家倍得實業有限公司)	Shanghai	Shanghai	Construction decorating	200.00	—	80.00	
Shanghai Red Star Macalline International Trading Company Limited (上海紅星美凱龍國際貿易有限公司)	Shanghai	Shanghai	Import and export	500.00	55.00	—	
Shanghai Red Star Macalline Home Furnishing Trading Company Limited (上海紅星美凱龍美居商貿有限公司)	Shanghai	Shanghai	Import and export	500.00	51.00	—	
Shanghai Red Star Macalline Labour Dispatch Company Limited (上海紅星美凱龍勞務派遣有限公司)	Shanghai	Shanghai	Labour dispatching	200.00	100.00	—	
Shanghai Red Star Macalline Brand Management Company Limited (上海紅星美凱龍品牌管理有限公司)	Shanghai	Shanghai	Brand management	500.00	100.00	—	
Beijing Red Star Macalline Furnishing Market Company Limited (北京紅星美凱龍家居市場有限公司)	Beijing	Beijing	Brand management	200.00	—	100.00	
Yangzhou Red Star Macalline International Home Furnishing Plaza Company Limited	Jiangsu	Jiangsu	Brand management	300.00	100.00	—	
Shanghai Red Star Macalline Home Decorating and Furnishing Market Management Company Limited (上海紅星美凱龍裝飾家居市場經營管理有限公司)	Shanghai	Shanghai	Brand management	50.00	—	100.00	
Chengdu Red Star Ogloria Brand Management Company Limited (成都紅星歐麗洛雅品牌管理有限公司)	Sichuan	Sichuan	Brand management	10,000.00	—	100.00	
Kunshan Red Star Macalline Global Home Furnishing Company Limited (昆山紅星美凱龍全球家居有限公司)	Jiangsu	Jiangsu	Brand management	100.00	100.00	—	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital	Shareholding ratio(%)		Comments
				RMB0'000	Direct	Indirect	
Subsidiaries acquired through establishment, investment or other ways (continued)							
Tongxiang Red Star Macalline Shibo Home Furnishing Plaza Management Company Limited (桐鄉紅星美凱龍世博家居廣場管理有限公司)	Zhejiang	Zhejiang	Brand management	50.00	100.00	—	
Beijing Red Star Macalline Business Management Company Limited (北京紅星美凱龍企業經營管理有限公司)	Beijing	Beijing	Brand management	300.00	90.00	10.00	
Wuxi Red Star Macalline Business Management Company Limited (無錫紅星美凱龍經營管理有限公司)	Jiangsu	Jiangsu	Brand management	100.00	70.00	30.00	
Quzhou Red Star Macalline Shibo Market Management Service Company Limited (衢州紅星美凱龍世博市場管理服務有限公司)	Zhejiang	Zhejiang	Brand management	100.00	100.00	—	
Shanghai Red Star Ogloria Brand Management Company Limited (上海紅星歐麗洛雅品牌管理有限公司)	Shanghai	Shanghai	Brand management	500.00	100.00	—	
Shanghai Xingyijia Brand Management Company Limited (上海星藝佳品牌管理有限公司)	Shanghai	Shanghai	Brand management	500.00	—	100.00	
Shanghai Jisheng Wellborn Global Home Furnishing Brand Management Company Limited	Shanghai	Shanghai	Management and consultancy	10,000.00	100.00	—	
Red Star Macalline Chengdu Business Management Company Limited (紅星美凱龍成都商業管理有限公司)	Sichuan	Sichuan	Management and consultancy	50,500.00	—	100.00	
Red Star Macalline Chengdu Enterprise Management Consulting Company Limited (紅星美凱龍成都企業管理諮詢有限公司)	Sichuan	Sichuan	Management and consultancy	50,500.00	—	100.00	
Red Star Macalline (Shanghai) Business Management Company Limited (紅星美凱龍(上海)企業管理有限公司)	Shanghai	Shanghai	Management and consultancy	10,000.00	100.00	—	
Red Star Macalline Enterprise Management Consulting Co., Ltd	Xinjiang Autonomous Region	Xinjiang Autonomous Region	corporation management consultant	10,000.00	100.00	—	
Red Star Ogloria Enterprise Management Company Limited	Xinjiang Autonomous Region	Xinjiang Autonomous Region	corporation management consultant	10,000.00	—	100.00	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital RMB0'000	Shareholding ratio(%)		Comments
					Direct	Indirect	
Subsidiaries acquired through establishment, investment or other ways (continued)							
Khorgos Red Star Macalline Business Management Company Limited	Xinjiang Autonomous Region	Xinjiang Autonomous Region	corporation management consultant	500.00	—	100.00	
Yantai Xinhuan Enterprise Management Company Limited (煙台欣歡企業管理有限公司)	Shandong	Shandong	corporation management consultant	500.00	—	100.00	
Zhengzhou Juankai Enterprise Management Consultation Company Limited (鄭州雋鑑企業管理諮詢有限公司)	Henan	Henan	corporation management consultant	265,000.00	—	100.00	
Shanghai Macalline Xinghe Asset Management Company Limited (上海美凱龍星荷資產管理有限公司)	Shanghai	Shanghai	corporation management consultant	1,000.00	100.00	—	
Shanghai Yumu Enterprise Management Company Limited (上海宇慕企業管理有限公司)	Shanghai	Shanghai	corporation management consultant	500.00	100.00	—	
Shanghai Yuxu Enterprise Management Company Limited (上海宇煦企業管理有限公司)	Shanghai	Shanghai	corporation management consultant	500.00	100.00	—	
Shanghai Yuzhu Enterprise Management Company Limited (上海宇築企業管理有限公司)	Shanghai	Shanghai	corporation management consultant	500.00	100.00	—	
Shanghai Yuxiao Enterprise Management Company Limited (上海宇霄企業管理有限公司)	Shanghai	Shanghai	corporation management consultant	500.00	100.00	—	
Zhengzhou Dongsheng Enterprise Management Company Limited (鄭州東晟企業管理有限公司)	Henan	Henan	corporation management consultant	500.00	—	100.00	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital RMB0'000	Shareholding ratio(%)		Comments
					Direct	Indirect	
Subsidiaries acquired through establishment, investment or other ways (continued)							
Longzhihui (Shanghai) Facility Management Services Company Limited (龍之惠(上海)設施管理服務有限公司)	Shanghai	Shanghai	corporation management consultant	500.00	—	50.00	2
Khorgos Hongju Corporate Management Co., Ltd. (霍爾果斯紅居企業管理有限公司)	Xinjiang Autonomous Region	Xinjiang Autonomous Region	corporation management consultant	1,000.00	70.00	—	
Chengdu Red Star Macalline Xinnan Business Management Company Limited	Chengdu	Chengdu	corporation management consultant	500.00	100.00	—	
Shanghai Huojing Business Management Company Limited (上海或京商業管理有限公司)	Shanghai	Shanghai	corporation management consultant	1,000.00	65.00	—	
Tianjin Jinrui Corporate Management Company Limited (天津津瑞企業管理有限公司)	Tianjin	Tianjin	corporation management consultant	71,286.98	100.00	—	
Shanghai Mengsheng Industrial Co., Ltd. (上海夢晟實業有限公司)	Shanghai	Shanghai	corporation management consultant	500.00	—	100.00	
Suzhou Industrial Park Huojinju Business Management Co., Ltd. (蘇州工業園區霍金聚商業管理有限公司)	Jiangsu	Jiangsu	corporation management consultant	100.00	—	100.00	
Wuhan Red Star Macalline Global Home Furnishing Plaza Development Company Limited (武漢紅星美凱龍環球家居廣場發展有限公司)	Hubei	Hubei	Site leasing management	14,993.93	100.00	—	
Hefei Red Star Macalline Shibo Furniture Plaza Company Limited (合肥紅星美凱龍世博家居廣場有限公司)	Anhui	Anhui	Site leasing management	34,984.83	100.00	—	
Nanjing Red Star Macalline International Home Living Company Limited (南京紅星美凱龍國際家居有限責任公司)	Jiangsu	Jiangsu	Site leasing management	76,401.70	100.00	—	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital	Shareholding ratio(%)		Comments
				RMB0'000	Direct	Indirect	
Subsidiaries acquired through establishment, investment or other ways (continued)							
Tianjin Red Star Macalline International Home Furnishing Expo Company Limited	Tianjin	Tianjin	Site leasing management	31,428.57	65.00	—	
Tianjin Red Star Macalline World Trade Home Furnishing Company Limited (天津紅星美凱龍世貿家居有限公司)	Tianjin	Tianjin	Site leasing management	20,000.00	100.00	—	
Harbin Red Star Macalline International Home Furnishing Company Limited (哈爾濱紅星美凱龍國際家居有限公司)	Heilongjiang	Heilongjiang	Site leasing management	34,981.80	100.00	—	
Changchun Red Star Macalline Shibo Home Living Plaza Company Limited (長春紅星美凱龍世博家居生活廣場有限公司)	Jilin	Jilin	Site leasing management	6,800.00	100.00	—	
Shanghai Xingyi Tonghui Business Service Company Limited	Shanghai	Shanghai	Commercial service	15,000.00	100.00	—	
Shanghai Red Star Macalline Financial Leasing Company Limited (上海紅星美凱龍融資租賃有限公司)	Shanghai	Shanghai	Equipment leasing	100,000.00	—	100.00	
Shanghai Ozing Digital Technology Co., Ltd. (上海好記星數碼科技有限公司)	Shanghai	Shanghai	Warehouse/Logistics	US\$2,000.00	—	100.00	
Bright Rainbow Investments Limited (合樂投資有限公司)	Hong Kong	Hong Kong	Market service, investment	US\$1,000.00	—	100.00	
Shanghai Red Star Macalline Global Home Furnishing Market Management Company Limited (上海紅星美凱龍全球家居市場經營管理有限公司)	Shanghai	Shanghai	Market Company	50.00	—	99.00	
Shanghai Red Star Ogloria Home Living Market Management Company Limited (上海紅星歐麗洛雅家居市場經營管理有限公司)	Shanghai	Shanghai	Market Company	50.00	100.00	—	
Shanghai Red Star Macalline Longmei Home Furnishing Market Management Company Limited (上海紅星美凱龍美家居市場經營管理有限公司)	Shanghai	Shanghai	Market Company	100.00	100.00	—	
Shanghai Jingdu Investment Company Limited (上海晶都投資有限公司)	Shanghai	Shanghai	Investment management	1,000.00	51.00	—	
Shanghai Red Star Macalline Business Consulting Company Limited (上海紅星美凱龍商務諮詢有限公司)	Shanghai	Shanghai	Investment management	100.00	65.00	—	
Shanghai Red Star Macalline Trading Company Limited (上海紅星美凱龍商貿有限公司)	Shanghai	Shanghai	Investment management	5,000.00	100.00	—	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital RMB0'000	Shareholding ratio(%)		Comments
					Direct	Indirect	
Subsidiaries acquired through establishment, investment or other ways (continued)							
Red Star Xizhao Investment Company Limited (紅星喜兆投資有限公司)	Tibet Autonomous Region	Tibet Autonomous Region	Investment management	10,000.00	90.00	—	
Red Star Macalline Home Furnishing Mall Management Company Limited	Tibet Autonomous Region	Tibet Autonomous Region	Investment management	5,000.00	100.00	—	
Shanghai Red Star Macalline Assets Management Company Limited (上海紅星美凱龍資產管理有限公司)	Shanghai	Shanghai	Investment management	5,000.00	—	70.00	
Shanghai Qixing Investment Company Limited (上海祁星投資有限公司)	Shanghai	Shanghai	Investment management	1,000.00	—	100.00	
Hong Kong Red Star Macalline Global Home Furnishing Company Limited (香港紅星美凱龍全球家居有限公司)	Hong Kong	Hong Kong	Investment management	10,000.00	100.00	—	
Shanghai Jiajinsuo Financial Technology Information Services Company Limited (上海家金所金融科技信息服務有限公司)	Shanghai	Shanghai	Investment management	10,000.00	—	70.00	
Shanghai Jiajinsuo Investment Holding Company Limited (上海家金所投資控股有限公司)	Shanghai	Shanghai	Investment management	20,000.00	70.00	—	
Shanghai Jiajinsuo Investment Management Company Limited (上海家金所投資管理有限公司)	Shanghai	Shanghai	Investment management	5,000.00	—	100.00	
Shanghai Fanju Network Technology Company Limited (上海泛居網絡科技有限公司)	Shanghai	Shanghai	Network technique	3,000.00	—	53.64	
Shanghai Huaixing Culture Company Limited (上海懷星文化發展有限公司)	Shanghai	Shanghai	Cultural and artistic exchange	200.00	80.00	—	
Red Star Macalline Group (Shanghai) Logistics Company Limited (紅星美凱龍家居集團(上海)物流有限公司)	Shanghai	Shanghai	Logistics service	10,000.00	60.00	—	
Henan Xixiliya Property Management Company Limited (河南西西里亞物業管理有限公司)	Henan	Henan	Property management	100.00	—	100.00	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital RMB0'000	Shareholding ratio(%)		Comments
					Direct	Indirect	
Subsidiaries acquired through establishment, investment or other ways (continued)							
Shanghai Red Star Macalline Design Cloud Information Technology Co., Ltd. (上海紅星美凱龍設計雲信息科技有限公司)	Shanghai	Shanghai	Information science and technology development	5,000.00	100.00	—	
Shanghai Red Star Macalline Commercial Factoring Company Limited	Shanghai	Shanghai	Accounts receivable financing	50,000.00	—	100.00	
Shanghai Red Star Macalline Exhibition service Company Limited	Shanghai	Shanghai	Exhibition services	500.00	55.00	—	
Nanning Red Star Macalline Shibo Home Furnishing Exhibition Centre Company Limited (南寧紅星美凱龍世博家居展覽中心有限公司)	Guangxi	Guangxi	Exhibition services	5,000.00	100.00	—	
Ningbo Meishan Bonded Port Area Xingkaiying Asset Management Company Limited	Zhejiang	Zhejiang	Assets management	1,000.00	—	51.00	
Changzhou Jiapindao Home Furnishing and Decorating Company Limited	Jiangsu	Jiangsu	Proprietary sales	100.00	—	100.00	
Shanghai Youmei Home Furnishing Company Limited	Shanghai	Shanghai	Proprietary sales	2,000.00	—	100.00	
Red Star Macalline Glory Casa (Shanghai) Home Furnishing Company Limited)	Shanghai	Shanghai	Proprietary sales	20,000.00	100.00	—	
Shanghai Red Star Macalline Installation of Construction and Furnishing Materials Technology Co., Ltd (上海紅星美凱龍住建裝配科技有限公司)	Shanghai	Shanghai	Corporation management consultant	500.00	—	100.00	
Subsidiaries merged from corporation not under the same control							
Shanghai Hongxin Oukai Home Furnishing Company Limited	Shanghai	Shanghai	Site leasing management	10,000.00	50.00	—	3
Shanghai Xinwei Property Company Limited	Shanghai	Shanghai	Site leasing management	5,000.00	40.00	56.00	
Chengdu Changyi Red Star Macalline Home Living Market Management Company Limited	Sichuan	Sichuan	Site leasing management	2,000.00	—	50.00	4

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital	Shareholding ratio(%)		Comments
				RMB0'000	Direct	Indirect	
Subsidiaries merged from corporation not under the same control (continued)							
Wuxi Red Star Macalline Home Furnishing Plaza Company Limited	Jiangsu	Jiangsu	Site leasing management	53,481.80	100.00	—	
Langfang Kaihong Home Living Plaza Company Limited	Hebei	Hebei	Site leasing management	10,000.00	70.00	—	
Hohhot Red Star Macalline Shibo Home Furnishing Plaza Company Limited	Inner Mongolia	Inner Mongolia	Site leasing management	10,000.00	100.00	—	
Kunming Diken Trading Company Limited	Yunnan	Yunnan	Site leasing management	100.00	63.00	—	
Suzhou Industry Park Zhongxiang Meitong Storage Company Limited	Jiangsu	Jiangsu	Site leasing management	10,000.00	55.00	—	
Ningbo Red Star Macalline Home Furnishing Shopping Plaza Company Limited (寧波紅星美凱龍家居購物廣場有限公司)	Zhejiang	Zhejiang	Site leasing management	8,000.00	80.00	20.00	
Zhengzhou Huashanghui Huarong Real Estate Co., Ltd. (鄭州華商匯華融置業有限公司)	Henan	Henan	Site leasing management	10,000.00	55.00	—	
Dalian Red Star Macalline Shibo Home Furnishing Plaza Company Limited (大連紅星美凱龍世博家居廣場有限公司)	Liaoning	Liaoning	Site leasing management	4,000.00	62.00	—	
Anhui Shengshi Dingtong Logistics Company Limited	Anhui	Anhui	Warehouse logistics	5,000.00	—	100.00	
Shanghai Dingsheng Construction Management and Design Company Limited	Shanghai	Shanghai	Engineering design	500.00	—	100.00	
Shanghai Betterhome Decoration Engineering Co., Ltd.	Shanghai	Shanghai	Home design	2,000.00	—	80.00	
Yintai (Yongqing) New City Investment Co., Ltd. (銀泰(永清)新城投資有限公司)	Hebei	Hebei	Industrial investment	10,000.00	—	70.00	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital RMB0'000	Shareholding ratio(%)		Comments
					Direct	Indirect	
Subsidiaries merged from corporation not under the same control (continued)							
Cangzhou Yintai Jiye Construction and Development Co., Ltd. (滄州銀泰基業建設開發有限公司)	Hebei	Hebei	Building construction	10,000.00	—	53.00	
Laishui Yintai Tourism Development Co., Ltd. (涇水銀泰旅遊開發有限公司)	Hebei	Hebei	Tourism development	1,000.00	—	57.00	
Shanghai Xingyijia Business Management Co., Ltd. (上海星藝佳商業管理有限公司)	Shanghai	Shanghai	Management consulting	1,000.00	100.00	—	
Shanghai Zengmin Enterprise Management Co., Ltd. (上海增敏企業管理有限公司)	Shanghai	Shanghai	Management consulting	10.00	—	100.00	
Zhengzhou Red Star Macalline Global Home Living Plaza Management Company Limited	Henan	Henan	Market company	100.00	51.00	9.31	
Anhui Tenghui Investment Group Hefei Company Limited	Anhui	Anhui	Investment management	20,000.00	100.00	—	
Shanghai Red Star Macalline Intellectual Property Agency Company Limited	Shanghai	Shanghai	Intellectual property	50.00	—	100.00	
Subsidiaries merged from corporation under the same control							
Changzhou Macalline International Computer and Electronics Furnishing Plaza Co., Ltd.	Jiangsu	Jiangsu	Site leasing management	1,000.00	100.00	—	
Changzhou World Furniture and Home Plaza Co. Ltd.	Jiangsu	Jiangsu	Site leasing management	500.00	100.00	—	
Wuxi Red Star International Home Furnishing Company Limited	Jiangsu	Jiangsu	Site leasing management	5,000.00	90.00	10.00	
Lianyungang Red Star International Home Furnishing Plaza Company Limited	Jiangsu	Jiangsu	Site leasing management	300.00	60.00	40.00	
Nanjing Red Star International Home Furnishing Mall Company Limited	Jiangsu	Jiangsu	Site leasing management	2,000.00	100.00	—	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital RMB0'000	Shareholding ratio(%)		Comments
					Direct	Indirect	
Subsidiaries merged from corporation under the same control (continued)							
Nanjing Mingdu Home Furnishing Plaza Company Limited	Jiangsu	Jiangsu	Site leasing management	8,000.00	60.00	40.00	
Shanghai Red Star Macalline Decorative Furniture Mall Co., Ltd	Shanghai	Shanghai	Site leasing management	5,000.00	89.00	5.00	
Shanghai Red Star Macalline Global Home Furnishing Company Limited	Shanghai	Shanghai	Site leasing management	15,000.00	100.00	—	
Shanghai Shanhai Art Furniture Company Limited	Shanghai	Shanghai	Site leasing management	24,255.00	—	100.00	
Changsha Red Star Macalline International Home Furnishing Art Expo Company Limited	Hunan	Hunan	Site leasing management	300.00	100.00	—	
Jinan Red Star Macalline Shibo Home Living Plaza Company Limited	Shandong	Shandong	Site leasing management	10,260.00	70.00	—	
Chengdu Red Star Macalline Shibo Home Living Plaza Company Limited	Sichuan	Sichuan	Site leasing management	3,000.00	100.00	—	
Zhengzhou Red Star Macalline International Home Furnishing Company Limited	Henan	Henan	Site leasing management	3,000.00	51.00	9.31	
Chongqing Red Star Macalline Shibo Home Living Plaza Company Limited	Chongqing	Chongqing	Site leasing management	3,000.00	100.00	—	
Changzhou Hongyang Home Furnishing Plaza Company Limited	Jiangsu	Jiangsu	Site leasing management	6,000.00	—	26.00	5
Shenyang Red Star Macalline Home Living Expo Company Limited (瀋陽紅星美凱龍博覽家居有限公司)	Liaoning	Liaoning	Site leasing management	5,000.00	100.00	—	
Beijing Red Star Macalline International Home Furnishing Plaza Company Limited	Beijing	Beijing	Site leasing management	5,000.00	100.00	—	
Beijing Red Star Macalline Shibo Furniture Plaza Company Limited	Beijing	Beijing	Site leasing management	2,999.00	100.00	—	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Subsidiary name	Main business site	Place of incorporation	Nature of business	Registered capital RMB0'000	Shareholding ratio(%)		Comments
					Direct	Indirect	
Subsidiaries merged from corporation under the same control (continued)							
Red Star Macalline Global (Beijing) Home Furnishing Plaza Company Limited	Beijing	Beijing	Site leasing management	1,000.00	—	100.00	
Baotou Red Star Macalline Home Furnishing Plaza Company Limited	Inner Mongolia Autonomous Region	Inner Mongolia Autonomous Region	Site leasing management	500.00	100.00	—	
Shanghai Hongmei E-Commerce Company Limited	Shanghai	Shanghai	E-commerce	5,000.00	100.00	—	
Shanghai Red Star Macalline Advertising Company Limited	Shanghai	Shanghai	Advertisement company	100.00	—	100.00	
Jiangsu Sunan Construction Company Limited	Jiangsu	Jiangsu	Building construction	20,000.00	100.00	—	
Shanghai Red Star Macalline Home Furnishing Market Management Company Limited	Shanghai	Shanghai	Market company	2,000.00	90.00	—	
Changzhou Red Star Macalline Home Furnishing and Decorating Market Company Limited	Jiangsu	Jiangsu	Market company	500.00	—	100.00	
Shanghai Red Star Macalline Home Furnishing and Decorating Market Management Company Limited	Shanghai	Shanghai	Market company	300.00	45.00	52.00	
Beijing Macalline Home Furnishing Material Market Company Limited	Beijing	Beijing	Market company	300.00	20.00	80.00	
Beijing Red Star Macalline Shibo Home Furnishing Plaza Company Limited	Beijing	Beijing	Market company	200.00	—	100.00	
Shanghai Xingkai Chengpeng Business Management Company Limited	Shanghai	Shanghai	Investment management	1,000.00	100.00	—	
Shanghai Red Star Macalline Industrial Company Limited	Shanghai	Shanghai	Investment management	10,000.00	100.00	—	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

- Note 1:* Shanghai Red Star Macalline International Trading Company Limited controlled by the Group accounts 55% of the percentage of equity of Shanghai Ditu Home Furnishing Company Limited** (上海締圖家居有限公司). Pursuant to the Articles of Association, resolutions of the general meeting shall be approved by shareholders representing at least half of voting rights of the whole shareholders, and the Group has the rights to exercise control over it.
- Note 2:* Other shareholders of Longzhihui (Shanghai) Facility Management Services Co., Ltd. will not participate in the specific operation and management of Company and the Group has the rights to determine its financial and operational policies, and could exercise control over it.
- Note 3:* The board of directors of Shanghai Hongxin Oukai Home Furnishing Company Limited totally sets five seats. CHE Jianxing, the chairman of the Group, serves as its chairman and CHE Jianfang serves as its director, and they could exercise control over it.
- Note 4:* The board of directors of Chengdu Changyi Red Star Macalline Home Living Market Management Company Limited totally sets five seats, three of which were appointed by the Group. CHE Jianxing serves as the chairman, and the Group could exercise control over it.
- Note 5:* Changzhou Hongyang Home Furnishing Plaza Company Limited has one executive director, and is served by CHE Jianxing of the Group, and the duties of general manager and legal representative are concurrently served by the executive director, and the Group could exercise control over it.

The statements of that the shareholding ratio in the subsidiary is different from the proportion of voting rights are as follows:

Pursuant to the relevant contracts signed between the Company and Shandong Lotus Group Company Limited, a shareholder of Jinan Red Star Macalline Shibo Home Living Plaza Company Limited, upon completion of the properties under relevant cooperation projects, certain property ownership will be vested in Shandong Lotus Group Company Limited and leased and used by the Group. The lease term shall be 10 years starting from the formal commence date of the project (2010 to 2020) and Shandong Lotus Group Company Limited shall be entitled to fixed rental return. Shandong Lotus Group Company Limited will not participate in the daily operation and management of Jinan Red Star and will not be entitled to other profit distributions. As stipulated in relevant contracts, the Group will reclassify the capital contribution made by Shandong Lotus Group Company Limited to liabilities, which will not be accounted as equity instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

Pursuant to the relevant contracts signed between the Company and Beijing Chaoyang Huayuan North Nong Gong Shang Company (北京市朝陽北花園農工商公司), a shareholder of Beijing Century Europe and America Business Investment Company Limited** (北京世紀歐美商業投資有限公司). During the cooperation period of the project, the Group will undertake the contracting of operation of Beijing Europe and America Business and, starting from the date after twelve months of the formal commencement of the project, pay the fixed contracting profit to Beijing Chaoyang Huayuan North Nong Gong Shang Company (北京市朝陽北花園農工商公司). The cooperation and operation period shall be 50 years (2011 to 2060). Upon expiry of the cooperation and operation period, all land parcels, properties and unmovable facilities of the project company will be shared among the shareholders of both parties on a pro rata basis based on the registered capital. As stipulated in relevant contracts, the Group will reclassify the capital contribution made by Beijing Chaoyang Huayuan North Nong Gong Shang Company (北京市朝陽北花園農工商公司) to liabilities, which will not be accounted as equity instruments.

Pursuant to the relevant contracts signed between the Company and Changzhou Wujin Sanyang Shopping Centre Company Limited (常州武進三陽購物中心有限公司), a shareholder of Changzhou Hongyang Home Furnishing Plaza Company Limited, within 21 years starting from 2009, Changzhou Wujin Sanyang Shopping Centre Company Limited shall be entitled to fixed returns and will not be entitled to other profit distributions of Changzhou Hongyang Home Furnishing Plaza Company Limited. Commencing from the 22nd year, both parties shall rank *pari passu* in terms of shareholdings and rights and jointly assume profits and losses. As stipulated in relevant contracts, the Group will divide the corresponding minority interests into two parts, namely financial liabilities and equity instruments, and make separate presentation.

Pursuant to the relevant contracts signed between the Company and Chengdu Great Wall Industrial Group Company Limited, a shareholder of Chengdu Changyi Red Star Macalline Home Living Market Management Company Limited** (成都長益紅星美凱龍家居市場經營管理有限公司), within 10 years starting from 2017, Chengdu Great Wall Industrial Group Company Limited shall be entitled to fixed returns and will not be entitled to other profit distributions of Chengdu Changyi Red Star Macalline Home Living Market Management Company Limited. As stipulated in the relevant contracts, the Company will divide the corresponding minority interests into two parts, namely financial liabilities and equity instruments, and make separate presentation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

There are subsidiaries with important minority shareholders' equity, such as Zhengzhou Red Star Macalline International Home Furnishing Company Limited** (鄭州紅星美凱龍國際家居有限公司) (hereinafter referred to as "Zhengzhou Red Star"), Dalian Red Star Macalline Shibo Home Plaza Company Limited** (大連紅星美凱龍世博家居廣場有限公司) (hereinafter referred to as "Dalian Red Star"), Yintai (Yongqing) New City Investment Company Limited** (銀泰(永清)新城投資有限公司) (hereinafter referred to as "Yintai New City Investment"), and Chengdu Changyi Red Star Macalline Home Living Market Management Company Limited** (成都長益紅星美凱龍家居市場經營管理有限公司) (hereinafter referred to as "Chengdu Changyi"), details as follows:

2018

	Minority shareholders' interests ratio	Profit/loss attributable to minority shareholders	Dividends paid to minority shareholders	Accumulated minority shareholders interests by the end of year
Zhengzhou Red Star	39.69%	81,766,859.66	52,919,413.37	896,423,908.60
Yintai New City Investment	30.00%	319,815.03	—	432,049,914.18
Chengdu Changyi	50.00%	21,578,351.95	—	364,417,848.91

2017

	Minority shareholders' interests ratio	Profit/loss attributable to minority shareholders	Pay dividend to minority shareholders	Accumulated minority shareholders interests by the end of years
Zhengzhou Red Star	40.50%	124,852,136.50	63,769,654.35	867,576,462.31
Chengdu Changyi	50.00%	14,385,541.86	—	344,839,716.14

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

The following table illustrates the financial information of above-mentioned subsidiaries. This information represents the amounts of subsidiaries excluding elimination of the Group:

2018	Zhengzhou Red Star	Yintai New City Investment	Chengdu Changyi
Current assets	1,064,749,991.54	36,906,323.85	451,839,023.10
Non-current assets	3,312,336,742.56	2,187,586,210.15	1,229,596,693.53
Total assets	4,377,086,734.10	2,224,492,534.00	1,681,435,716.63
Current liabilities	1,036,249,982.69	309,261,363.32	368,935,529.00
Non-current liabilities	938,693,550.68	475,064,790.08	283,664,489.81
Total liabilities	1,974,943,533.37	784,326,153.40	652,600,018.81
Revenue	326,194,749.72	—	69,794,342.11
Net profit	206,013,755.75	1,066,050.10	39,156,265.54
Total comprehensive income	206,013,755.75	1,066,050.10	39,156,265.54
Net cash flow from operating activities	231,929,613.55	8,813,582.98	43,156,703.90

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (Continued)

2017	Zhengzhou Red Star	Chengdu Changyi
Current assets	245,887,923.58	345,133,780.12
Non-current assets	3,277,889,912.88	1,321,545,358.78
Total assets	3,523,777,836.46	1,666,679,138.90
Current liabilities	253,551,550.05	63,950,135.11
Non-current liabilities	1,074,096,841.43	613,049,571.52
Total liabilities	1,327,648,391.48	676,999,706.63
Revenue	269,142,174.93	70,621,775.80
Net profit	309,454,309.46	83,466,720.76
Total comprehensive income	309,454,309.46	83,466,720.76
Net cash flow from operating activities	106,673,090.68	28,767,348.61

2. Transactions with Changes in Equities Attributable to Shareholders of Subsidiaries and without Affecting Control over it

In June 2018, the Group acquired 30% equity interest in Changchun Red Star Macalline International Home Furnishing Co., Ltd. (hereinafter referred to as the "Changchun Red Star") from minority shareholders of Changchun Red Star, at RMB350,000,000.00. After the completion of the acquisition, equities of Changchun Red Star attributable to the Group increased from 70% to 100%, writing down capital reserve by RMB217,271,045.23.

In February 2018, the Group acquired 30% equity interest in Shanghai Betterhome Decoration Engineering Co., Ltd. (hereinafter referred to as the "Betterhome Decoration") from minority shareholders of Betterhome Decoration, at RMB51,000,000.00. After the completion of the acquisition, equities of Betterhome Decoration attributable to the Group increased from 50% to 80%, writing down capital reserve by RMB42,529,830.35.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Transactions with Changes in Equities Attributable to Shareholders of Subsidiaries and without Affecting Control over it (Continued)

In January 2018, the Group acquired 27% equity interest in Shenyang Red Star Macalline Shibo Home Furnishing Company Limited(hereinafter referred to as the “Shenyang Red Star”) from minority shareholders of Shenyang Red Star with RMB12,296,340.00 in cash, RMB34,079,044.40 in debt exemption, and other non-current assets with fair value of RMB215,026,964.96 as consideration. After the completion of the acquisition, equities of Shenyang Red Star attributable to the Group increased from 73% to 100%, writing down capital reserve by RMB0.00.

Impact of transactions on equities of minority shareholders and attributable to owners of the Company:

	Changchun Red Star	Betterhome Decoration	Shenyang Shibo	Total
Purchase cost				
Cash	350,000,000.00	51,000,000.00	12,296,340.00	413,296,340.00
Debt exemption	—	—	34,079,044.40	34,079,044.40
Other non-current assets	—	—	215,026,964.96	215,026,964.96
Total purchase cost and consideration	350,000,000.00	51,000,000.00	261,402,349.36	662,402,349.36
Less: the share of net assets of the subsidiary calculated based on the percentage of equity acquired	132,728,954.77	8,470,169.66	261,402,349.36	402,601,473.79
Differences	217,271,045.23	42,529,830.36	—	259,800,875.59
Including: Capital reserve adjustment	217,271,045.23	42,529,830.36	—	260,600,875.59

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

3. Interests in Joint Ventures and Associates

	Main business site	Place of incorporation	Nature of Business	Registered Capital	Shareholding ratio (%)		Accounting Treatment	Note
					Direct	Indirect		
Joint ventures								
Shanghai Mingyi Enterprise Development Co., Ltd. (上海名藝商業企業發展有限公司)	Shanghai	Shanghai	Leasing and commercial services	RMB10.0000 million	50.00	—	Equity method	
Nanchang Red Star Macalline Global Home Expo Center Co., Ltd. (南昌紅星美凱龍環球家居博覽中心有限責任公司)	Jiangxi	Jiangxi	Leasing and commercial services	RMB50.0000 million	54.00	—	Equity method	1
Wuhu Red Star Macalline Equity Investment Fund Management Company Limited (蕪湖紅星美凱龍股權投資基金管理有限公司)	Anhui	Anhui	Leasing and commercial services	RMB20.0000 million	—	50.00	Equity method	
Xiamen Baoxiang Red Star Macalline Home Furnishing Plaza Company Limited (廈門寶象紅星美凱龍家居生活廣場有限公司)	Fujian	Fujian	Wholesale and retail	RMB30.0000 million	50.00	—	Equity method	
Yongqing Yintai New City Construction Development Co., Ltd. (永清銀泰新城建設開發有限公司)	Hebei	Hebei	Construction	RMB100.0000 million	—	30.00	Equity method	2
Yongqing Yintong Construction Development Co., Ltd. (永清銀通建設開發有限公司)	Hebei	Hebei	Construction	RMB50.0000 million	—	30.00	Equity method	3
Chengdu Dongtai Shopping Mall Company Limited (成都東泰商城有限公司)	Sichuan	Sichuan	Real estate	RMB83.0000 million	50.00	—	Equity method	
Shenzhen Red Star Macalline Business Management Company Limited (深圳紅星美凱龍商業管理有限公司)	Guangdong	Guangdong	Leasing and commercial services	RMB10.0000 million	60.00	—	Equity method	4
Associates								
Shanghai Zhongmao Red Star Macalline Economy & Trade Development Co., Ltd. (上海中貿美凱龍經貿發展有限公司)	Shanghai	Shanghai	Wholesale and retail	RMB5.0000 million	—	22.00	Equity method	
Meiwu 365 (Tianjin) Technology Company Limited (美屋三六五(天津)科技有限公司)	Tianjin	Tianjin	Science research and technology service	RMB0.9455 million	8.84	—	Equity method	5
ArtPollo Network Technology (Beijing) Company Limited (愛波羅網絡科技(北京)有限公司)	Beijing	Beijing	Science research and technology services	RMB1.4522 million	—	15.00	Equity method	5

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

3. Interests in Joint Ventures and Associates (Continued)

	Main business site	Place of incorporation	Nature of Business	Registered Capital	Shareholding ratio (%)		Accounting Treatment	Note
					Direct	Indirect		
Associates (continued)								
Shanghai Tianhe Smart Home Technology Company Ltd. (上海天合智能科技股份有限公司)	Shanghai	Shanghai	Science research and technology services	RMB56.8025 million	—	10.00	Equity method	5
Ant Anju (Tianjin) Network Technology Co., Ltd. (蟻安居(天津)網絡技術有限公司)	Tianjin	Tianjin	Science research and technology services	RMB28.8450 million	—	16.67	Equity method	5
Shanghai UIOT Technology Company Limited (上海紫光樂聯物聯網科技有限公司)	Shanghai	Shanghai	Science research and technology services	RMB25.2367 million	—	15.03	Equity method	5
Beijing Canny-Robot Technology Co., Ltd. (北京康力優藍機器人科技有限公司)	Beijing	Beijing	Science research and technology services	RMB23.4009 million	—	6.00	Equity method	5
Shanghai Yibaimi Network Technology Co., Ltd. (上海壹佰米網絡科技有限公司)	Shanghai	Shanghai	Science research and technology services	RMB9.8661 million	—	12.02	Equity method	5
Jiangsu Baili Aija Home Technology Co., Ltd. (江蘇佰麗愛家居科技有限公司)	Jiangsu	Jiangsu	Science research and technology services	RMB17.2712 million	—	10.00	Equity method	5
BigZone Information Technology (Shanghai) Co., Ltd. (大域信息科技(上海)有限公司)	Shanghai	Shanghai	Science research and technology services	RMB12.3530 million	—	14.29	Equity method	5
Hangzhou Red Star Macalline Global Home Living Company Limited (杭州紅星美凱龍環球家居有限公司)	Zhejiang	Zhejiang	Wholesale and retail	RMB100.0000 million	19.00	—	Equity method	5
Qianzhi (Shanghai) Home Living Company Limited (乾智(上海)家居有限公司)	Shanghai	Shanghai	Wholesale and retail	RMB5.0000 million	30.00	—	Equity method	
Shanxi Red Star Heji Home Shopping Plaza Company Limited (陝西紅星和記家居購物廣場有限公司)	Shaanxi	Shaanxi	Wholesale and retail	RMB25.0000 million	18.00	—	Equity method	5
Klas International Home Living Company Limited (克拉斯國際家居有限公司)	Beijing	Beijing	Wholesale and retail	RMB200.0000 million	—	30.00	Equity method	
Shanghai Qiangshang Environmental Protection Technology Co., Ltd. (上海牆尚環保科技有限公司)	Shanghai	Shanghai	Wholesale and retail	RMB13.8866 million	—	7.2	Equity method	5
Zhejiang Zhongguang Electric Appliances Co., Ltd. (浙江中廣電器股份有限公司)	Zhejiang	Zhejiang	Wholesale and retail	RMB121.0000 million	—	8.00	Equity method	5

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

3. Interests in Joint Ventures and Associates (Continued)

	Main business site	Place of incorporation	Nature of Business	Registered Capital	Shareholding ratio (%)		Accounting Treatment	Note
					Direct	Indirect		
Associates (continued)								
Shanghai Harbour Home Investment Management Co., Ltd. (上海灣寓投資管理有限公司)	Shanghai	Shanghai	Leasing and commercial services	RMB13.6511 million	—	4.94	Equity method	5
Shenzhen Red Star Macalline Century Center Home Furnishing Plaza Company Limited (深圳紅星美凱龍世紀中心家居生活廣場有限公司)	Guangdong	Guangdong	Leasing and commercial services	RMB5.0000 million	—	37.00	Equity method	
Shenzhen Huasheng Home Furnishing Group Co., Ltd. (深圳華生大家居集團有限公司)	Guangdong	Guangdong	Leasing and commercial services	RMB39.6825 million	—	9.00	Equity method	5
Handan Fengfengkuang District Royal Property Development Company Limited (邯鄲市峰峰礦區皇室房地產開發有限公司)	Hebei	Hebei	Real estate	RMB50.0000 million	—	20.00	Equity method	
Handan Red Star Royal Properties Co., Ltd. (邯鄲市紅星皇室置業有限公司)	Hebei	Hebei	Real estate	RMB20.0000 million	—	20.00	Equity method	
Weifang Binxing Properties Co., Ltd. (濰坊濱星置業有限公司)	Shandong	Shandong	Real estate	RMB300.0000 million	—	30.00	Equity method	
Wuhan Zhengkai Logistics Co., Ltd. (武漢市正凱物流有限公司)	Hubei	Hubei	Transportation, storage and postage	RMB60.0000 million	18.00	—	Equity method	5
Chengdu Jujiatong Engineering Consultant Inc (成都居家通物流有限責任公司)	Sichuan	Sichuan	Transportation, storage and postage	RMB6.6667 million	—	16.67	Equity method	5
SUNSEAPARKINGINC.	Cayman	Cayman	Transportation, storage and postage	RMB60.0000 million	—	15.00	Equity method	5
Suzhou Supin Furniture Co., Ltd. (蘇州市蘇品傢俱有限公司)	Jiangsu	Jiangsu	Manufacture	RMB23.4907 million	—	15.00	Equity method	5
LEAWOD door and window profiles company (四川良木道門窗型材有限公司)	Sichuan	Sichuan	Manufacture	RMB80.0000 million	—	24.20	Equity method	
Zhongshan Weifa Household Products Co., Ltd. (中山市威法家居製品有限公司)	Guangdong	Guangdong	Manufacture	RMB16.6583 million	—	13.00	Equity method	5
Shanghai Jiazhan Construction Engineering Company Limited (上海嘉辰建築裝潢工程有限公司)	Shanghai	Shanghai	Construction	RMB20.4083 million	4.90	—	Equity method	5

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

3. Interests in Joint Ventures and Associates (Continued)

	Main business site	Place of incorporation	Nature of Business	Registered Capital	Shareholding ratio (%)		Accounting Treatment	Note
					Direct	Indirect		
Associates (continued)								
Liaoning Cheng'an Fire Fighting Construction Co., Ltd. (遼寧誠安建設有限公司)	Liaoning	Liaoning	Construction	RMB35.2950 million	—	30.00	Equity method	
Guangzhou Huoshu Yinhua Information Technology Co., Ltd. (廣州火數銀花信息科技有限公司)	Guangdong	Guangdong	Information transmission, software and information technology services	RMB11.1111 million	—	9.00	Equity method	5
Guangdong Sanweijia Information Technology Co., Ltd. (廣東三維家信息科技有限公司)	Guangdong	Guangdong	Information transmission, software and information technology services	RMB11.1112 million	—	15.00	Equity method	5
Haier Consume Financing Company Limited (海爾消費金融有限公司)	Shandong	Shandong	Finance	RMB1,000.0000 million	—	25.00	Equity method	
Wuhu Meihe Asset Management Company Limited (蕪湖美和資產管理有限公司)	Anhui	Anhui	Finance	RMB1.0000 million	—	49.00	Equity method	
Shenyudao Cultural Tourism Holding Co., Ltd. (神玉島文化旅遊控股股份有限公司)	Hainan	Hainan	Residential services, maintenance and other services	RMB300.0000 million	35.00	—	Equity method	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

3. Interests in Joint Ventures and Associates (Continued)

Note 1: Pursuant to the Articles of Association, resolution of meetings of the Board should be made and implemented after the unanimous consent of all directors. Therefore, Nanchang Red Star Macalline Global Home Expo Center Co., Ltd. is a joint venture.

Note 2: Pursuant to the Articles of Association, the Board comprises three directors, including two appointed by Yintai Future Land (銀泰新城) as a subsidiary of the Group and one appointed by Beijing Yatong Real Estate Development Co., Ltd. (北京亞通房地產開發有限責任公司) as another director. Meanwhile, resolution of meetings of the Board should be approved with the unanimous consent of all directors. Therefore, Yongqing Yintai Future Land Construction And Development Co., Ltd is a joint venture of the Group.

Note 3: Pursuant to the Articles of Association, the Board comprises three directors, including two appointed by Yintai New City Investment (銀泰新城投資) as a subsidiary of the Group and one appointed by Beijing Yatong Real Estate Development Co., Ltd. as another director. Meanwhile, resolution of meetings of the Board should be approved with the unanimous consent of all directors. Therefore, Yongqing Yintong Construction And Development Co., Ltd. (永清銀通建設開發有限公司) is a joint venture of the Group.

Note 4: The daily operation and management of the Company requires unanimous consent of both parties. Therefore, Shenzhen Red Star Macalline Business Management Company Limited (深圳紅星美凱龍商業管理有限公司) is a joint venture.

Note 5: The Group delegates directors to the Company, which has significant influence to the Company.

Chengdu Dongtai Shopping Mall Company Limited, a material joint venture of the Group, is mainly engaged in site leasing management service and accounted for adopting the equity method. The investment is not strategic to the Group's activities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

3. Interests in Joint Ventures and Associates (Continued)

The following table illustrates the financial information of Chengdu Dongtai Shopping Mall Company Limited, which was adjusted to book value per consolidated financial statements in accordance with the all accounting policies:

	2018	2017
Current assets	414,184,788.69	345,450,012.65
Including: cash and cash equivalents	107,020,013.70	76,713,271.88
Non-current assets	1,877,673,835.57	1,728,407,680.70
Total assets	2,291,858,624.26	2,073,857,693.35
Current liabilities	94,547,054.26	109,493,177.47
Non-current liabilities	400,714,909.18	359,328,872.11
Total liabilities	495,261,963.44	468,822,049.58
Net assets share calculated based on the percentage of shareholding	898,298,330.41	802,517,821.89
Book value in the investment	898,298,330.41	802,517,821.89

	2018	2017
Revenue	160,082,195.90	161,141,074.76
Financial expenses	(1,544,673.97)	1,248,742.59
Income tax expense	63,426,956.73	69,233,962.41
Net profit	225,953,954.82	206,544,404.39
Total comprehensive income	225,953,954.82	206,544,404.39

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

3. Interests in Joint Ventures and Associates (Continued)

Haier Consume Financing Company Limited, a material joint venture investment of the Group, is mainly engaged in service in financial industry and accounted for adopting the equity method. The investment is not strategic to the Group's activities.

The following table illustrates the financial information of Haier Consume Financing Company Limited, which was adjusted to book value per consolidated financial statements in accordance with the all accounting policies:

	2018	2017
Current assets	11,694,909,823.93	5,302,281,433.61
Including: Cash and cash equivalents	1,067,380,418.52	133,677,383.62
Non-current assets	133,353,755.82	486,418,749.15
Total assets	11,828,263,579.75	5,788,700,182.76
Current liabilities	2,943,304,721.85	3,261,497,303.87
Non-current liabilities	7,620,000,000.00	1,930,000,000.00
Total liabilities	10,563,304,721.85	5,191,497,303.87
Net assets share calculated based on the percentage of shareholding	316,239,714.48	149,300,719.72
Book value in the investment	307,746,162.44	140,817,361.27

	2018	2017
Revenue	1,048,479,712.45	253,481,525.10
Financial expenses	(626,585,106.24)	(86,647,917.38)
Income tax expenses	56,028,509.87	15,939,598.46
Net profit	167,715,204.68	47,688,140.74
Total comprehensive income	167,715,204.68	47,688,140.74

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

3. Interests in Joint Ventures and Associates (Continued)

The following table illustrates the consolidated financial information on unimportant joint ventures and associates:

	2018	2017
Joint ventures		
Total book value of the investments	175,838,416.91	60,793,848.52
The aggregate of following items calculated based on the percentage of shareholding		
– Net profit	22,522,717.15	21,137,065.50
– Other comprehensive income	–	–
– Total comprehensive income	22,522,717.15	21,137,065.50
Associates		
Total book value of the investments	1,644,218,218.73	609,689,263.07
The aggregate of following items calculated based on the percentage of shareholding		
– Net profit	91,549,008.42	17,937,533.97
– Other comprehensive income	–	–
– Total comprehensive income	91,549,008.42	17,937,533.97

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. Classification of Financial Instruments

The book values of various financial instruments on the balance sheet date are as follows:

2018

Financial assets

	Financial assets at fair value through profit or loss			Measured at fair value through other comprehensive income		Total
	Required by the standards	Designated	Measured at amortized cost	Required by the standards	Designated	
Cash and bank balance	–	–	8,527,607,964.92	–	–	8,527,607,964.92
Financial assets held for trading	236,256,219.87	–	–	–	–	236,256,219.87
Notes receivable and accounts receivable	–	–	1,687,918,584.76	–	–	1,687,918,584.76
Contract assets	–	–	807,109,773.17	–	–	807,109,773.17
Other receivables	–	–	1,936,025,518.72	–	–	1,936,025,518.72
Non-current assets due within one year	–	–	314,950,000.00	–	–	314,950,000.00
Other current assets	–	–	1,116,166,866.66	55,000,000.00	–	1,171,166,866.66
Long-term receivables	–	–	1,795,159,925.01	–	–	1,795,159,925.01
Other equity instrument investments	–	–	–	–	3,302,748,467.57	3,302,748,467.57
Other non-current financial assets	324,850,000.00	–	–	–	–	324,850,000.00
Other non-current assets	–	–	509,121,312.81	–	–	509,121,312.81
	561,106,219.87	–	16,694,059,946.05	55,000,000.00	3,302,748,467.57	20,621,914,633.49

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of Financial Instruments (Continued)

2018 (continued)

Financial liabilities

	Financial liabilities measured at amortized cost
Notes payable and accounts payable	970,116,980.34
Other payables	8,695,651,670.29
Long-term payables	1,385,921,007.85
Short-term loans	5,148,516,740.00
Non-current liabilities due within one year	3,948,619,684.75
Other current liabilities	1,000,000,000.00
Long-term loans	14,306,362,773.00
Bonds payable	7,156,394,519.96
Other non-current liabilities	4,786,623,154.06
	<u>47,398,206,530.25</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of Financial Instruments (Continued)

2017

Financial assets

	Financial assets at fair value through profit or loss					Total
	At the time of initial recognition	For trading	Measured at amortized cost	Loans and receivables	Available-for-sale financial assets	
Cash and bank balance	—	—	10,626,917,788.54	—	—	10,626,917,788.54
Notes receivable and accounts receivable	—	—	—	1,170,430,013.77	—	1,170,430,013.77
Other receivables	—	—	—	1,734,498,124.83	—	1,734,498,124.83
Non-current assets due within one year	—	—	—	120,000,000.00	—	120,000,000.00
Other current assets	—	—	—	250,000,000.00	3,000,000.00	253,000,000.00
Available-for-sale financial assets	—	—	—	—	3,062,451,062.40	3,062,451,062.40
Long-term receivables	—	—	—	1,301,785,294.30	—	1,301,785,294.30
Other non-current assets	—	—	—	608,369,577.66	—	608,369,577.66
	—	—	10,626,917,788.54	5,185,083,010.56	3,065,451,062.40	18,877,451,861.50

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of Financial Instruments (Continued)

2017 (continued)

Financial liabilities

	Financial liabilities measured at amortized cost
Notes payable and accounts payable	491,215,018.66
Other payables	7,517,400,891.86
Long-term payables	1,415,698,075.42
Short-term loans	300,010,000.00
Non-current liabilities due within one year	9,550,075,473.97
Long-term loans	11,372,664,484.81
Bonds payable	4,896,478,160.15
Other non-current liabilities	2,359,400,000.00
	<hr/>
	37,902,942,104.87

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Risks of Financial Instruments

The Group faces various risks of financial instruments during daily activities, mainly including credit risks, liquidity risks and market risks (including foreign exchange risk, interest rate risk and price risk). Major financial instruments of the Group include cash and bank, equity investments, debt investments, notes receivable and accounts receivable, other receivables, contract assets, non-current assets due within one year, other current assets, long-term receivables, other non-current assets, notes payable and accounts payable, other payables, short-term loans, long-term loans, non-current liabilities due within one year, bonds payable, long-term payables and other non-current liabilities. The following will show the risks relating to these financial instruments and the risk management policies the Group adopted to reduce the relative risks.

The Board is responsible for planning and establishing the risk management structure of the Group, working out the risk management policies and relevant guidelines of the Group and supervising the implementation of the risk management measures. The Group has worked out risk management policies to identify and analyze the risks it faced. These risk management policies have clearly defined specific risks, covering market risk, credit risk and liquidity risk management. The Group regularly assesses changes in the market environment and its operating activities to decide whether or not to update the risk management policies and systems. The Group's risk management is conducted by the risk management committee according to the policies approved by the Board. The risk management committee identifies, assesses and avoids relevant risks via close cooperation with other business departments of the Group. The internal audit department of the Group conducts regular review on the risk management control and procedures and reports the review results to the audit committee of the Group.

The Group diversifies risks of financial instruments through appropriate diversified investments and business portfolios and works out relevant risk management policies to reduce the risks concentrated in any single industry, specific region or specific counterparty.

Credit risks

The Group only conducts transactions with accredited and reputable third parties. According to the Group's policies, all the customers who require credit-based transactions are subject to credit audit. Moreover, the Group keeps monitoring the balances of accounts receivable to ensure it will not face material bad debt risks. Regarding transactions not settled in the recording currency of the relevant operating entities, the Group will not provide any credit transaction conditions, save as otherwise approved by the credit control department of the Group.

As our counterparties of cash and bank and bank acceptances receivable are banks with a good reputation and a high credit rating, the credit risks of these financial instruments are relatively low.

Other financial assets of the Group include notes receivable and accounts receivable, other receivables, non-current assets due within one year, other current assets and long-term receivables. Credit risks of these financial assets result from default of the counterparties and the maximum risk exposure equals the book values of these instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Risks of Financial Instruments (Continued)

Credit risks (continued)

The Group sells products and provides services to customers as per standard credit terms. The maximum credit risk exposure relating to accounts receivable is disclosed in the following table:

	2018	2017
Book balance of accounts receivable	2,838,666,935.49	1,937,182,197.46
Less: Bad debt allowance	1,150,748,350.73	766,752,183.69
Book value	1,687,918,584.76	1,170,430,013.77

As the customers whose accounts are receivable by the Group are engaged in different departments and sectors, there is no significant credit concentration risk for the Group. The Group held no collateral or other credit enhancement on the balance of accounts receivable.

2018

Criteria for judging significant increases in credit risk

The Group assesses whether the credit risk of the relevant financial instruments has increased significantly since initial recognition at each balance sheet date. While determining whether the credit risk has increased significantly since initial recognition, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group, external credit risk rating and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the default risk of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

- Quantitative criteria mainly comprise of the circumstance that at the reporting date, the increase in remaining lifetime probability of default is considered significant comparing with the one at initiation recognition
- Qualitative criteria mainly comprise of significant adverse change in debtor's operation or financial status, and being listed on the watch-list etc.

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Risks of Financial Instruments (Continued)

Credit risk (continued)

2018 (continued)

Definition of credit-impaired assets

The standard adopted by the Group to determine whether a credit impairment occurs is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- significant financial difficulty of the issuer or the debtor;
- a breach of contract by the debtor, such as a default on or delinquency in interest or principal payments;
- the creditor, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulty of the issuer or the debtor;
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily caused by a single event.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Risks of Financial Instruments (Continued)

Credit risk (continued)

2018 (continued)

Parameters of expected credit loss (ECL) measurement

According to whether there is a significant increase in credit risk and whether there is a credit impairment, the Group measures the impairment losses for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

Relevant definitions are as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the mobility model, taking into account the forward-looking information to reflect the debtor's PD under the current macroeconomic environment;
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime;
- EAD is the amount that the Group should be reimbursed at the time of default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various types of businesses. The impact of these economic indicators on PD and LGD varies in different types of businesses. Refer to Notes V.3, 5 and 7 for risk exposure of accounts receivable, other receivables and contract assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Risks of Financial Instruments (Continued)

Liquidity risk

The Group manages its risk to deficiency of funds using a recurring liquidity planning tool. This tool considers both the maturity of its financial instruments and the projected flows from the Group's operations.

The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of bank borrowings, bonds and other interest-bearing borrowings and other financing methods. 38.6% (31 December 2017: 42.8%) of the Group's debts would mature in less than one year as at 31 December 2018.

The table below summarizes the maturity profile of financial liabilities based on the undiscounted contractual cash flows:

2018

	Due immediately or within one year	1-2 years	2-5 years	Over 5 years	Total
Accounts payable	970,116,980.34	—	—	—	970,116,980.34
Other payables	8,695,651,670.29	—	—	—	8,695,651,670.29
Long-term payables	—	322,012,163.63	584,124,913.97	972,904,273.74	1,879,041,351.34
Short-term loans	5,307,377,037.49	—	—	—	5,307,377,037.49
Non-current liabilities due within one year	4,074,428,918.22	—	—	—	4,074,428,918.22
Other current liabilities	1,054,750,000.00	—	—	—	1,054,750,000.00
Long-term loans	725,561,341.06	3,430,891,032.83	7,309,818,318.76	6,297,554,355.47	17,763,825,048.12
Bonds payable	363,672,607.60	3,502,355,139.38	4,238,268,624.54	—	8,104,296,371.52
Other non-current liabilities	340,020,054.79	2,671,795,808.22	2,660,164,901.37	—	5,671,980,764.38
	21,531,578,609.79	9,927,054,144.06	14,792,376,758.64	7,270,458,629.21	53,521,468,141.70

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Risks of Financial Instruments (Continued)

Liquidity risk (continued)

2017

	Due immediately or within one year	1-2 years	2-5 years	Over 5 years	Total
Accounts payable	491,215,018.66	—	—	—	491,215,018.66
Other payables	7,517,400,891.86	—	—	—	7,517,400,891.86
Long-term payables	—	726,808,261.30	260,742,305.72	939,987,960.72	1,927,538,527.74
Short-term loans	308,475,770.11	—	—	—	308,475,770.11
Non-current liabilities due within one year	10,069,621,861.48	—	—	—	10,069,621,861.48
Long-term loans	555,404,265.67	2,192,146,647.96	6,386,944,599.89	4,867,461,048.44	14,001,956,561.96
Bonds payable	182,742,768.00	1,658,290,713.21	3,729,973,729.84	—	5,571,007,211.05
Other non-current liabilities	151,600,000.00	158,450,000.00	2,484,510,000.00	—	2,794,560,000.00
	19,276,460,575.78	4,735,695,622.47	12,862,170,635.45	5,807,449,009.16	42,681,775,842.86

Market risk

Interest rate risk

The Group's exposure to the risk of changes in market interest rates primarily relates to the floating-rate long-term liabilities of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Risks of Financial Instruments (Continued)

Market risk (continued)

Interest rate risk (continued)

The table below is a sensitivity analysis of interest rate risk, which reflects the impact on net profit or loss (through the impact on floating-rate borrowings) after tax, when there are reasonable and potential changes in interest rates, under the presumption that all other variables remain unchanged.

2018

	Increase/ (decrease) in basis point	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in total shareholders' equity
Bank borrowings	50	(72,955,798.17)	(72,955,798.17)
Bank borrowings	(50)	72,955,798.17	72,955,798.17

2017

	Increase/ (decrease) in basis point	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in total shareholders' equity
Bank borrowings	50	(43,772,529.32)	(43,772,529.32)
Bank borrowings	(50)	43,772,529.32	43,772,529.32

Exchange rate risk

Exchange rate risk refers to the risk of losses arising from change in exchange rate. The Group's exposure to foreign currency risk mainly relates to USD and HKD. Main business activities of the Group's subsidiaries in mainland China are valued and settled in RMB, with a small amount of foreign currency deposits, borrowings and bonds. Main business activities of the Group's subsidiaries in Hong Kong are valued and settled in HKD or USD.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Risks of Financial Instruments (Continued)

Market risk (continued)

Exchange rate risk (continued)

The table below is a sensitivity analysis of exchange rate risk, which reflects the impact on net profit or loss after tax, when there are reasonable and potential changes in USD and HKD exchange rates, under the presumption that all other variables remain unchanged.

2018

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in total shareholders' equity
Depreciation of RMB against USD	(5)	(76,193,120.83)	(76,193,120.83)
Appreciation of RMB against USD	5	76,193,120.83	76,193,120.83
Depreciation of RMB against HKD	(5)	(34,583,567.98)	(34,583,567.98)
Appreciation of RMB against HKD	5	34,583,567.98	34,583,567.98

2017

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in total shareholders' equity
Depreciation of RMB against USD	(5)	(62,912,646.53)	(62,912,646.53)
Appreciation of RMB against USD	5	62,912,646.53	62,912,646.53
Depreciation of RMB against HKD	(5)	(3,785.51)	(3,785.51)
Appreciation of RMB against HKD	5	3,785.51	3,785.51

Price risk of equity instrument investment

Price risk of equity instrument investment is the risk that the fair values of equity securities decrease as a result of changes in the levels of share indices and the value of individual securities. The Group was exposed to price risk of equity instrument investment arising from individual equity instrument investment classified as equity instrument investment held for trading (Note V. 2) and other equity instrument investment (Note V. 13) as at 31 December 2018. The Group's listed equity instrument investments are listed on the stock exchange in Shanghai and Shenzhen and are measured at quoted market prices at the balance sheet date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Risks of Financial Instruments (Continued)

Market risk (continued)

Exchange rate risk (continued)

Price risk of equity instrument investment (continued)

Following are market stock indices of the following stock exchanges at the end of the trading day closest to the balance sheet date, and their respective highest closing point and the lowest closing point during the year:

	End of 2018	2018 Highest/ lowest	End of 2017	2017 Highest/ lowest
SSE — A Share Index	2,493.90	3,587.03/ 2,449.20	3,307.17	3,450.49/ 3,016.53
SZSE — A Share Index	7,239.79	11,633.46/ 7,084.44	11,040.45	11,714.98/ 9,482.84

The table below demonstrates the sensitivity of the Group's net profit or loss and net other comprehensive income after tax to every 10% change in the fair values of equity instrument investments, with all other variables held constant (based on their book values at the balance sheet date).

2018

	Book value of equity instrument investments	Increase/ (decrease) in net profit or loss	Increase/(decrease) in net other comprehensive income after tax	Increase/ (decrease) in total shareholders' equity
Equity instrument investments	98,710,995.00	7,403,324.63/	103,885,489.72/	111,288,814.34/
SSE — Financial assets held for trading		(7,403,324.63)	(103,885,489.72)	(111,288,814.34)
SZSE — Financial assets held for trading	85,320,024.87	6,399,001.87/		6,399,001.87/
Non-listed equity instrument investments at fair value		(6,399,001.87)		(6,399,001.87)
— Other equity investments	1,917,608,604.65		143,820,645.35/ (143,820,645.35)	143,820,645.35/ (143,820,645.35)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Risks of Financial Instruments (Continued)

2017

	Book value of equity instrument investments	Increase/ (decrease) in net profit or loss	Increase/(decrease) in net other comprehensive income after tax	Increase/ (decrease) in total shareholders' equity
Other equity instrument investments at fair value				
— Available-for-sale financial assets	3,062,451,062.40	—	229,683,829.68/ (229,683,829.68)	229,683,829.68/ (229,683,829.68)

3. Capital Management

The key objective of the Group's capital management is to ensure the Group's ability to operate on a going concern basis and maintain healthy capital ratios so as to support business growth and maximize shareholder value.

The Group manages its capital structure and makes adjustments in response to changes in economic conditions and risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not constrained by any external mandatory requirements on capital. In 2018 and 2017, there was no change in the Group's capital management objectives, policies or procedures.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Capital Management (Continued)

The Group manages its capital with the gearing ratio, which refers to net liabilities divided by the total sum of adjusted capital and net liabilities. Net liabilities include bank loans, bonds payable and financial lease payable (net of cash and cash equivalents), and adjusted capital is the equity of the Group attributable to the Company (including share capital, capital reserve, surplus reserve and retained earnings). The gearing ratio of the Group as of the balance sheet date is as follows:

	2018	2017
Short-term loans	5,148,516,740.00	300,010,000.00
Non-current liabilities due within one year	3,948,619,684.75	9,550,075,473.97
Other current liabilities	1,000,000,000.00	
Long-term loans	14,306,362,773.00	11,372,664,484.81
Bonds payable	7,156,394,519.96	4,896,478,160.15
Financial lease payable	410,225,225.70	415,215,826.20
Other non-current liabilities	4,786,623,154.06	2,359,400,000.00
Cash and cash equivalents	7,614,487,228.69	10,269,293,739.45
Net liabilities	29,142,254,868.78	18,624,550,205.68
Adjusted capital	40,486,283,876.12	38,863,806,312.51
Capital and net liabilities	69,628,538,744.90	57,488,356,518.19
Gearing ratio	42%	32%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

IX. DISCLOSURE OF FAIR VALUE

1. Assets and Liabilities Measured at Fair Value

The table below sets forth the measurement level of fair values of relevant assets and liabilities of the Group:

2018

	Inputs used in the measurement of fair value			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Persistent fair value measurement				
Financial assets held for trading				
Equity instrument investments	184,031,019.87	—	—	184,031,019.87
Debt instrument investments	—	—	52,225,200.00	52,225,200.00
Other equity instrument investments	1,385,139,862.92	190,553,624.00	1,727,054,980.65	3,302,748,467.57
Other non-current financial assets	—	—	324,850,000.00	324,850,000.00
Other current assets	—	—	55,000,000.00	55,000,000.00
Investment properties				
Buildings leased out	—	—	78,533,000,000.00	78,533,000,000.00
Total assets	1,569,170,882.79	190,553,624.00	80,692,130,180.65	82,451,854,687.44

2017

	Inputs used in the measurement of fair value			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Persistent fair value measurement				
Available-for-sale financial assets				
Equity instrument investments	2,200,652,330.85	—	—	2,200,652,330.85
Investment properties				
Buildings leased out	—	—	70,831,000,000.00	70,831,000,000.00
Total assets	2,200,652,330.85	—	70,831,000,000.00	73,031,652,330.85

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

2. Assets and Liabilities Disclosed at Fair Value

2018

	Inputs used in the measurement of fair value			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Bonds payable	—	13,478,530,105.31	—	13,478,530,105.31

2017

	Inputs used in the measurement of fair value			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Bonds payable	—	10,375,081,495.00	—	10,375,081,495.00

3. Estimation of Fair Value

Fair value of financial instruments

Following is a comparison between book values and fair values of various categories of financial instruments of the Group other than the financial instruments with a minor difference between book value and fair value:

	31 December 2018		1 January 2018		31 December 2017	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial liabilities						
Bonds payable	8,652,968,240.75	13,478,530,105.31	10,383,192,449.03	10,375,081,495.00	10,383,192,449.03	10,375,081,495.00

The management has assessed the cash and bank, notes receivable and accounts receivable, notes payable and accounts payable, and other payables, etc. In each case, the fair value and book value are similar due to short remaining period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

3. Estimation of Fair Value (Continued)

Fair value of financial instruments (continued)

The financial department of the Group, led by the person in charge of the accounting institution, is responsible for formulating policies and procedures applicable to the measurement of fair value of financial instruments. The person in charge of the accounting institution directly reports to the Chief Financial Officer and the Audit Committee. On each balance sheet date, the financial department analyzes the change in value of financial instruments and ascertains the significant inputs which apply to the valuation. The valuation is subject to review and approval by the Chief Financial Officer. For the purpose of preparing interim and annual financial statements, the financial department meets the Audit Committee twice a year to discuss the valuation procedure and results.

The fair values of financial assets and liabilities are determined as per the amount for which an asset could be exchanged, or a liability could be settled, between knowledgeable, willing parties in an arm's length transaction, instead of the amount under forced sale or under liquidation. The following methods and assumptions are used to estimate the fair value.

The fair values of long-term receivables, long-term and short-term loans and bonds payables are determined by discounting the future cash flows using market yields currently available for other financial instruments with similar contractual terms, credit risk and remaining term as the discount rate. As at 31 December 2018, the non-performance risk associated with long-term and short-term loans was assessed as insignificant.

The fair values of listed equity instruments are determined according to quoted prices on the market. The fair values of non-listed equity instrument investments are estimated using discounted valuation model, and the assumptions adopted are not supported by observable market prices or interest rates. The Group needs to make estimation for the expected future cash flows (including expected future dividend and disposal income). The Group believes that the fair values and changes thereof estimated by valuation technique are reasonable and also the most appropriate values at the balance sheet date.

For the fair values of non-listed equity instrument investments to which discounted valuation model is inapplicable, the Group estimates and quantifies potential impacts of using other reasonable and possible assumptions as inputs for valuation model: under quite unfavourable assumption, the fair values decrease approximately RMB172,705,000.00; under quite favorable assumption, the fair values increase approximately RMB172,705,000.00.

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

3. Estimation of Fair Value (Continued)

Fair value of investment properties using fair value model

We use the income approach for the valuation of the completed properties put into use: With reference to the market monthly rent of leasable area per unit (per square meter) of the completed properties or the expected rental income based on market condition, we adopt an appropriate capitalization rate to discount to determine the valuation value of investment properties.

We use direct comparison approach for the valuation of the properties under construction at an early development stage: Based on the income that can be received immediately on disposal of investment properties in its current state, with reference to the relevant information on the comparable transactions in the market where the investment properties are located, and depending on the specific condition of the completed properties, we make adjustments.

We use hypothetical development method for the valuation of investment properties at other stages of development: Assuming that such investment properties will be developed to the condition for use according to the established development plan. In order to obtain their fair value, a direct comparison is made by taking into account the available and comparable sales data in the relevant markets and deducting the construction costs and professional costs incurred by the valuer from the valuation date to the date of completion of development.

The fair value of the Group's investment properties as at 31 December 2018 and 31 December 2017 were assessed by Wanlong (Shanghai) Asset Valuation Company Limited, an independent valuer from the Group.

In estimating the fair value of the properties, the best use purpose of investment properties is its current use. There is no change in the valuation methods used.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

4. Unobservable Inputs

Following is an overview of significant unobservable inputs for the measurement of level-3 fair value.

31 December 2018		Fair value	Valuation technique(s)	Unobservable inputs	Range (Weighted average)
Investment properties – completed properties	2018	71,804,000,000.00	Income approach	Price of unit area leasable (per square meter per month)	2018: RMB11 to RMB276 2017: RMB22 to RMB290
	2017	67,864,000,000.00		Capitalization rate	2018: 5.5% to 8.0% 2017: 5.5% to 8.0%
Investment properties – properties under construction at an early development stage	2018	2,067,000,000.00	Direct comparison approach	Unit area price of investment properties (per square meter)	2018: RMB565 to RMB5,486 2017: RMB525 to RMB6,403
	2017	1,794,000,000.00			
Investment properties – other properties under construction	2018	4,662,000,000.00	Hypothetical development approach	Price of unit area leasable (per square meter per month)	2018: RMB32 to RMB101 2017: RMB34 to RMB44
	2017	1,173,000,000.00		Capitalization rate	2018: 4.0% to 6.5% 2017: 6.5% to 7.0%
Other equity instrument investments	2018	1,727,054,980.65	Comparable company approach	Liquidity discount rate	2018: 42.20%
Other non-current financial assets	2018	324,850,000.00	Discounted cash flow approach	Risk-adjusted discount rate	2018: 0.8% to 8.5%
Financial assets held for trading – debt instrument investments	2018	52,225,200.00	Discounted cash flow approach	Risk-adjusted discount rate	2018: 3%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

5. Adjustment of Fair Value Measurement

Information of adjustment of persistent measurement of level-3 fair value is as follows:

2018

	Opening balance	Transferred into level 3	Transferred out of level 3	Total gain or loss for the current period		Purchase	Issue	Sell	Settle	Closing balance	Changes in the unrealized gain or loss for the current period from assets held at the end of the year included in the profit or loss
				Included in profit or loss	Included in other comprehensive income						
Investment properties	70,831,000,000.00	–	–	1,820,173,117.45	–	5,881,826,882.55	–	–	–	78,533,000,000.00	1,820,173,117.45

	Opening balance	Impact of adoption of new financial instrument standards	Total gain or loss for the current period		Purchase	Issue	Sell	Settle	Closing balance	Changes in the unrealized gain or loss for the current period from assets held at the end of the year included in the profit or loss
			Included in profit or loss	Included in other comprehensive income						
Other non-current financial assets	–	298,350,000.00	–	–	32,500,000.00	–	–	–	324,850,000.00	–
Financial assets held for trading	–	–	–	–	52,225,200.00	–	–	–	52,225,200.00	–
Other equity instrument investments	–	789,860,025.43	–	236,266,211.14	707,928,744.08	–	(7,000,000.00)	–	1,727,054,980.65	–
	–	1,082,210,025.43	–	236,266,211.14	792,653,944.08	–	(7,000,000.00)	–	2,104,130,180.65	–

2017

	Opening balance	Transferred into level 3	Transferred out of level 3	Total gain or loss for the current period		Purchase	Issue	Sell	Settle	Closing balance	Changes in the unrealized gain or loss for the current period from assets held at the end of the year included in the profit or loss
				Included in profit or loss	Included in other comprehensive income						
Investment properties	66,948,000,000.00	–	–	1,996,188,694.30	–	4,768,711,322.00	–	(2,881,900,016.30)	–	70,831,000,000.00	1,985,661,070.69

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

5. Adjustment of Fair Value Measurement (Continued)

In the persistent measurement of level-3 fair value, the information of profit or loss relating to financial assets and non-financial assets in the gain or loss included in the profit or loss for the current period is as follows:

	2018	
	Profit or loss relating to financial assets	Profit or loss relating to non-financial assets
Total gain or loss included into the profit or loss for the current period	—	1,820,173,117.45
Changes in the unrealized gain or loss for the current period from assets held at the end of the year	—	1,820,173,117.45

	2017	
	Profit or loss relating to financial assets	Profit or loss relating to non-financial assets
Total gain or loss included into the profit or loss for the current period	—	1,996,188,694.30
Changes in the unrealized gain or loss for the current period from assets held at the end of the year	—	1,985,661,070.69

6. Level Shift in Fair Value

There was no level shift in fair value during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Parent Company

	Place of incorporation	Nature of business	Registered capital RMB	Equity proportion in the Company (%)	Voting rights proportion in the Company (%)
Red Star Macalline Holding Group Company Limited	Shanghai, China	Investment management	200 million	69.87	69.87

Ultimate controlling party of the Company is CHE Jianxing

2. Subsidiaries

For details of the subsidiaries of the Company, please refer to Note VII. 1. Interests in Subsidiaries.

3. Joint Ventures and Associates

For the details of joint ventures and associates, please refer to Note VII. 3. Interests in Joint Ventures or Associates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Other Related Parties

	Relationship with the Group
CHEN Shuhong	Family member who has a close relationship with the ultimate actual controller
CHE Jianfang	Family member who has a close relationship with the ultimate actual controller
QIAN Yumei (錢玉梅)	Family member who has a close relationship with the ultimate actual controller
CHE Guoxing (車國興)	Family member who has a close relationship with the ultimate actual controller
CHE Mianzhen (車冕楨)	Family member who has a close relationship with the ultimate actual controller
Red Star Furniture Group (紅星傢俱集團有限公司)	Corporate controlled by the ultimate actual controller
Chongqing Red Star Macalline Enterprise Development Co., Ltd. ("Chongqing Qifa") (重慶紅星美凱龍企業發展有限公司(「重慶企發」))	Corporate controlled by the ultimate actual controller
Changzhou Red Star Home Furnishing City (常州市紅星裝飾城)	Corporate controlled by the ultimate actual controller
Changzhou Red Star Furniture General Factory Co., Ltd. (常州市紅星傢俱總廠有限公司)	Corporate controlled by the family member who has a close relationship with the ultimate actual controller
Jining Hongrui Real Estate Co., Ltd. (濟寧鴻瑞置業有限公司)	Corporate controlled by the family member who has a close relationship with the ultimate actual controller
Shaanxi Hongrui Home Furnishings Plaza Company Limited (陝西鴻瑞家居生活廣場有限公司)	Corporate controlled by the family member who has a close relationship with the ultimate actual controller
Xuzhou Red Star Macalline Global Home Furnishings Plaza Company Limited (徐州紅星美凱龍全球家居生活廣場有限公司)	Corporate controlled by the family member who has a close relationship with the ultimate actual controller
Xuzhou Red Star Macalline International Home Furnishings City Co., Ltd. (徐州紅星美凱龍國際傢俱裝飾城有限公司)	Corporate controlled by the family member who has a close relationship with the ultimate actual controller
Yangzhou Kailong Consulting Co., Ltd. (揚州凱龍管理諮詢有限公司)	Corporate controlled by the family member who has a close relationship with the ultimate actual controller

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Other Related Parties (Continued)

	Relationship with the Group
Yangzhou Red Star Macalline Global Home Furnishings Plaza Property Co., Ltd. (揚州紅星美凱龍全球家居生活廣場置業有限公司)	Corporate controlled by the family member who has a close relationship with the ultimate actual controller
Xinghua Xingkai Home Furnishing Plaza Company Limited (興化市星凱家居生活廣場有限公司)	Corporate significantly influenced by the family member who has a close relationship with the ultimate actual controller
Shanghai AEGEAN Commercial Group Co., Ltd. (上海愛琴海商業集團股份有限公司)	Corporate held by RSM Holding
Shanghai Xingcheng Yijia Home Furnishings Co., Ltd. (上海星誠藝佳家居有限責任公司)	Corporate held by RSM Holding
Suzhou Red Star Macalline Property Development Company Limited (蘇州紅星美凱龍房地產開發有限公司)	Corporate held by RSM Holding
Ningbo Huixin Property Company Limited (寧波匯鑫置業有限公司)	Corporate held by RSM Holding
Chengdu Red Star Macalline Real Estate Co., Ltd. (成都紅星美凱龍置業有限公司)	Subsidiary of Chongqing Qifa
Ningbo Kailong Property Company Limited (寧波凱龍置業有限公司)	Subsidiary of Chongqing Qifa
Shanghai Hongmei Property Company Limited (上海洪美置業有限公司)	Subsidiary of Chongqing Qifa
Shenyang Red Star Macalline Property Management Co., Ltd. (瀋陽紅星美凱龍物業管理有限公司)	Subsidiary of Chongqing Qifa
Shanghai Xinglong Property Development Co., Ltd. (上海星龍房地產開發有限公司)	Subsidiary of Chongqing Qifa
Greenland Group Chengdu Jinniu Real Estate Development Co., Ltd. (綠地集團成都金牛房地產開發有限公司)	Joint venture of Chongqing Qifa

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Other Related Parties (Continued)

	Relationship with the Group
Cao Zhongmin (曹仲民)	Family member who has a close relationship with director, supervisor or senior management
Zhang Jianfang (張建芳)	Family member who has a close relationship with the actual controller
Zhu Qingling (朱青嶺)	Family member who has a close relationship with director, supervisor or senior management
Changzhou Yizhi Furniture Company Limited (常州市藝致傢俱有限公司)	Corporate invested or controlled by family member who has a close relationship with director, supervisor or senior management
Business Division of Nanjing Pukou Lilicheng Furniture (南京市浦口區立力成傢俱經營部)	Corporate controlled by or being served by family member who has a close relationship with the actual controller
Yunnan Red Star Macalline Property Management Company Limited (雲南紅星美凱龍物業管理有限公司)	Subsidiary of Chongqing Qifa
Shanghai Huangpu Red Star Microfinance Co., Ltd. (上海黃浦紅星小額貸款有限公司)	Corporate held by RSM Holding
Qingdao Red Star International Real Estate Co., Ltd. (青島紅星國際置業有限公司)	Subsidiary of Chongqing Qifa
Shanghai Red Star Macalline Real Estate Co. Ltd (上海紅星美凱龍置業有限公司)	Subsidiary of Chongqing Qifa
Shanghai Xingchen Interactive Entertainment Technology Co., Ltd. (上海星琛互動娛樂科技有 限公司)	Corporate held by RSM Holding
Nanjing Macalline Business Information Consulting Co., Ltd. (南京美凱龍商務信息諮詢有限公司)	Corporate held by RSM Holding
Shanxi Yatai Shengjing Real Estate Development Co., Ltd. (山西亞泰聖景房地產開發有限公司)	Subsidiary of Chongqing Qifa
Tianjin Huayun Commercial Property Company Limited (天津市華運商貿物業有限公司)	Subsidiary of Chongqing Qifa
Shanghai Kaixin Cinema Management Co., Ltd. (上海凱昕影院管理有限公司)	Corporate held by RSM Holding
Shanghai Red Star Macalline Enterprise Operation and Management Co., Ltd. (上海紅星美凱龍企業經營管 理有限公司)	Subsidiary of Chongqing Qifa

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Other Related Parties (Continued)

Others:

Ningbo Red Star Macalline Home Shopping Plaza Company Limited (寧波紅星美凱龍家居購物廣場有限公司), formerly known as Ningbo Aoyang Home Shopping Plaza Company Limited (寧波澳洋家居購物廣場有限公司), was acquired by Red Star Macalline Group Corporation Ltd. as a subsidiary in 2018.

Shanghai Jinshan Red Star Macalline Global Home Furnishing Company Limited (上海金山紅星美凱龍全球家居有限公司) was acquired by Red Star Macalline Group Corporation Ltd. as a subsidiary in 2017.

In 2018, Red Star Macalline Group Corporation Ltd. disposed of all of its holdings in Shenzhen Red Star Macalline Century Center Home Furnishing Plaza Company Limited. (深圳紅星美凱龍世紀中心家居生活廣場有限公司).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties

(1) Purchase and sale of goods, provision and receipt of services from related parties

Purchase of goods and receipt of services from related parties

	Details of Transactions	2018	2017
Red Star Furniture Group Co., Ltd. (紅星傢俱集團有限公司)	Purchase of goods	—	226,205.13
Changzhou Red Star Furniture General Factory Co., Ltd. (常州市紅星傢俱總廠有限公司)	Purchase of goods	494,496.00	—
Greenland Group Chengdu Jinniu Real Estate Development Co., Ltd. (綠地集團成都金牛房地產開發有限公司)	Purchase of goods	2,860,262.62	—
Shanghai Xinglong Property Development Co., Ltd. (上海星龍房地產開發有限公司)	Purchase of goods	8,920,075.70	—
Shenyang Red Star Macalline Property Management Co., Ltd. (瀋陽紅星美凱龍物業管理有限公司)	Purchase of goods	3,584,282.95	1,912,000.00
Yunnan Red Star Macalline Property Management Co., Ltd. (雲南紅星美凱龍物業管理有限公司)	Purchase of goods	1,191,941.28	—
Shanghai Jiazhan Construction Engineering Company Limited (上海嘉展建築裝潢工程有限公司)	Purchase of goods	45,194,933.76	13,136,691.55
Liaoning Cheng'an Construction Co., Ltd. (遼寧誠安建設有限公司)	Purchase of goods	37,299,899.82	—
		99,545,892.13	15,274,896.68
Wuhu Minghui Business Management Co., Ltd. (蕪湖明輝商業管理有限公司)	Settlement of interest income from deposit	8,530.31	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties (Continued)

(1) Purchase and sale of goods, provision and receipt of services from related parties (continued)

Purchase of goods and receipt of services from related parties (continued)

	Details of Transactions	2018	2017
Chengdu Dongtai Shopping Mall Company Limited (成都東泰商城有限公司)	Joint marketing	110,226.42	—
Jining Hongrui Real Estate Co., Ltd. (濟寧鴻瑞置業有限公司)	Joint marketing	143,330.19	—
Xiamen Baoxiang Red Star Macalline Home Furnishing Plaza Company Limited (廈門寶象紅星美凱龍家居生活廣場有限公司)	Joint marketing	42,405.66	—
Wuhu Minghui Business Management Co., Ltd. (蕪湖明輝商業管理有限公司)	Joint marketing	220,792.47	115,066.04
Yangzhou Kailong Consulting Co., Ltd. (揚州凱龍管理諮詢有限公司)	Joint marketing	134,500.00	310,254.72
		651,254.74	425,320.76
Chengdu Dongtai Shopping Mall Company Limited (成都東泰商城有限公司)	Revenue from advertising space lease/ Administrative expenses	283,018.87	—
Jining Hongrui Real Estate Co., Ltd. (濟寧鴻瑞置業有限公司)	Revenue from advertising space lease/ Administrative expenses	360,623.66	112,380.95
Xiamen Baoxiang Red Star Macalline Home Furnishing Plaza Company Limited (廈門寶象紅星美凱龍家居生活廣場有限公司)	Revenue from advertising space lease/ Administrative expenses	494,815.16	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties (Continued)

(1) Purchase and sale of goods, provision and receipt of services from related parties (continued)

Purchase of goods and receipt of services from related parties (continued)

	Details of Transactions	2018	2017
Shaanxi Hongrui Home Furnishings Plaza Co., Ltd. (陝西鴻瑞家居生活廣場有限公司)	Revenue from advertising space lease/ Administrative expenses	521,158.94	85,444.75
Wuhu Minghui Business Management Co., Ltd. (蕪湖明輝商業管理有限公司)	Revenue from advertising space lease/ Administrative expenses	794,030.83	704,132.45
Xuzhou Red Star Macalline International Home Furnishings City Co., Ltd. (徐州紅星美凱龍國際傢俱裝飾城有限公司)	Revenue from advertising space lease/ Administrative expenses	81,904.76	—
Xuzhou Red Star Macalline Global Home Furnishings Plaza Co., Ltd. (徐州紅星美凱龍全球家居生活廣場有限公司)	Revenue from advertising space lease/ Administrative expenses	179,492.28	118,857.15
Yangzhou Red Star Macalline Global Home Furnishings Plaza Property Co., Ltd. (揚州紅星美凱龍全球家居生活廣場置業有限公司)	Revenue from advertising space lease/ Administrative expenses	392,857.00	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties (Continued)

(1) Purchase and sale of goods, provision and receipt of services from related parties (continued)

Purchase of goods and receipt of services from related parties (continued)

	Details of Transactions	2018	2017
Yangzhou Kailong Consulting Co., Ltd. (揚州凱龍管理諮詢有限公司)	Revenue from advertising space lease/ Administrative expenses	125,786.16	188,679.24
		3,233,687.66	1,209,494.54
Chengdu Dongtai Shopping Mall Company Limited (成都東泰商城有限公司)	Receipt of services	43,257.90	—
Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司)	Receipt of services	7,984.00	—
Wuhu Minghui Business Management Co., Ltd. (蕪湖明輝商業管理有限公司)	Receipt of services	144,292.46	—
Shenyang Red Star Macalline Property Management Co., Ltd. (瀋陽紅星美凱龍物業管理有限公司)	Receipt of services	498,000.00	—
		693,534.36	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties (Continued)

(1) Purchase and sale of goods, provision and receipt of services from related parties (continued)

Sales of goods and rendering of services to related parties

	Details of Transactions	2018	2017
Shanghai Huangpu Red Star Microfinance Co., Ltd. (上海黃浦紅星小額貸款有限公司)	Sales of goods	5,650.00	—
Yangzhou Kailong Consulting Co., Ltd. (揚州凱龍管理諮詢有限公司)	Sales of goods	22,592.50	—
		28,242.50	—
Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司)	Rendering of services	47,041.32	—
Xiamen Baoxiang Red Star Macalline Home Furnishing Plaza Company Limited (廈門寶象紅星美凱龍家居生活廣場有限公司)	Rendering of services	8,490.57	—
Shanghai Red Star Macalline Real Estate Co. Ltd (上海紅星美凱龍置業有限公司)	Rendering of services	26,614.84	—
Shanghai Xingchen Interactive Entertainment Technology Co., Ltd. (上海星琛互動娛樂科技有限公司)	Rendering of services	36,238.28	—
Shanghai Xingcheng Yijia Home Furnishings Co., Ltd. (上海星誠藝佳家居有限責任公司)	Rendering of services	7,775.00	—
		126,160.01	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties (Continued)

(1) Purchase and sale of goods, provision and receipt of services from related parties (continued)

Sales of goods and rendering of services to related parties (continued)

	Details of Transactions	2018	2017
Xuzhou Red Star Macalline International Home Furnishings City Co., Ltd. (徐州紅星美凱龍國際傢俱裝飾城有限公司)	Brand management services	2,085,378.70	1,433,962.32
Xuzhou Red Star Macalline Global Home Furnishings Plaza Co., Ltd. (徐州紅星美凱龍全球家居生活廣場有限公司)	Brand management services	3,510,380.04	2,339,622.72
Xinghua Xingkai Home Furnishing Plaza Company Limited (興化市星凱家居生活廣場有限公司)	Brand management services	1,679,245.28	1,886,792.45
Jining Hongrui Real Estate Co., Ltd. (濟寧鴻瑞置業有限公司)	Brand management services	2,830,188.68	3,792,442.94
Shaanxi Hongrui Home Furnishings Plaza Co., Ltd. (陝西鴻瑞家居生活廣場有限公司)	Brand management services	2,830,188.68	2,830,188.72
Wuhu Minghui Business Management Co., Ltd. (蕪湖明輝商業管理有限公司)	Brand management services	2,830,188.68	2,830,188.72
Yangzhou Red Star Macalline Global Home Furnishings Plaza Property Co., Ltd. (揚州紅星美凱龍全球家居生活廣場置業有限公司)	Brand management services	1,886,792.45	1,886,792.40
Greenland Group Chengdu Jinniu Real Estate Development Co., Ltd. (綠地集團成都金牛房地產開發有限公司)	Brand management services	3,773,584.91	3,773,584.92
Ningbo Red Star Macalline Home Shopping Plaza Company Limited (寧波紅星美凱龍家居購物廣場有限公司)	Brand management services	N/A	2,285,658.68
		21,425,947.42	23,059,233.87

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties (Continued)

(1) Purchase and sale of goods, provision and receipt of services from related parties (continued)

Sales of goods and rendering of services to related parties (continued)

		Details of Transactions	2018	2017
Chengdu Dongtai Shopping Mall Company Limited (成都東泰商城有限公司)	Xingyi Tonghui	Commission income regarding prepaid cards	22,117.38	114,322.64
Xiamen Baoxiang Red Star Macalline Home Furnishing Plaza Company Limited (廈門寶象紅星美凱龍家居生活廣場有限公司)	Xingyi Tonghui	Commission income regarding prepaid cards	84,150.94	—
Shaanxi Hongrui Home Furnishings Plaza Co., Ltd. (陝西鴻瑞家居生活廣場有限公司)	Xingyi Tonghui	Commission income regarding prepaid cards	20,415.27	23,194.13
Wuhu Minghui Business Management Co., Ltd. (蕪湖明輝商業管理有限公司)	Xingyi Tonghui	Commission income regarding prepaid cards	27,652.83	211,458.15
Xuzhou Red Star Macalline International Home Furnishings City Co., Ltd. (徐州紅星美凱龍國際傢俱裝飾城有限公司)	Xingyi Tonghui	Commission income regarding prepaid cards	4,976.25	8,181.89
Yangzhou Kailong Consulting Co., Ltd. (揚州凱龍管理諮詢有限公司)	Xingyi Tonghui	Commission income regarding prepaid cards	32,905.66	125,142.22
			192,218.33	482,299.03

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties (Continued)

(1) Purchase and sale of goods, provision and receipt of services from related parties (continued)

Sales of goods and rendering of services to related parties (continued)

	Details of Transactions	2018	2017
Shanghai AEGEAN Commercial Group Co., Ltd. (上海愛琴海商業集團股份有限公司)	Service income	136,310.68	131,844.66
Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司)	Service income	—	7,115.09
QIAN Yumei	Service income	—	2,830.19
CAO Zhongmin	Service income	5,121.62	3,144.65
ZHANG Jianfang	Service income	4,528.30	—
Haier Consume Financing Company Limited (海爾消費金融有限公司)	Service income	374,525.36	927,979.84
Xiamen Baoxiang Red Star Macalline Home Furnishing Plaza Company Limited (廈門寶象紅星美凱龍家居 生活廣場有限公司)	Service income	—	113,822.64
Taixing Red Star Macalline Home Furnishing Company Limited (泰興紅星美凱龍家居飾品有限公司)	Service income	3,150.94	—
Wuhu Minghui Business Management Co., Ltd. (蕪湖明輝商業管理有限公司)	Service income	14,672.27	—
Changzhou Yizhi Furniture Company Limited (常州市藝致傢俱有限公司)	Service income	4,528.30	—
Chengdu Dongtai Shopping Mall Company Limited (成都東泰商城有限公司)	Service income	67,886.24	—
		610,723.71	1,186,737.07

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties (Continued)

(1) Purchase and sale of goods, provision and receipt of services from related parties (continued)

Sales of goods and rendering of services to related parties (continued)

	Details of Transactions	2018	2017
Shanxi Yatai Shengjing Real Estate Development Co., Ltd. (山西亞泰聖景房地產開發有限公司)	Design consultation income	—	1,723,273.58
Shanghai Hongmei Property Company Limited (上海洪美置業有限公司)	Design consultation income	—	427,924.52
Qingdao Red Star International Property Company Limited (青島紅星國際置業有限公司)	Design consultation income	754,716.98	—
Suzhou Red Star Macalline Property Development Company Limited (蘇州紅星美凱龍房地產開發有限公司)	Design consultation income	3,301,886.79	—
Ningbo Kailong Property Company Limited (寧波凱龍置業有限公司)	Design consultation income	6,224,914.78	2,015,532.92
Ningbo Huixin Property Company Limited (寧波匯鑫置業有限公司)	Design consultation income	2,202,081.18	—
Shanghai Harbour Home Investment Management Co., Ltd. (上海灣寓投資管理有限公司)	Design consultation income	1,923,811.54	—
Shanghai UIOT Technology Company Limited (上海紫光樂聯物聯網科技有限公司)	Design consultation income	1,245,270.00	—
Shanghai Hongmei Property Company Limited (上海洪美置業有限公司)	Design consultation income	322,392.95	—
Nanjing Macalline Business Information Consulting Co., Ltd. (南京美凱龍商務信息諮詢有限公司)	Design consultation income	271,176.00	—
Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司)	Design consultation income	2,060.00	—
		16,248,310.22	4,166,731.02
CAO Zhongmin	Loan interest income	—	28,222.24
ZHU Qingling	Loan interest income	—	365,566.05
		—	393,788.29

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties (Continued)

(2) Leases with related party

As lessors

	Type of leased assets	2018	2017
Changzhou Red Star Furniture General Factory Co., Ltd. (常州市紅星傢俱總廠有限公司)	Shop(s) in shopping mall	27,827.62	—
Business Division of Nanjing Pukou Lilicheng Furniture (南京市浦口區立力成傢俱經營部)	Shop(s) in shopping mall	364,282.59	2,724.06
QIAN Yumei	Shop(s) in shopping mall	437,205.25	731,401.93
CHE Mianzhen (車冕楨)	Shop(s) in shopping mall	326,958.24	—
CAO Zhongmin	Shop(s) in shopping mall	778,933.80	812,433.51
ZHANG Jianfang	Shop(s) in shopping mall	188,706.94	188,835.36
Changzhou Yizhi Furniture Company Limited (常州市藝致傢俱有限公司)	Shop(s) in shopping mall	578,061.84	456,948.00
		2,701,976.28	2,192,342.86

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties (Continued)

(2) Leases with related party (continued)

As lessors (continued)

	Type of leased assets	2018	2017
Changzhou Red Star Home Furnishing City (常州市紅星裝飾城)	Shopping mall(s)	16,249,537.62	16,391,971.47
CHE Guoxing	Dormitory	369,600.00	336,000.00
Shanghai Hongmei Property Company Limited (上海洪美置業有限公司)	Shopping mall(s)	—	313,365.05
Shanghai Jinshan Red Star Macalline Global Home Furnishing Company Limited (上海金山紅星美凱龍全球家居有限公司)	Shopping mall(s)	N/A	7,623,142.84
Shenzhen Red Star Macalline Home Furnishing Plaza Company Limited (深圳紅星美凱龍家居生活廣場有限公司)	Shop(s) in shopping mall	—	2,378,892.00
CHEN Shuhong	Dormitory	52,000.00	—
Chengdu Dongtai Shopping Mall Company Limited (成都東泰商城有限公司)	Shopping mall(s)	340,970.41	176,549.60
Jining Hongrui Real Estate Co., Ltd. (濟寧鴻瑞置業有限公司)	Shop(s) in shopping mall	23,809.57	—
Shaanxi Hongrui Home Furnishings Plaza Co., Ltd. (陝西鴻瑞家居生活廣場有限公司)	Shop(s) in shopping mall	117,204.98	—
Tianjin Huayun Commercial Property Company Limited (天津市華運商貿物業有限公司)	Shopping mall(s)	73,590.41	—
Yangzhou Red Star Macalline Global Home Furnishings Plaza Property Co., Ltd. (揚州紅星美凱龍全球家居生活廣場置業有 限公司)	Shop(s) in shopping mall	202,931.84	—
		17,429,644.83	27,219,920.96

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties (Continued)

(3) Guarantees from related parties

Receiving guarantees from related parties

In 2018

	Amount of guarantees	Inception date of guarantee	Expiration date of guarantee	Whether guarantee has been performed
CHE Jianxing, CHEN Shuhong and Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司)	—	25 July 2017	25 July 2020	Yes
CHE Jianxing (Note 1)	115,000,000.00	4 March 2014	19 February 2019	No
CHE Jianxing (Note 2)	340,000,000.00	8 June 2016	8 June 2026	No
CHE Jianxing, Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司), Red Star Furniture Group Co., Ltd. (紅星傢俱集團有限公司) (Note 3)	—	9 October 2012	9 October 2022	Yes
Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司)	285,000,000.00	26 July 2018	26 July 2019	No
Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司), Suzhou Mudu Group Limited (蘇州市木瀆集團有限公司)	400,000,000.00	13 July 2018	12 July 2028	No
Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司) (Note 4)	279,000,000.00	26 February 2018	26 February 2026	No

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties (Continued)

(3) Guarantees from related parties (continued)

Receiving guarantees from related parties (continued)

Note 1: The loan is also secured by the investment property of Shanghai Hongxin Oukai Home Furnishing Company Limited.

Note 2: The loan is also secured by the investment property of Chongqing Red Star Macalline Expo Home Furnishing Plaza Company Limited.

Note 3: The loan is also secured by the investment property of Beijing Red Star Macalline Shibo Furniture Plaza Company Limited, and is pledged with cash and bank funds and all operating revenues of shopping malls during the loan period.

Note 4: The loan is also secured by the investment property of Chengdu Tianfu New District Red Star Macalline World Trade Home Furnishing Company Limited.

In 2017

	Amount of guarantees	Inception date of guarantee	Expiration date of guarantee	Whether guarantee has been performed
CHE Jianxing, CHEN Shuhong and Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司)	300,000,000.00	25 July 2017	25 July 2020	No
CHE Jianxing	255,000,000.00	4 March 2014	19 February 2019	No
CHE Jianxing	367,500,000.00	8 June 2016	8 June 2026	No
CHE Jianxing, Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司), Red Star Furniture Group Co., Ltd. (紅星傢俱集團有限公司)	583,035,125.07	9 October 2012	9 October 2022	No

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties (Continued)

(3) Guarantees from related parties (continued)

Rendering guarantees to related parties

In 2018

	Amount of guarantees	Inception date of guarantee	Expiration date of guarantee	Whether guarantee has been performed
Haier Consume Financing Company Limited (海爾消費金融有限公司)	Nil	8 November 2016	8 November 2019	Yes

Instruction: On 8 November 2016, the Company provided 25% joint and several liability guarantees against the loan of RMB2,500,000,000.00 lent by Haier Consume Financing, our associated company, to Haier Group Finance Co., Ltd. for a term of 3 years. At the end of the period, the borrowings was fully repaid in 2018.

In 2017

	Amount of guarantees	Inception date of guarantee	Expiration date of guarantee	Whether guarantee has been performed
Haier Consume Financing Company Limited (海爾消費金融有限公司)	400,000,000.00	8 November 2016	8 November 2019	No

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties (Continued)

(3) Guarantees from related parties (continued)

Borrowings

In 2018

In 2018, there were no borrowings from related parties.

In 2017

	Lending amount	Inception date	Expiration date	Other instructions
Greenland Group Chengdu Jinniu Real Estate Development Co., Ltd. (綠地集團成都金牛房地產開發有限公司)	5,343,647.75	N/A	N/A	Repayable on demand

Lendings

In 2018

	Lending amount	Inception date	Expiration date	Other instructions
Shanghai Mingyi Enterprise Development Co., Ltd. (上海名藝商業企業發展有限公司)	6,800,000.00			Repayable on demand and interest-free
Hangzhou Red Star Macalline Global Home Living Company Limited (杭州紅星美凱龍環球家居有限公司)	4,504,425.00			Repayable on demand and interest-free
Handan Fengfengkuang District Royal Property Development Company Limited (邯鄲市峰峰礦區皇室房地產開發有限公司)	300,000,000.00	14 June 2018	13 June 2019	Repayable on demand and interest-free
Xiamen Baoxiang Red Star Macalline Home Furnishing Plaza Company Limited (廈門寶象紅星美凱龍家居生活廣場有限公司)	5,000,000.00			Repayable on demand and interest-free

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties (Continued)

(3) Guarantees from related parties (continued)

Lendings (continued)

In 2017

	Lending amount	Inception date	Expiration date	Other instructions
Shanghai Mingyi Enterprise Development Co., Ltd. (上海名藝商業企業發展有限公司)	7,800,000.50			Repayable on demand and interest-free
Shaanxi Hongrui Home Furnishings Plaza Co., Ltd. (陝西鴻瑞家居生活廣場有限公司)	3,645,231.60			Repayable on demand and interest-free
Hangzhou Red Star Macalline Global Home Living Company Limited (杭州紅星美凱龍環球家居有限公司)	94,348,629.00			Repayable on demand and interest-free
Nanchang Red Star Macalline Global Home Expo Center Co., Ltd. (南昌紅星美凱龍環球家居博覽中心有限責任公司)	84,970,532.70			Repayable on demand and interest-free
CAO Zhongmin	800,000.00	15 June 2017	14 December 2017	12.70%
ZHU Qingling	10,000,000.00	13 February 2017	27 December 2017	9.00%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Major Transactions between the Group and Related Parties (Continued)

(4) Other related parties transactions

	Note	2018	2017
Remuneration for key management personnel		48,825,949.64	31,525,000.00

(5) Asset transfer to related parties

	Note	Details of Transactions	2018	2017
Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司)	Note 1	Disposal of long-term equity investments	1.00	—
Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司)	Note 2	Disposal of other equity instruments	5,000,000.00	—

Note 1: Shanghai Jiajinsuo Investment Holding Company Limited transferred the 100% equity in Shanghai Jiajinsuo Enterprise Credit Service Co., Ltd. (上海家金所企業徵信服務有限公司) to Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司) at a consideration of RMB1.00.

Note 2: Red Star Macalline Group Corporation Ltd. transferred the 5% equity in Shanghai Reyli Network Technology Company Limited (上海熱一網絡科技有限公司) to Red Star Macalline Holding Group Company Limited at a consideration of RMB5,000,000.00.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Balance of Receivables Due from Related Parties

	2018		2017	
	Book balance	Bad debt allowance	Book balance	Bad debt allowance
Notes receivable and accounts receivable				
Shanghai Jiazhan Construction Engineering Company Limited (上海嘉展建築裝潢工程有限公司)	13,000,000.00	13,000,000.00	13,000,000.00	13,000,000.00
Ningbo Kailong Property Company Limited (寧波凱龍置業有限公司)	1,829,041.31	82,306.86	—	—
Shanghai Xingcheng Yijia Home Furnishings Co., Ltd. (上海星誠藝佳家居有限責任公司)	1,220,467.20	54,921.02	—	—
Shenzhen Huasheng Home Furnishing Group Co., Ltd. (深圳華生大家居集團有限公司)	666,666.66	30,000.00	—	—
Xinghua Xingkai Home Furnishing Plaza Company Limited (興化市星凱家居生活廣場有限公司)	468,333.43	57,605.01	248,333.39	12,416.67
Shanghai UIOT Technology Company Limited (上海紫光樂聯物聯網科技有限公司)	451,693.15	55,558.26	—	—
Ningbo Huixin Property Company Limited (寧波匯鑫置業有限公司)	370,876.53	16,689.44	—	—
Shanghai Harbour Home Investment Management Co., Ltd. (上海灣寓投資管理有限公司)	254,710.00	11,461.95	—	—
Shanghai Hongmei Property Company Limited (上海洪美置業有限公司)	84,840.95	3,817.84	—	—
Shanghai Kaixin Cinema Management Co., Ltd. (上海凱昕影院管理有限公司)	50,000.00	6,150.00	—	—
Shanghai Xingchen Interactive Entertainment Technology Co., Ltd. (上海星琛互動娛樂科技有限公司)	38,412.58	4,724.75	—	—
Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司)	3,967.00	487.94	—	—
Xuzhou Red Star Macalline International Home Furnishings City Co., Ltd. (徐州紅星美凱龍國際傢俱裝飾城有限公司)	—	—	10,000.00	500.00
	18,439,008.81	13,323,723.07	13,258,333.39	13,012,916.67

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Balance of Receivables Due from Related Parties (Continued)

	2018		2017	
	Book balance	Bad debt allowance	Book balance	Bad debt allowance
Prepayments				
Shenzhen Red Star Macalline Home Furnishing Plaza Company Limited (深圳紅星美凱龍家居生活廣場有限公司)	1,775,286.31	—	—	—
Shenyang Red Star Macalline Property Management Co., Ltd. (瀋陽紅星美凱龍物業管理有限公司)	600,000.00	—	—	—
Liaoning Cheng'an Construction Co., Ltd. (遼寧誠安建設有限公司)	600,000.00	—	—	—
Shanghai Jiazhan Construction Engineering Company Limited (上海嘉展建築裝潢工程有限公司)	572,805.00	—	—	—
Chengdu Dongtai Shopping Mall Company Limited (成都東泰商城有限公司)	200,372.27	—	—	—
Jining Hongrui Real Estate Co., Ltd. (濟寧鴻瑞置業有限公司)	187,614.06	—	—	—
Xiamen Baoxiang Red Star Macalline Home Furnishing Plaza Company Limited (廈門寶象紅星美凱龍家居生活廣場有限公司)	166,042.15	—	—	—
Wuhu Minghui Business Management Co., Ltd. (蕪湖明輝商業管理有限公司)	163,832.14	—	—	—
Shaanxi Hongrui Home Furnishings Plaza Co., Ltd. (陝西鴻瑞家居生活廣場有限公司)	159,633.42	—	—	—
Xuzhou Red Star Macalline Global Home Furnishings Plaza Co., Ltd. (徐州紅星美凱龍全球家居生活廣場有限公司)	150,476.39	—	—	—
Yangzhou Red Star Macalline Global Home Furnishings Plaza Property Co., Ltd. (揚州紅星美凱龍全球家居生活廣場置業有限公司)	130,969.33	—	—	—
Greenland Group Chengdu Jinniu Real Estate Development Co., Ltd. (綠地集團成都金牛房地產開發有限公司)	23,030.74	—	—	—
Wuhan Zhengkai Logistics Co., Ltd. (武漢市正凱物流有限公司)	17,237.99	—	—	—
	4,747,299.80	—	—	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Balance of Receivables Due from Related Parties (Continued)

	2018		2017	
	Book balance	Bad debt allowance	Book balance	Bad debt allowance
Other receivables				
Handan Fengfengkuang District Royal Property Development Company Limited (邯鄲市峰峰礦區皇室房地產開發有限公司)	300,000,000.00	23,282,996.53	—	—
Shanghai Mingyi Enterprise Development Co., Ltd. (上海名藝商業企業發展有限公司)	112,200,000.50	5,610,000.03	105,400,000.50	5,270,000.02
CHE Jianxing (Note 1)	154,384,500.54	—	—	—
Wuhu Meihe Asset Management Company Limited (蕪湖美和資產管理有限公司)	10,000,000.00	776,099.88	—	—
Shanghai UIOT Technology Company Limited (上海紫光樂聯物聯網科技有限公司)	10,000,000.00	776,099.88	—	—
Shaanxi Hongrui Home Furnishings Plaza Co., Ltd. (陝西鴻瑞家居生活廣場有限公司)	4,954,532.02	1,504,325.49	12,040,969.93	1,041,143.29
Hangzhou Red Star Macalline Global Home Living Company Limited (杭州紅星美凱龍環球家居有限公司)	4,504,425.00	349,588.37	—	—
Shanghai Xingcheng Yijia Home Furnishings Co., Ltd. (上海星誠藝佳家居有限責任公司)	2,892,905.64	1,302,204.37	2,899,405.64	144,970.28
Xinghua Xingkai Home Furnishing Plaza Company Limited (興化市星凱家居生活廣場有限公司)	1,170,984.78	90,880.12	—	—
Wuhu Minghui Business Management Co., Ltd. (蕪湖明輝商業管理有限公司)	1,052,880.00	—	1,127,050.00	56,352.50
Shenzhen Red Star Macalline Century Center Home Furnishing Plaza Company Limited (深圳紅星美凱龍世紀中心家居生活廣場有限公司)	811,586.35	17,621.54	811,586.35	40,579.32
Shenzhen Red Star Macalline Home Furnishing Plaza Company Limited (深圳紅星美凱龍家居生活廣場有限公司)	37,877.00	2,939.63	—	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Balance of Receivables Due from Related Parties (Continued)

	2018		2017	
	Book balance	Bad debt allowance	Book balance	Bad debt allowance
Other receivables (continued)				
Xuzhou Red Star Macalline Global Home Furnishings Plaza Co., Ltd.** (徐州紅星美凱龍全球家居生活廣場有限公司)	32,944.17	2,556.80	1,145,053.90	57,252.70
Guangdong Sanweijia Information Technology Co., Ltd. (廣東三維家信息科技有限公司)	21,961.22	—		
Shanghai Red Star Macalline Enterprise Operation and Management Co., Ltd. (上海紅星美凱龍企業經營管理有限公司)	6,642.00	—	—	—
Xiamen Baoxiang Red Star Macalline Home Furnishing Plaza Company Limited (廈門寶象紅星美凱龍家居生活廣場有限公司)	4,000.00	—	376,630.00	18,831.50
Suzhou Supin Furniture Co., Ltd. (蘇州市蘇品傢俱有限公司)	3,093.00	285.16	—	—
Xuzhou Red Star Macalline International Home Furnishings City Co., Ltd. (徐州紅星美凱龍國際傢俱裝飾城有限公司)	1,912.38	—	720,115.50	36,005.78
Chengdu Dongtai Shopping Mall Company Limited (成都東泰商場有限公司)	—	—	390,000.00	19,500.00
	602,080,244.60	33,715,597.80	124,910,811.82	6,684,635.39

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Balance of Receivables Due from Related Parties (Continued)

	2018		2017	
	Book balance	Bad debt allowance	Book balance	Bad debt allowance
Long term receivable				
Hangzhou Red Star Macalline Global Home Living Company Limited (杭州紅星美凱龍環球家居有限公司)	218,144,320.00	2,181,443.20	218,144,320.00	—
Nanchang Red Star Macalline Global Home Expo Center Co., Ltd. (南昌紅星美凱龍環球家居博覽中心有限責任公司)	174,054,495.62	1,740,544.96	84,970,532.70	—
Shaanxi Red Star Heji Home Shopping Plaza Company Limited (陝西紅星和記家居購物廣場有限公司)	31,340,000.00	313,400.00	—	—
Xiamen Baoxiang Red Star Macalline Home Furnishing Plaza Company Limited (廈門寶象紅星美凱龍家居生活廣場有限公司)	27,500,000.00	275,000.00	22,500,000.00	—
	451,038,815.62	4,510,388.16	325,614,852.70	—
Other non-current assets				
Chengdu Red Star Macalline Real Estate Co., Ltd. (成都紅星美凱龍置業有限公司)	247,705,000.00	—	247,705,000.00	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Balance of Receivables Due from Related Parties (Continued)

Balance of payables due to related parties

	2018	2017
Other payables		
Shanghai Red Star Macalline Enterprise Operation and Management Co., Ltd. (上海紅星美凱龍企業經營管理有限公司)	58,316,168.31	—
Shenyudao Cultural Tourism Holding Co., Ltd. (神玉島文化旅遊控股股份有限公司)	35,000,000.00	—
Chongqing Red Star Macalline Enterprise Development Co., Ltd. (重慶紅星美凱龍企業發展有限公司)	7,870,158.00	—
Greenland Group Chengdu Jinniu Real Estate Development Co., Ltd. (綠地集團成都金牛房地產開發有限公司)	5,029,569.72	9,019,918.53
Xinghua Xingkai Home Furnishing Plaza Company Limited (興化市星凱家居生活廣場有限公司)	3,403,537.78	—
Wuhan Zhengkai Logistics Co., Ltd. (武漢市正凱物流有限公司)	1,770,960.23	—
Shanghai Jiazhan Construction Engineering Company Limited (上海嘉展建築裝潢工程有限公司)	1,300,296.24	999,000.00
Zhuzhou Red Star Xin An Ju Industrial Company Limited (株洲紅星新安居實業有限公司)	1,232,222.36	—
Liaoning Cheng'an Construction Co., Ltd. (遼寧誠安建設有限公司)	600,676.43	—
Shanghai UIOT Technology Company Limited (上海紫光樂聯物聯網科技有限公司)	415,088.33	—
Shanghai Tianhe Smart Home Technology Company Ltd. (上海天合智能科技股份有限公司)	235,904.32	300,904.32
Wuhu Minghui Business Management Co., Ltd. (蕪湖明輝商業管理有限公司)	149,320.69	1,046,382.16
Suzhou Supin Furniture Co., Ltd. (蘇州市蘇品傢俱有限公司)	115,615.32	—
Jiangsu Baili Aijia Home Technology Co., Ltd. (江蘇佰麗愛家家居科技有限公司)	110,371.00	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Balance of Receivables Due from Related Parties (Continued)

Balance of payables due to related parties (continued)

	2018	2017
Other payables (continued)		
Business Division of Nanjing Pukou Lilicheng Furniture (南京市浦口區立力成傢俱經營部)	85,075.20	—
CHE Jianfang	70,150.00	—
QIAN Yumei	61,003.20	—
Shaanxi Hongrui Home Furnishings Plaza Co., Ltd. (陝西鴻瑞家居生活廣場有限公司)	56,962.54	—
Yangzhou Kailong Consulting Co., Ltd. (揚州凱龍管理諮詢有限公司)	45,191.59	212,862.59
Xuzhou Red Star Macalline Global Home Furnishing Plaza Company Limited (徐州紅星美凱龍全球家居生活廣場有限公司)	41,436.68	—
Klas International Home Living Company Limited (克拉斯國際家居有限公司)	40,000.00	—
Shenzhen Huasheng Home Furnishing Group Co., Ltd. (深圳華生大家居集團有限公司)	40,000.00	—
Yunnan Red Star Macalline Property Company Limited (雲南紅星美凱龍置業有限公司)	36,104.33	—
LEAWOD door and window profiles company (四川良木道門窗型材有限公司)	30,000.00	—
Changzhou Red Star Furniture General Factory Co., Ltd. (常州市紅星傢俱總廠有限公司)	21,186.00	—
Changzhou Yizhi Furniture Company Limited (常州市藝致傢俱有限公司)	18,000.00	—
Shanghai Hongmei Property Company Limited (上海洪美置業有限公司)	15,910.00	20,000,000.00
CAO Zhongmin	12,000.00	—
Chengdu Dongtai Shopping Mall Company Limited (成都東泰商城有限公司)	8,852.18	467,221.94
Xuzhou Red Star Macalline International Home Furnishings City Co., Ltd. (徐州紅星美凱龍國際傢俱裝飾城有限公司)	1,912.38	20,536.42

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Balance of Receivables Due from Related Parties (Continued)

Balance of payables due to related parties (continued)

	2018	2017
Other payables (continued)		
Xiamen Baoxiang Red Star Macalline Home Furnishing Plaza Company Limited (廈門寶象紅星美凱龍家居生活廣場有限公司)	1,843.72	—
Shenzhen Red Star Macalline Century Center Home Furnishing Plaza Company Limited (深圳紅星美凱龍世紀中心家居生活廣場有限公司)	N/A	11,544,722.36
Ningbo Red Star Macalline Home Shopping Plaza Company Limited (寧波紅星美凱龍家居購物廣場有限公司)	N/A	1,522,037.31
	132,511,516.55	45,133,585.63
Advance from Customers		
Greenland Group Chengdu Jinniu Real Estate Development Co., Ltd. (綠地集團成都金牛房地產開發有限公司)	—	2,610,045.66
Shanghai UIOT Technology Company Limited (上海紫光樂聯物聯網科技有限公司)	577,040.25	—
Suzhou Supin Furniture Co., Ltd. (蘇州市蘇品傢俱有限公司)	471,522.23	—
Shaanxi Hongrui Home Furnishings Plaza Co., Ltd. (陝西鴻瑞家居生活廣場有限公司)	108,000.00	—
ZHANG Jianfang (張建芳)	16,573.28	16,575.98
CAO Zhongmin (曹仲民)	4,051.02	10,792.17
Ningbo Red Star Macalline Home Shopping Plaza Company Limited (寧波紅星美凱龍家居購物廣場有限公司)	N/A	18,466.67

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Balance of Receivables Due from Related Parties (Continued)

Balance of payables due to related parties (continued)

	2018	2017
Wuhu Minghui Business Management Co., Ltd. (蕪湖明輝商業管理有限公司)	—	684,246.58
Xuzhou Red Star Macalline Global Home Furnishing Plaza Company Limited (徐州紅星美凱龍全球家居生活廣場有限公司)	—	365,435.37
Jining Hongrui Real Estate Co., Ltd. (濟寧鴻瑞置業有限公司)	—	902,377.29
Xinghua Xingkai Home Furnishing Plaza Company Limited (興化市星凱家居生活廣場有限公司)	—	850,342.47
QIAN Yumei (錢玉梅)	—	113,450.41
	1,177,186.78	5,571,732.60
Account Payable		
Shanghai Jiazhan Construction Engineering Company Limited (上海嘉展建築裝潢工程有限公司)	19,801,237.74	—
Liaoning Cheng'an Construction Co., Ltd. (遼寧誠安建設有限公司)	12,272,932.21	—
Changzhou Red Star Furniture General Factory Co., Ltd. (常州市紅星傢俱總廠有限公司)	341,500.50	—
	32,415,670.45	—

Note 1: The receivables due from CHE Jianxing included in other receivables were fully recovered on 21 March 2019, with a total amount of RMB154,384,500.54.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XI. COMMITMENTS AND CONTINGENCIES

1. Significant Commitments

	2018	2017
Contracted but not provisioned		
Capital commitments	3,310,000,000.00	2,654,884,000.00
Investment commitments	1,618,733,000.00	589,902,000.00
	4,928,733,000.00	3,244,786,000.00

2. Contingencies

As of the date of approval of the financial report, the Company has no significant contingencies that should be disclosed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XII. EVENTS AFTER THE BALANCE SHEET DATE

1. Judgment of the Lawsuit of Changsha Ideal Real Estate Development Co., Ltd. (長沙理想房地產開發有限公司) (“Changsha Ideal”)

In March 2012, the partner, Changsha Ideal Real Estate Development Co., Ltd. signed a project cooperation contract with the Company, for the cooperation in the construction and operation of furniture and building materials shopping mall projects in Changsha, under which Changsha Ideal Real Estate Development Co., Ltd. provides the project land and the Company provides all the construction funds and is also responsible for applying for the approval of the projects. According to the contract, the Company should commence construction before 18 July 2012, and complete and put shopping malls into operation before 18 January 2014. In March 2017, Changsha Ideal Real Estate Development Co., Ltd. filed a lawsuit in the Hunan Provincial Higher People’s Court, claiming that the Company had not allocated construction funds for the projects and failed to open business before the agreed time. Then it changed claims in May and June 2017 and August 2018 respectively, requesting to terminate the project cooperation contract with the Company. The Company has paid a non-refundable performance bond of RMB60 million, compensated liquidated damages of RMB145.983 million, and an expected return of RMB416.828 million to Changsha Ideal and bore fees for pit backfilling on sites and litigation costs and other related costs. The Company believes that Changsha Ideal Real Estate Development Co., Ltd.’s performance of the cooperation contract constitutes a breach of contract, so it filed a counterclaim in April 2017 at the Hunan Provincial Higher People’s Court, and then it changed claims in May 2017 and August 2018 respectively, to request the termination of the project cooperation contract signed by the Company and Changsha Ideal Real Estate Development Co., Ltd., and require Changsha Ideal Real Estate Development Co., Ltd. to refund to the Company twice the performance bond of RMB120 million and RMB62.102 million which had been invested by the Company in the joint venture project, and compensate the Company RMB12.421 million, accounting for 20% of the claimed amount, and bear attorney fees and appraisal cost.

As of the date of approval of the financial statements, the first instance of the case has been closed and the outcome is as follows: the performance bond of RMB60 million of the Company paid to Changsha Ideal is non-refundable; Changsha Ideal shall pay the cost of pit excavation of RMB1 million to the Company within 30 days from the date when the judgment being effective; the Company shall pay the expected return of RMB48 million and the attorney fee of RMB1.2 million to Changsha Ideal in one lump within 30 days from the date when the judgment being effective. The company reconciled on 16 January 2019 and the Group will no longer claims any rights to the Company. The Group has recognized this portion of the losses claimed in the 2018 financial statements and has made the abovementioned payments in full after the period.

The actual controller of our Group CHE Jianxing entrusted Red Star Macalline Holding Group Company Limited (“RSM Holding”) to meet the Group’s catch-all commitment. On 21 March 2019, the Group received RMB109.2 million from RSM Holding.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XII. EVENTS AFTER THE BALANCE SHEET DATE (CONTINUED)

2. Dividend Distribution

In 2018, the Company proposed to distribute cash dividend of RMB958,500,000.00 (tax inclusive), which is calculated based on the total share capital of 3,550,000,000 shares after the repurchase of H shares in July 2018. A cash dividend of RMB2.7 (tax inclusive) is distributed for every 10 shares. The proposed cash dividend accounts for 21.41% of the net profit attributable to shareholders of the listed company in 2018 consolidated statements. Cash dividend is denominated and declared in RMB and paid in RMB and in HK dollars to A Share Shareholders and H Share Shareholders, respectively. The profit distribution plan for 2018 of the Company is reviewed and approved at the 9th meeting (regular) of the 3rd session of the board of the Company as at 27 March 2019, which is still subject to the approval of the Company's general meeting.

3. Medium-term Notes

On 12 September 2018, the Company received the Notice for Acceptance of Registration (Zhong Shi Xie Zhu [2018] No. MTN 506) issued by the National Association of Financial Market Institutional Investors (the "NAFMII"), expressing its consent for acceptance of 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 Company successfully issued the 2019 first tranche of mid-term notes with an actual total amount of RMB500 million and an interest rate of issuance of 5.75%.

XIII. OTHER SIGNIFICANT EVENTS

1. Segment Reporting

Operating segment

For management purposes, the Group is organized into business units based on their products and services and has 5 reporting segments as follows:

- (1) Owned/Leased Portfolio Shopping Malls
- (2) Managed Shopping Malls
- (3) Construction and Design
- (4) Sales of merchandise and related services
- (5) others

The management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance are evaluated based on the segment profits reported. It represents the indicator after adjustments have been made to total profit of continuing operation, and other than the exclusion of interest income, financial expenses, dividend income, gains from changes in fair value of financial instruments, credit impairment losses, asset impairment losses, other income, investment income, asset disposal income, and headquarters expenses, the indicator is consistent with the Group's total profit of continuing operation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

1. Segment Reporting (Continued)

Operating segment (continued)

2018

	Owned/Leased Portfolio Shopping Malls	Managed Shopping Malls	Construction and design	Sales of merchandise and related services	Other	Unallocated item	Adjustment and offset	Consolidation
External 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
Inter-segment revenue	—	—	—	—	—	—	—	—
Total segment operating 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
Less: Cost of sales	1,607,276,015.02	1,655,852,601.31	995,054,981.41	309,325,890.09	246,190,333.24	—	—	4,813,699,821.07
Taxes and surcharges	339,809,034.92	31,054,622.13	4,511,494.10	1,201,533.26	10,793,289.82	—	—	387,369,974.23
Distribution and selling expenses	1,067,339,463.58	427,255,474.50	—	112,253,294.05	93,489,065.17	—	—	1,700,337,297.30
General and administrative expenses	559,774,169.55	404,918,084.17	107,799,959.14	115,456,405.50	303,012,792.44	—	—	1,490,961,410.80
Research and development costs	—	—	—	—	—	43,165,869.51	—	43,165,869.51
Financial expenses	—	—	—	—	—	1,533,151,372.35	—	1,533,151,372.35
Impairment losses of credit	—	—	—	—	—	247,494,708.99	—	247,494,708.99
Add: Other income	—	—	—	—	—	111,159,889.42	—	111,159,889.42
Investment income	—	—	—	—	—	229,672,928.92	—	229,672,928.92
Gain on changes in fair value	—	—	—	—	—	1,767,009,613.56	—	1,767,009,613.56
Gain from disposal of assets	—	—	—	—	—	(656,552.23)	—	(656,552.23)
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
Add: Non-operating income	—	—	—	—	—	38,512,766.67	—	38,512,766.67
Less: Non-operating expenses	—	—	—	—	—	149,990,961.12	—	149,990,961.12
Total profit/ (loss)	3,593,777,333.15	1,657,697,812.15	372,186,585.71	(71,947,935.31)	295,710,201.34	171,895,734.37	—	6,019,319,731.41
Less: Income tax expenses	—	—	—	—	—	1,313,872,428.30	—	1,313,872,428.30
Net profit/ (loss)	3,593,777,333.15	1,657,697,812.15	372,186,585.71	(71,947,935.31)	295,710,201.34	(1,141,976,693.93)	—	4,705,447,303.11

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

1. Segment Reporting (Continued)

Operating segment (continued)

2017

	Owned/Leased Portfolio Shopping Malls	Managed Shopping Malls	Construction and design	Sales of merchandise and related services	Other	Unallocated item	Adjustment and offset	Combination
External 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
Inter-segment revenue	—	—	—	—	—	—	—	—
Total segment operating 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
Less: Cost of sales	1,460,260,678.12	1,309,961,489.99	43,039,708.61	202,426,401.48	147,505,238.18	—	—	3,163,193,516.38
Taxes and surcharges	282,205,871.01	24,510,343.51	2,160,766.61	1,560,902.77	6,891,635.15	—	—	317,329,519.05
Distribution and selling expenses	1,053,466,814.00	357,421,594.86	—	67,588,171.53	35,352,808.75	—	—	1,513,829,389.14
General and administrative expenses	551,169,073.45	416,045,618.47	56,252,434.81	101,842,126.33	172,768,001.87	63,710,944.11	—	1,361,788,199.04
Financial expenses	—	—	—	—	—	1,131,840,043.65	—	1,131,840,043.65
Impairment losses of assets	—	—	—	—	—	283,436,250.82	—	283,436,250.82
Add: Other income	—	—	—	—	—	62,288,005.83	—	62,288,005.83
Investment income	—	—	—	—	—	633,897,111.33	—	633,897,111.33
Gain on changes in fair value	—	—	—	—	—	1,996,188,694.30	—	1,996,188,694.30
Gain from disposal of assets	—	—	—	—	—	35,964,572.41	—	35,964,572.41
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
Add: Non-operating income	—	—	—	—	—	112,250,229.35	—	112,250,229.35
Less: Non-operating expenses	—	—	—	—	—	42,647,769.39	—	42,647,769.39
Total profit/ (loss)	3,047,379,363.23	1,520,796,530.95	(45,322,959.41)	(79,161,405.77)	223,391,461.27	1,318,953,605.25	—	5,986,036,595.52
Less: Income tax expenses	—	—	—	—	—	1,708,022,775.23	—	1,708,022,775.23
Net profit/ (loss)	3,047,379,363.23	1,520,796,530.95	(45,322,959.41)	(79,161,405.77)	223,391,461.27	(389,069,169.98)	—	4,278,013,820.29

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

2. Leases

As a lessee

Financial leases: As at 31 December 2018, the balance of unrecognized finance charge amounted to RMB510,862,254.59 (RMB534,746,735.18 as at 31 December 2017), was amortized over each period in the lease term adopting the effective interest method. According to the lease contract signed with the lessor, minimum lease payment under irrevocable lease is as follows:

	2018	2017
Within 1 year (including 1 year)	31,249,088.04	36,183,376.08
1 to 2 years (including 2 years)	31,249,088.04	31,249,088.04
2 to 3 years (including 3 years)	31,249,088.04	31,249,088.04
Over 3 years	840,847,393.11	864,558,102.44
	934,594,657.23	963,239,654.60

Significant operating lease: According to the lease contract signed with the lessor, minimum lease payment under irrevocable lease is as follows:

	2018	2017
Within 1 year (including 1 year)	665,024,000.00	636,533,000.00
1 to 2 years (including 2 years)	677,663,000.00	593,895,000.00
2 to 3 years (including 3 years)	555,336,000.00	559,792,000.00
Over 3 years	5,808,486,000.00	3,448,280,000.00
	7,706,509,000.00	5,238,500,000.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

*3. Remuneration of Directors and Supervisors

Remuneration of Directors	2018	2017
Directors' fees	2,597,000.00	2,600,000.00
Salaries and allowances	13,127,000.00	18,072,000.00
Bonuses	7,181,000.00	7,365,000.00
Pensions	296,000.00	230,000.00
Social insurance and reserve funds other than pensions	266,000.00	210,000.00
	23,467,000.00	28,477,000.00

Executive directors

The remuneration of executive Directors is set out as follows:

2018	Directors' fees	Salaries and allowances	Bonuses	Pensions	Other social security fund	Total
CHE Jianxing	—	3,418,000.00	—	50,000.00	45,000.00	3,513,000.00
ZHANG Qi	—	2,797,000.00	—	46,000.00	41,000.00	2,884,000.00
CHE Jianfang	—	2,418,000.00	2,163,000.00	50,000.00	45,000.00	4,676,000.00
JIANG Xiaozhong	—	1,818,000.00	3,580,000.00	50,000.00	45,000.00	5,493,000.00
GUO Binghe	—	1,458,000.00	943,000.00	50,000.00	45,000.00	2,496,000.00
	—	11,909,000.00	6,686,000.00	246,000.00	221,000.00	19,062,000.00

2017	Directors' fees	Salaries and allowances	Bonuses	Pensions	Other social security fund	Total
CHE Jianxing	—	6,618,000.00	1,650,000.00	46,000.00	42,000.00	8,356,000.00
ZHANG Qi	—	6,000,000.00	1,640,000.00	46,000.00	42,000.00	7,728,000.00
CHE Jianfang	—	2,418,000.00	1,200,000.00	46,000.00	42,000.00	3,706,000.00
JIANG Xiaozhong	—	1,818,000.00	2,375,000.00	46,000.00	42,000.00	4,281,000.00
	—	16,854,000.00	6,865,000.00	184,000.00	168,000.00	24,071,000.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

*3. Remuneration of Directors and Supervisors (Continued)

Non-executive directors

The remuneration of non-executive Directors is set out as follows:

2018	Directors' fees	Salaries and allowances	Bonuses	Pensions	Other social security fund	Total
CHEN Shuhong	—	1,218,000.00	495,000.00	50,000.00	45,000.00	1,809,000.00
XU Guofeng	—	—	—	—	—	—
Joseph Raymond Gagnon	—	—	—	—	—	—
ZHANG Qiqi	—	—	—	—	—	—
	—	1,218,000.00	495,000.00	50,000.00	45,000.00	1,809,000.00

2017	Directors' fees	Salaries and allowances	Bonuses	Pension	Other social security fund	Total
CHEN Shuhong	—	1,218,000.00	500,000.00	46,000.00	42,000.00	1,806,000.00
XU Guofeng	—	—	—	—	—	—
Joseph Raymond Gagnon	—	—	—	—	—	—
ZHANG Qiqi	—	—	—	—	—	—
	—	1,218,000.00	500,000.00	46,000.00	42,000.00	1,806,000.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

*3. Remuneration of Directors and Supervisors (Continued)

Independent non-executive directors

Remuneration of independent non-executive Directors	2018	2017
LI Zhenning (Note 1)	550,000.00	600,000.00
DING Yuan (Note 1)	733,000.00	800,000.00
LEE Kwan Hung	600,000.00	600,000.00
QIAN Shizheng	600,000.00	600,000.00
ZHAO Chongyi (Note 2)	57,000.00	—
WANG Xiao (Note 2)	57,000.00	—
	2,597,000.00	2,600,000.00

There is no other remuneration payable to independent non-executive Directors for the year (2017: nil).

Supervisors

The remuneration of Supervisors is set out as follows:

2018	Supervisors' fees	Salaries and allowances	Bonuses	Pensions	Other social security fund	Total
PAN Ning	—	1,218,000.00	600,000.00	50,220.00	45,334.55	1,913,554.55
CHAO Yanping	—	710,400.00	231,369.00	50,220.00	45,334.55	1,037,323.55
CHEN Gang	180,000.00	—	—	—	—	180,000.00
ZHENG Hongtao	180,000.00	—	—	—	—	180,000.00
NG Ellen Hoi Ying	—	—	—	—	—	—
	360,000.00	1,928,400.00	831,369.00	100,440.00	90,669.10	3,310,878.10

Pursuant to the remuneration system of the Company, the remuneration, allowances, benefits in kind and discretionary bonuses accrued for the executive directors are subject to the approval of the remuneration committee and the annual general meeting.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

*3. Remuneration of Directors and Supervisors (Continued)

Supervisors (continued)

None of the executive Directors or non-executive Directors received any emoluments of the Directors during the year.

Note 1: Resigned as an independent non-executive Director of the Company on 28 November 2018.

Note 2: Appointed as an independent non-executive Director of the Company on 28 November 2018.

The remuneration of supervisors is set out as follows:

2017	Supervisors' fees	Salaries and allowances	Bonuses	Pensions	Other social security fund	Total
PAN Ning	—	1,218,000.00	584,000.00	46,000.00	42,000.00	1,890,000.00
CHAO Yanping	—	710,000.00	—	46,000.00	42,000.00	798,000.00
CHEN Gang	180,000.00	—	—	—	—	180,000.00
ZHENG Hongtao	180,000.00	—	—	—	—	180,000.00
NG Ellen Hoi Ying	—	—	—	—	—	—
	360,000.00	1,928,000.00	584,000.00	92,000.00	84,000.00	3,048,000.00

*4. The Five Highest Paid Employees of the Group During the Year

The five highest paid employees during the year included three directors and two chief executive officers (2017: four directors) and details of their remuneration are set out in Notes XIII. 3. Details of the remaining two non-directors of the highest paid employees (2017: one) are set out as follows:

	2018	2017
Directors' fees		
Salaries and allowances	3,456,000.00	1,218,000.00
Bonuses	3,419,047.49	500,000.00
Pensions	50,220.00	46,000.00
Social insurance and reserve funds other than pensions	45,334.55	42,000.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

*4. The Five Highest Paid Employees of the Group During the Year (Continued)

The number of highest paid employees whose pre-tax remuneration fell within the following bands is as follows:

	2018	2017
HK\$3,000,001 to HK\$3,500,000 (equivalent to RMB2,629,000 to RMB3,067,000)	1	—
HK\$3,500,001 to HK\$4,000,000 (equivalent to RMB3,067,000 to RMB3,505,000)	—	1
HK\$4,500,001 to HK\$5,000,000 (equivalent to RMB3,943,000 to RMB4,381,000)	1	—

*5. Pension Plans

	2018	2017
Net contributions to pension plans	289,888,161.21	211,375,216.32

On 31 December 2018, the Group was not forced to waive its contributions to reduce its contributions to pension plan for future years

*6. Total Assets Less Current Liabilities

	31 December 2018 the Group	31 December 2017 the Group
Total assets	110,860,717,818.56	97,014,624,091.31
Less: current liabilities	25,313,806,916.61	22,716,747,441.19
Total assets less current liabilities	85,546,910,901.95	74,297,876,650.12

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

*6. Total Assets Less Current Liabilities (Continued)

	31 December 2018 the Company	31 December 2017 the Company
Total assets	48,502,749,563.29	39,735,259,665.96
Less: current liabilities	24,206,702,337.56	20,440,440,216.22
Total assets less current liabilities	24,296,047,225.73	19,294,819,449.74

7. Comparative Data

As mentioned in Note III. 32, and according to “Notice on the Revision of the Format of General Financial Statements for 2018” (Cai Kuai [2018] No. 15), the accounting treatment and presentation of certain items in the financial statements and the amount in the financial statements have been revised to meet the new requirements. Accordingly, some previous annual data have been adjusted and some comparative data have been reclassified and restated to meet the reporting and accounting treatment requirements for the current year.

8. Other Important Transactions and Events that Affect Investors’ Decisions

As of the approval date of the financial report, the Group has no other important transactions and events that have an impact on investors’ decisions should be disclosed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

1. Notes Receivable and Accounts Receivable

	2018	2017
Accounts receivable	1,517,778,273.71	1,172,992,405.38
Less: Bad debt allowance	940,816,218.89	688,235,179.47
	576,962,054.82	484,757,225.91

The changes on allowance for bad debts in relation to accounts receivable are as follows:

	Balance for the previous year	Opening balance (note 1)	Provision for the current year	Reversal for the current year	Written-off for the current year	Closing Balance
2018	688,235,179.47	177,334,527.94	90,246,511.48	15,000,000.00	—	940,816,218.89
2017	580,787,391.64	—	113,167,787.83	5,720,000.00	—	688,235,179.47

Note 1: Refers to the impacted amount of bad debt allowance at the beginning of the year under the implementation of the New Standards for Financial Instruments.

	2018			
	Book balance		Bad debt allowance	
	Amount	Percentage (%)	Amount	Proportion (%)
Receivables for which bad debts are provided individually	886,000,865.46	58.37	806,961,654.65	91.08
Receivables for which provision for bad debt is recognized by group with distinctive credit risk characteristics	631,777,408.25	41.63	133,854,564.24	21.19
	1,517,778,273.71	100.00	940,816,218.89	61.99

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Notes Receivable and Accounts Receivable (Continued)

	2017			
	Book balance		Bad debt allowance	
	Amount	Percentage (%)	Amount	Proportion (%)
Account receivables of significant individual amount and individually provided for bad debts	608,400,174.73	51.87	533,574,668.96	87.70
Account receivables for which provision for bad debts is recognized by group with distinctive credit risk characteristic	472,017,246.60	40.24	64,464,285.32	13.66
Account receivables of insignificant individual amount but individually provided for bad debts	92,574,984.05	7.89	90,196,225.19	97.43
	1,172,992,405.38	100.00	688,235,179.47	58.67

Aging analysis of the accounts receivable is as follows:

	2018	2017
Within 1 year	244,694,239.64	237,348,735.50
1 to 2 years	150,008,648.61	111,368,511.10
2 to 3 years	164,417,337.43	74,800,000.00
Over 3 years	958,658,048.03	749,475,158.78
Less: Allowance for bad debts in relation to accounts receivable	940,816,218.89	688,235,179.47
	576,962,054.82	484,757,225.91

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Notes Receivable and Accounts Receivable (Continued)

As at 31 December 2018, individually bad debt allowance in relation to accounts receivable as follows:

	Book balance	Bad debt allowance	Proportion for provision	Reason for provision
Changzhou Wujin Construction Engineering Co., Ltd.	55,000,000.00	55,000,000.00	100.00%	The Receivables are expected to be unrecoverable
The Second Construction Group Corporation Limited of Yancheng Jiangsu	30,600,000.00	30,600,000.00	100.00%	The Receivables are expected to be unrecoverable
Guizhou Jinyuan Huaifu Property Co., Ltd.	23,000,000.00	23,000,000.00	100.00%	The Receivables are expected to be unrecoverable
Xuanwei Xintiandi Real Estate Development Co., Ltd. (宣威市新天地房地產開發有限公司)	20,000,000.00	20,000,000.00	100.00%	The Receivables are expected to be unrecoverable
Jiangsu Provincial Construction Group Co., Ltd.	26,000,000.00	23,000,000.00	88.46%	Parts of the receivables are expected to be unrecoverable
Fujian Wogu Investment Development Co., Ltd. (福建沃谷投資發展有限公司)	17,000,000.00	17,000,000.00	100.00%	The Receivables are expected to be unrecoverable
Jiangsu Jiangdu Construction Group Co., Ltd.	16,000,000.00	16,000,000.00	100.00%	The Receivables are expected to be unrecoverable
Zhongkai Group Co., Ltd.	15,200,000.00	15,200,000.00	100.00%	The Receivables are expected to be unrecoverable
Jiangsu Jiangzhong Group Company Limited	15,000,000.00	15,000,000.00	100.00%	The Receivables are expected to be unrecoverable
Xichang Hongbo Real Estate Co., Ltd.	15,000,000.00	10,000,000.00	66.67%	Parts of the receivables are expected to be unrecoverable
Mudanjiang Changxing Real Estate Co., Ltd.	15,000,000.00	15,000,000.00	100.00%	The Receivables are expected to be unrecoverable
Tongliao Wanjiayu Commerce and Trade Co., Ltd. (通遼市萬家福商貿有限公司)	14,600,000.00	14,600,000.00	100.00%	The Receivables are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Notes Receivable and Accounts Receivable (Continued)

As at 31 December 2018, individually bad debt allowance in relation to accounts receivable as follows: (continued)

	Book balance	Bad debt allowance	Proportion for provision	Reason for provision
Guangxi Shengli Decoration Engineering Co., Ltd.	14,000,000.00	14,000,000.00	100.00%	The receivables are expected to be unrecoverable
Inner Mongolia Hongtai Real Estate Development Co., Ltd. (內蒙古宏泰房地產開發有限公司)	14,000,000.00	14,000,000.00	100.00%	The receivables are expected to be unrecoverable
Shaanxi Jinxiong Industry and Trade Co., Ltd. (陝西錦雄工貿有限公司)	14,000,000.00	14,000,000.00	100.00%	The receivables are expected to be unrecoverable
Bozhou Yidu Real Estate Co., Ltd. (亳州億都置業有限公司)	14,000,000.00	14,000,000.00	100.00%	The receivables are expected to be unrecoverable
Xuchang Fengtai Real Estate Company Limited	13,500,000.00	13,500,000.00	100.00%	The receivables are expected to be unrecoverable
Shanghai Jiazhan Construction Engineering Company Limited	13,000,000.00	13,000,000.00	100.00%	The receivables are expected to be unrecoverable
Guizhou Wanshang Real Estate Co., Ltd.	11,000,000.00	11,000,000.00	100.00%	The receivables are expected to be unrecoverable
Xianyang Lilai Real Estate Development Co., Ltd. (咸陽麗萊房地產開發有限公司)	10,500,000.00	10,500,000.00	100.00%	The receivables are expected to be unrecoverable
Tongren Jiacheng Real Estate Co., Ltd.	10,000,000.00	10,000,000.00	100.00%	The receivables are expected to be unrecoverable
Shanxi Xinghe Real Estate Development Co., Ltd.	10,000,000.00	10,000,000.00	100.00%	The receivables are expected to be unrecoverable
Mengzi Xingding Trade Co., Ltd. (蒙自星鼎商貿有限公司)	10,000,000.00	10,000,000.00	100.00%	The receivables are expected to be unrecoverable
Guangxi Yuan Chen Hakka Culture City Investment Co., Ltd.	10,000,000.00	10,000,000.00	100.00%	The receivables are expected to be unrecoverable
Jiangsu Ruibo Real Estate Development Co., Ltd. (江蘇睿博置業發展有限公司)	10,000,000.00	10,000,000.00	100.00%	The receivables are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Notes Receivable and Accounts Receivable (Continued)

As at 31 December 2018, individually bad debt allowance in relation to accounts receivable as follows: (continued)

	Book balance	Bad debt allowance	Proportion for provision	Reason for provision
Hunan Jinluowan Real Estate Co., Ltd. (湖南金鑼灣置業有限公司)	10,000,000.00	10,000,000.00	100.00%	The receivables are expected to be unrecoverable
Gansu Xinghong Real Estate Development Co., Ltd. (甘肅星泓房地產開發有限公司)	10,000,000.00	10,000,000.00	100.00%	The receivables are expected to be unrecoverable
Hubei Outlets Investment Development Co., Ltd.	10,000,000.00	10,000,000.00	100.00%	The receivables are expected to be unrecoverable
Hubei Meihong Real Estate Co., Ltd. (湖北美弘置業有限公司)	9,750,000.00	9,750,000.00	100.00%	The receivables are expected to be unrecoverable
Guangzhou Huan Bo Exhibition Company Limited	9,666,667.68	9,666,667.68	100.00%	The receivables are expected to be unrecoverable
Yong'an Haoyuan Real Estate Co., Ltd.	9,000,000.00	9,000,000.00	100.00%	The receivables are expected to be unrecoverable
Jiangsu Jindu Property Co., Ltd.	8,500,000.00	8,500,000.00	100.00%	The receivables are expected to be unrecoverable
Wenzhou Red Star International Home Furnishing Plaza Company Limited (溫州紅星國際家居廣場有限公司)	8,465,479.46	8,465,479.46	100.00%	The receivables are expected to be unrecoverable
Guizhou Lingzhi Agricultural Group Real Estate Co., Ltd.	8,000,000.00	8,000,000.00	100.00%	The receivables are expected to be unrecoverable
Leshan Wutongqiao District Tiancheng Trading Company	8,000,000.00	8,000,000.00	100.00%	The receivables are expected to be unrecoverable
Guizhou Wanjin Real Estate Company Limited	8,000,000.00	8,000,000.00	100.00%	The receivables are expected to be unrecoverable
Jingxian Shenxin Property Co., Ltd.	7,500,000.00	7,500,000.00	100.00%	The receivables are expected to be unrecoverable
Shanxi Guangyu Investment Group Co., Ltd.	7,500,000.00	7,500,000.00	100.00%	The receivables are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Notes Receivable and Accounts Receivable (Continued)

As at 31 December 2018, individually bad debt allowance in relation to accounts receivable as follows: (continued)

	Book balance	Bad debt allowance	Proportion for provision	Reason for provision
Jiangxi Lixin Property Investment Group Co., Ltd.	7,500,000.00	7,500,000.00	100.00%	The receivables are expected to be unrecoverable
Binzhou Yisen Real Estate Development Co., Ltd.	7,451,000.00	6,201,000.00	83.22%	Part of the accounts receivables are expected to be unrecoverable
Hebei Jingao Real Estate Development Co., Ltd.	7,000,000.00	7,000,000.00	100.00%	The receivables are expected to be unrecoverable
Shenzhen Buji Sanlian Industrial Development Co., Ltd.	6,273,965.27	6,273,965.27	100.00%	The receivables are expected to be unrecoverable
Shenzhen Shengshi Julong Investment Co., Ltd. (深圳市盛世聚龍投資有限公司)	6,000,000.00	6,000,000.00	100.00%	The receivables are expected to be unrecoverable
Ningde Lianxin Real Estate Co., Ltd.	7,000,000.00	7,000,000.00	100.00%	The receivables are expected to be unrecoverable
Jinzhong Tianhe Real Estate Development Co., Ltd.	6,000,000.00	6,000,000.00	100.00%	The receivables are expected to be unrecoverable
Guizhou Ruiteng Commercial Operation Management Co., Ltd. (貴州瑞騰商業運營管理有限公司)	6,000,000.00	6,000,000.00	100.00%	The receivables are expected to be unrecoverable
Nantong Deer Logistics Co., Ltd.	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Jilin Province Songyuan Feiyu Real Estate Development Co., Ltd.	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Zhejiang Ganghai Construction Group Co., Ltd.	5,000,000.00	3,979,876.69	79.60%	Part of the receivables are expected to be unrecoverable
Yantai North Wenzhou City Development Company Limited	8,102,533.34	8,102,533.34	100.00%	The receivables are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Notes Receivable and Accounts Receivable (Continued)

As at 31 December 2018, individually bad debt allowance in relation to accounts receivable as follows: (continued)

	Book balance	Bad debt allowance	Proportion for provision	Reason for provision
Anhui Kaiyue Real Estate Development Co., Ltd.	7,500,000.00	7,500,000.00	100.00%	The receivables are expected to be unrecoverable
Tea Bohui Investment Co., Ltd.	7,000,000.00	7,000,000.00	100.00%	The receivables are expected to be unrecoverable
Jiangxi Yongkang Property Co., Ltd.	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Sanmenxia Xindu Real Estate Co., Ltd.	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Jiangxi Wengan Industrial Development Co., Ltd. (江西溫贛實業發展有限公司)	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Wuhan New Beacon Holdings Limited	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Hengyang Xingmei Real Estate Co., Ltd. (衡陽星美置業發展有限公司)	4,500,000.00	4,500,000.00	100.00%	The receivables are expected to be unrecoverable
Yangquan Haomen Real Estate Development Co., Ltd.	9,203,503.34	9,203,503.34	100.00%	The receivables are expected to be unrecoverable
Yuyao Chenglong Metal Materials Co., Ltd. (餘姚市成龍金屬材料有限公司)	4,000,000.00	4,000,000.00	100.00%	The receivables are expected to be unrecoverable
Chenzhou Donglin Hongzhixing Real Estate Development Co., Ltd. (郴州市東麟紅至星房地產開發有限公司)	4,000,000.00	4,000,000.00	100.00%	The receivables are expected to be unrecoverable
Chengde County Kailong Real Estate Development Co., Ltd. (承德縣凱隆房地產開發有限公司)	4,000,000.00	4,000,000.00	100.00%	The receivables are expected to be unrecoverable
Shijiazhuang Runxin Real Estate Development Co., Ltd.	3,500,000.00	3,500,000.00	100.00%	The receivables are expected to be unrecoverable
Guizhou Jinmingda Real Estate Development Co., Ltd. (貴州金銘達房地產開發有限公司)	3,000,000.00	3,000,000.00	100.00%	The receivables are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Notes Receivable and Accounts Receivable (Continued)

As at 31 December 2018, individually bad debt allowance in relation to accounts receivable as follows: (continued)

	Book balance	Bad debt allowance	Proportion for provision	Reason for provision
Bole Huifu Real Estate Development Co., Ltd. (博樂市匯富房地產開發有限公司)	3,000,000.00	3,000,000.00	100.00%	The receivables are expected to be unrecoverable
Baoding Fangbei Real Estate Development Co., Ltd.	3,000,000.00	3,000,000.00	100.00%	The receivables are expected to be unrecoverable
Weifang Beida Technology Park Construction & Development Co., Ltd. (濰坊北大科技園建設開發有限公司)	3,000,000.00	3,000,000.00	100.00%	The receivables are expected to be unrecoverable
Korla Longxing Industry and Commerce Co., Ltd. (庫爾勒市龍興實業有限責任公司)	3,000,000.00	3,000,000.00	100.00%	The receivables are expected to be unrecoverable
Jining Haoheng Real Estate Development Co., Ltd.	3,000,000.00	3,000,000.00	100.00%	The receivables are expected to be unrecoverable
Sanming Haixin Investment Co., Ltd.	2,833,333.33	2,833,333.33	100.00%	The receivables are expected to be unrecoverable
Guizhou Jinyuanda Real Estate Development Co., Ltd.	2,500,000.00	2,500,000.00	100.00%	The receivables are expected to be unrecoverable
Guiyang Putian Dejie Tongde Real Estate Development Co., Ltd.	2,500,000.00	2,500,000.00	100.00%	The receivables are expected to be unrecoverable
Chengde Zhaotong Logistics Co., Ltd.	2,220,000.00	2,220,000.00	100.00%	The receivables are expected to be unrecoverable
Yunnan Chuangsen Real Estate Development Co., Ltd.	2,000,000.00	2,000,000.00	100.00%	The receivables are expected to be unrecoverable
Inner Mongolia Wind Real Estate Co., Ltd.	2,000,000.00	2,000,000.00	100.00%	The receivables are expected to be unrecoverable
Kunming Hongkai Real Estate Development Co., Ltd.	2,000,000.00	2,000,000.00	100.00%	The receivables are expected to be unrecoverable
Yuyao Longding Commercial Plaza Co., Ltd.	2,000,000.00	1,800,000.00	90.00%	Part of the receivables are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Notes Receivable and Accounts Receivable (Continued)

As at 31 December 2018, individually bad debt allowance in relation to accounts receivable as follows: (continued)

	Book balance	Bad debt allowance	Proportion for provision	Reason for provision
Wenzhou Dong'ou Construction Group Co., Ltd.	2,000,000.00	2,000,000.00	100.00%	The receivables are expected to be unrecoverable
Jiangsu Hurun Real Estate Co., Ltd.	1,800,000.00	1,800,000.00	100.00%	The receivables are expected to be unrecoverable
Zhejiang Yifeng Domestic Building Materials Co., Ltd.	1,696,721.31	1,696,721.31	100.00%	The receivables are expected to be unrecoverable
Zhangzhou Shengda Real Estate Development Co., Ltd.	1,550,000.00	1,550,000.00	100.00%	The receivables are expected to be unrecoverable
Guangxi Guantong Real Estate Co., Ltd.	1,500,000.00	1,500,000.00	100.00%	The receivables are expected to be unrecoverable
Baotou Zhongyi Real Estate Co., Ltd.	1,500,000.00	1,500,000.00	100.00%	The receivables are expected to be unrecoverable
Zhuzhou Xin'anju Property Co., Ltd.	1,000,000.00	1,000,000.00	100.00%	The receivables are expected to be unrecoverable
Tongliao Gaodi Real Estate Development Co., Ltd.	1,000,000.00	1,000,000.00	100.00%	The receivables are expected to be unrecoverable
Others	167,087,661.73	98,518,574.23	58.96%	Part of the receivables are expected to be unrecoverable
	886,000,865.46	806,961,654.65	91.08%	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Notes Receivable and Accounts Receivable (Continued)

As at 31 December 2017, accounts receivable that are individually significant and for which bad debts are provided individually are as follows:

	Book balance	Bad debt allowance	Provision proportion	Reason for provision
The Second Construction Group Corporation Limited Of Yancheng Jiangsu	82,600,000.00	56,600,000.00	68.52%	Part of the receivables are expected to be unrecoverable
Shijiazhuang Runxin Real Estate Development Co., Ltd.	55,914,383.56	13,841,438.36	24.75%	Part of the receivables are expected to be unrecoverable
Changzhou Wujin Construction Engineering Co., Ltd.	55,000,000.00	55,000,000.00	100.00%	The receivables are expected to be unrecoverable
Jiangsu Jiangzhong Group Company Limited	30,000,000.00	30,000,000.00	100.00%	The receivables are expected to be unrecoverable
Fuqing Xingrong Real Estate Co., Ltd.	17,000,000.00	17,000,000.00	100.00%	The receivables are expected to be unrecoverable
Tonghua Kailong Commercial Plaza Company Limited	16,232,137.90	15,282,137.90	94.15%	Part of the receivables are expected to be unrecoverable
Jiangsu Jiangdu Construction Group Co., Ltd.	16,000,000.00	16,000,000.00	100.00%	The receivables are expected to be unrecoverable
Guangxi Shengli Decoration Engineering Co. Ltd.	14,000,000.00	14,000,000.00	100.00%	The receivables are expected to be unrecoverable
Shanghai Jiazhan Construction Engineering Company Limited	13,000,000.00	13,000,000.00	100.00%	The receivables are expected to be unrecoverable
Jiangxi Lixin Property Investment Group Co., Ltd.	11,500,000.00	11,500,000.00	100.00%	The receivables are expected to be unrecoverable
Guizhou Lingzhi Agricultural Group Real Estate Co., Ltd.	11,250,000.00	10,350,000.00	92.00%	Part of the receivables are expected to be unrecoverable
Guizhou Wanshang Real Estate Co., Ltd.	11,000,000.00	11,000,000.00	100.00%	The receivables are expected to be unrecoverable
Jiangsu Construction Group Co., Ltd.	11,000,000.00	11,000,000.00	100.00%	The receivables are expected to be unrecoverable
Guangxi Yuanchen Hakka Cultural City Investment Co., Ltd.	10,000,000.00	10,000,000.00	100.00%	The receivables are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Notes Receivable and Accounts Receivable (Continued)

As at 31 December 2017, accounts receivable that are individually significant and for which bad debts are provided individually are as follows: (continued)

	Book balance	Bad debt allowance	Provision proportion	Reason for provision
Nanning Runjia Real Estate Development Co., Ltd.	10,000,000.00	10,000,000.00	100.00%	The receivables are expected to be unrecoverable
Guangzhou City Huan Bo Exhibition Company Limited	9,666,667.68	9,666,667.68	100.00%	The receivables are expected to be unrecoverable
Yangquan Haomen Real Estate Development Co., Ltd.	9,246,575.34	9,246,575.34	100.00%	The receivables are expected to be unrecoverable
Guizhou Jinyuan Huafu Property Co., Ltd.	9,000,000.00	9,000,000.00	100.00%	The receivables are expected to be unrecoverable
Yantai Beifang Wenzhoucheng Development Co., Ltd.	8,749,965.52	8,134,904.95	92.97%	Part of the receivables are expected to be unrecoverable
Guizhou Wanjin Real Estate Company Limited	8,000,000.00	8,000,000.00	100.00%	The receivables are expected to be unrecoverable
Guizhou Jinyuanda Real Estate Development Co., Ltd.	7,500,000.00	7,500,000.00	100.00%	The receivables are expected to be unrecoverable
Shanxi Guangyu Investment Group Co., Ltd.	7,500,000.00	7,500,000.00	100.00%	The receivables are expected to be unrecoverable
Hong Kong Royal Holdings Group Limited	7,500,000.00	7,500,000.00	100.00%	The receivables are expected to be unrecoverable
Anhui Kaiyue Real Estate Development Co., Ltd.	7,500,000.00	7,500,000.00	100.00%	The receivables are expected to be unrecoverable
Hangzhou Kangsheng Trading Company Limited	7,500,000.00	6,300,000.00	84.00%	Part of the receivables are expected to be unrecoverable
Binzhou Yisen Real Estate Development Co., Ltd.	7,451,000.00	5,076,000.00	68.13%	Part of the receivables are expected to be unrecoverable
Tea Bohui Investment Co., Ltd.	7,000,000.00	7,000,000.00	100.00%	The receivables are expected to be unrecoverable
Ningde Lianxin Real Estate Co., Ltd.	7,000,000.00	7,000,000.00	100.00%	The receivables are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Notes Receivable and Accounts Receivable (Continued)

As at 31 December 2017, accounts receivable that are individually significant and for which bad debts are provided individually are as follows: (continued)

	Book balance	Bad debt allowance	Provision proportion	Reason for provision
Wenzhou Honglian Home Furnishing Company Limited	6,665,479.46	6,665,479.46	100.00%	The receivables are expected to be unrecoverable
Shenzhen Buji Sanlian Industrial Development Co., Ltd.	6,273,965.27	6,273,965.27	100.00%	The receivables are expected to be unrecoverable
Guizhou Xinfeng Pharmaceutical Co., Ltd.	6,000,000.00	6,000,000.00	100.00%	The receivables are expected to be unrecoverable
Shanxi Xinghe Real Estate Development Co., Ltd.	6,000,000.00	6,000,000.00	100.00%	The receivables are expected to be unrecoverable
Xuchang Fengtai Real Estate Company Limited	6,000,000.00	6,000,000.00	100.00%	The receivables are expected to be unrecoverable
Yong'an Haoyuan Real Estate Co., Ltd.	6,000,000.00	6,000,000.00	100.00%	The receivables are expected to be unrecoverable
Yuyao Longding Commercial Plaza Co., Ltd.	6,000,000.00	6,000,000.00	100.00%	The receivables are expected to be unrecoverable
Xiangfan Yuanchi Industrial Co., Ltd.	5,800,000.00	5,800,000.00	100.00%	The receivables are expected to be unrecoverable
Jilin Province Songyuan Feiyu Real Estate Development Co., Ltd.	5,750,000.00	5,037,500.00	87.61%	Part of the receivables are expected to be unrecoverable
Hebei Jingao Real Estate Development Co., Ltd.	5,500,000.00	5,500,000.00	100.00%	The receivables are expected to be unrecoverable
Wuhan New Beacon Holdings Limited	5,500,000.00	5,500,000.00	100.00%	The receivables are expected to be unrecoverable
Fenyi County Yongkang Real Estate Co., Ltd.	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Funan County Tianfu Property Development Co., Ltd.	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Jiangxi Wengan Industrial Development Co., Ltd.	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Notes Receivable and Accounts Receivable (Continued)

As at 31 December 2017, accounts receivable that are individually significant and for which bad debts are provided individually are as follows: (continued)

	Book balance	Bad debt allowance	Provision proportion	Reason for provision
Jinzhong Tianhe Real Estate Development Co., Ltd.	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Leshan Wutongqiao District Tiancheng Trading Company	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Mudanjiang Changxing Real Estate Co., Ltd.	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Nantong Deer Logistics Co., Ltd.	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Sanmenxia Xindu Real Estate Co., Ltd.	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Shenzhen Zhongyi Shenfa Investment Development Company Limited	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Tongren Jiacheng Real Estate Company Limited	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Wuhan Zhifeng Real Estate Development Company Limited	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Suzhou City Shengyuan Household Information Co., Ltd.	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Yunnan Jindinggao Industrial Co., Ltd.	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Zhejiang Ganghai Construction Group Co., Ltd.	5,000,000.00	5,000,000.00	100.00%	The receivables are expected to be unrecoverable
Baoding Fangbei Real Estate Development Co., Ltd.	3,000,000.00	3,000,000.00	100.00%	The receivables are expected to be unrecoverable
Jiangsu Hurun Real Estate Co., Ltd.	1,800,000.00	1,800,000.00	100.00%	The receivables are expected to be unrecoverable
	608,400,174.73	533,574,668.96	87.70%	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Notes Receivable and Accounts Receivable (Continued)

Our Company's accounts receivables for which bad debts are provided by aging analysis method are as follows:

	Book balance estimated to be in default	2018	
		Expected credit Loss rate (%)	Lifetime expected credit loss
Portfolio One:			
Brand consulting and management service for the early stage of the project			
Within 1 year	137,400,000.00	9.00	12,366,000.00
1 to 2 years	92,500,000.00	14.00	12,950,000.00
2 to 3 years	90,572,817.43	20.00	18,114,563.48
3 to 4 years	103,300,000.00	31.50	32,539,500.00
4 to 5 years	44,707,182.57	48.61	21,733,701.53
5 to 6 years	14,000,000.00	61.83	8,656,200.00
Over 6 years	5,500,000.00	100.00	5,500,000.00
	487,980,000.00	22.92	111,859,965.01

	Book balance estimated to be in default	2018	
		Expected credit loss rate (%)	Lifetime expected credit loss
Portfolio Two:			
Construction and design services	—	—	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Notes Receivable and Accounts Receivable (Continued)

	Book balance estimated to be in default	2018 Expected credit loss rate (%)	Lifetime expected credit loss
Portfolio Three: Other consulting services			
Within 1 year	54,004,038.02	10.28	5,551,615.11
1 to 2 years	30,808,648.63	17.65	5,437,726.48
2 to 3 years	11,494,520.00	35.61	4,093,198.57
3 to 4 years	5,000,000.00	100.00	5,000,000.00
	101,307,206.65	19.82	20,082,540.16

	Book balance estimated to be in default	2018 Expected credit loss rate (%)	Lifetime expected credit loss
Portfolio Four: Rental and related services			
Within 1 year	615,204.25	4.50	27,684.19

	Book balance estimated to be in default	2018 Expected credit loss rate (%)	Lifetime expected credit loss
Portfolio Five: Others			
Within 1 year	25,174,997.37	4.50	1,132,874.88
1 to 2 years	16,699,999.98	4.50	751,500.00
	41,874,997.35	4.50	1,884,374.88

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Notes Receivable and Accounts Receivable (Continued)

Our Company's accounts receivables for which bad debts are provided by aging analysis method are as follows:

	Book balance	2017 Proportion for provision (%)	Bad debt allowance
Within 1 year	237,348,735.50	5.00	11,867,434.21
1 to 2 years	111,368,511.10	10.00	11,136,851.11
2 to 3 years	74,800,000.00	20.00	14,960,000.00
3 to 4 years	44,000,000.00	50.00	22,000,000.00
Over 5 years	4,500,000.00	100.00	4,500,000.00
	472,017,246.60	13.66	64,464,285.32

In 2018, the bad debt allowance was RMB90,246,511.48 (2017: RMB113,167,787.83), the collection or reversal of bad debt allowance amounted to RMB15,000,000.00 (2017: RMB5,720,000.00). There was no actual written-off of accounts receivable in 2018 (2017: nil).

Recovery or reversal of bad debt allowance at significant amount for the year is as follows:

Name of entity	Amount recovered or reversed	Recovery method
Jiangsu Jiangzhong Group Company Limited (江蘇江中集團有限公司)	15,000,000.00	Recovery of accounts receivable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Notes Receivable and Accounts Receivable (Continued)

As at 31 December 2018, the top five accounts receivable are as follows:

	Closing balance	Share of total receivable balance (%)	Bad debt allowance Closing balance
Changzhou Wujin Construction Engineering Co., Ltd. (常州市武進建設工程有限公司)	55,000,000.00	3.62	55,000,000.00
The Second Construction Group Corporation Limited of Yancheng Jiangsu (江蘇鹽城二建集團有限公司)	30,600,000.00	2.02	30,600,000.00
Jiangsu Construction Group Co., Ltd. (江蘇省建築工程集團有限公司)	26,000,000.00	1.71	23,000,000.00
Guizhou Jinyuan Huafu Property Co., Ltd. (貴州金源華府置業有限公司)	23,000,000.00	1.52	23,000,000.00
Xuanwei Xintiandi Real Estate Development Co., Ltd. (宣威市新天地房地產開發有限公司)	20,000,000.00	1.32	20,000,000.00
	154,600,000.00	10.19	151,600,000.00

2. Other Receivables

	2018	2017
Interest receivable	67,912,338.35	—
Dividends receivable	2,734,160,000.00	3,131,960,000.00
Other receivables	22,464,077,505.65	18,405,457,235.10
	25,266,149,844.00	21,537,417,235.10

Interest receivable

	2018	2017
Interest of borrowings	67,912,338.35	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. Other Receivables (Continued)

Dividends receivable

	2018	2017
Shanghai Xingkai Chengpeng Business Management Company Limited (上海星凱程鵬企業管理有限公司)	976,000,000.00	576,000,000.00
Red Star Macalline Home Furnishing Mall Management Company Limited (紅星美凱龍家居商場管理有限公司)	637,000,000.00	2,000,000,000.00
Shanghai Red Star Macalline Global Home Furnishing Company Limited (上海紅星美凱龍全球家居有限公司)	210,000,000.00	176,000,000.00
Chongqing Red Star Macalline Shibo Home Living Plaza Company Limited (重慶紅星美凱龍世博家居生活廣場有限責任公司)	156,000,000.00	29,000,000.00
Shenyang Red Star Macalline Home Furnishing Company Limited (瀋陽紅星美凱龍家居有限公司)	126,000,000.00	—
Shanghai Red Star Macalline Decorative Furniture Mall Co., Ltd (上海紅星美凱龍裝飾傢俱城有限公司)	83,660,000.00	89,000,000.00
Beijing Red Star Macalline EXPO Home Plaza Co. Ltd. (北京紅星美凱龍世博傢俱廣場有限公司)	82,000,000.00	—
Wuxi Red Star International Home Furnishing Company Limited (無錫紅星美凱龍國際傢俱裝飾有限公司)	64,800,000.00	—
Changzhou Macalline International Computer and Electronics Furnishing Plaza Co., Ltd. (常州美凱龍國際電腦家電裝飾城有限公司)	55,500,000.00	18,000,000.00
Beijing Red Star Macalline International Home Furnishing Plaza Company Limited (北京紅星美凱龍國際傢俱建材廣場有限公司)	55,000,000.00	—
Changzhou World Furniture and Home Plaza Co. Ltd. (常州世界傢俱家居廣場有限公司)	54,000,000.00	22,000,000.00
Chongqing Red Star Macalline Global Home Furnishing Plaza Company Limited (重慶紅星美凱龍環球家居生活廣場有限責任公司)	44,000,000.00	—
Shenyang Red Star Macalline Shibo Home Furnishing Company Limited (瀋陽紅星美凱龍世博家居有限公司)	39,000,000.00	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. Other Receivables (Continued)

Dividends receivable (continued)

	2018	2017
Hangzhou Red Star Macalline Shibo Furniture Plaza Company Limited (杭州紅星美凱龍世博家居有限公司)	37,000,000.00	18,000,000.00
Nanjing Mingdu Home Furnishing Plaza Company Limited (南京名都家居廣場有限公司)	31,200,000.00	—
Nanjing Red Star International Home Furnishing Mall Company Limited (南京紅星國際傢俱裝飾城有限公司)	27,000,000.00	75,000,000.00
Changsha Red Star Macalline Home Furnishing Plaza Company Limited (長沙紅星美凱龍家居生活廣場有限公司)	23,000,000.00	—
Yangzhou Red Star Macalline International Home Furnishing Plaza Company Limited (揚州紅星美凱龍國際家居廣場有限公司)	15,000,000.00	—
Shanghai Red Star Macalline Kaiheng Household Company Limited (上海紅星美凱龍楷恆家居有限公司)	9,000,000.00	—
Shanghai Jisheng Wellborn Global Home Furnishing Brand Management Company Limited (上海吉盛偉邦環球家居品牌管理有限公司)	6,000,000.00	6,000,000.00
Changsha Red Star Macalline International Home Furnishing Art Expo Company Limited (長沙紅星美凱龍國際家居藝術博覽中心有限公司)	3,000,000.00	3,000,000.00
Shanghai Xinwei Property Company Limited (上海新偉置業有限公司)	—	32,000,000.00
Shanghai Red Star Macalline Home Furnishing Market Management Company Limited (上海紅星美凱龍家居市場經營管理有限公司)	—	36,000,000.00
Zhengzhou Red Star Macalline International Home Furnishing Company Limited (鄭州紅星美凱龍國際家居有限公司)	—	51,960,000.00
	2,734,160,000.00	3,131,960,000.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. Other Receivables (Continued)

The aging analysis of other receivables is as follow:

	2018	2017
Within 1 year	19,054,734,114.39	15,127,723,264.17
1 to 2 years	98,560,020.00	13,134,082.28
2 to 3 years	9,700,000.00	22,428,435.74
Over 3 years	3,975,629,242.67	3,834,446,115.38
Less: bad debt allowance of other receivables	674,545,871.41	592,274,662.47
	22,464,077,505.65	18,405,457,235.10

	2017			
	Book balance		Bad debt allowance	
	Amount	Percentage (%)	Amount	Proportion (%)
Account receivables of insignificant individual amount and individually provided for bad debts	3,698,327,893.33	19.47	562,299,239.60	15.20
Account receivables for which provision for bad debts is recognized by group with distinctive credit risk characteristic	15,291,981,320.91	80.49	22,625,422.87	0.15
Account receivables of insignificant individual amount but individually provided for bad debts	7,422,683.33	0.04	7,350,000.00	99.02
	18,997,731,897.57	100.00	592,274,662.47	3.12

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. Other Receivables (Continued)

The movements of bad debt allowance for other receivables based on 12-month expected credit losses and the lifetime expected credit losses, respectively, are as follows:

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Lifetime expected credit losses (Single evaluation)	Stage 2 Lifetime expected credit losses (Portfolio evaluation)	Stage 3 Credit-impaired financial assets (Lifetime)	Total
Balance of bad debt allowance					
on 1 January 2018	22,625,422.87	—	—	569,649,239.60	592,274,662.47
– Transfer to stage 2	—	—	—	—	—
– Transfer to stage 3	—	—	—	—	—
– Reverse to stage 2	—	—	—	—	—
– Reverse to stage 1	—	—	—	—	—
Provision during the period	3,747,111.57	—	—	78,524,097.37	82,271,208.94
Reversal during the period	—	—	—	—	—
	26,372,534.44	—	—	648,173,336.97	674,545,871.41

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. Other Receivables (Continued)

Other receivables that are individually significant and for which bad debts are provided for individually as at 31 December 2017 are as follows:

	Book balance	Bad debt allowance	Proportion	Reason for provision
Shanghai Xingkai Chengpeng Business Management Company Limited (上海星凱程鵬企業管理有限公司)	1,147,945,032.57	17,874,886.21	1.56	Accounts receivable are expected to be unrecoverable
Red Star Macalline Shibo (Tianjin) Home Furnishing Plaza Company Limited (紅星美凱龍世博(天津)家居生活廣場有限公司)	893,147,559.66	93,648,300.00	10.49	Accounts receivable are expected to be unrecoverable
Shanghai Red Star Macalline Home Furnishing Design Expo Company Limited (上海紅星美凱龍家居藝術設計博覽有限公司)	694,030,004.07	129,552,550.73	18.67	Part of the accounts receivable are expected to be unrecoverable
Wuhan Red Star Macalline Shibo Home Furnishing Plaza Development Company Limited (武漢紅星美凱龍世博家居廣場發展有限公司)	668,742,429.66	100,000,000.00	14.95	Accounts receivable are expected to be unrecoverable
Shanghai Xingjia Decoration and Building Materials Company Limited (上海星家裝飾建材有限公司)	70,650,000.00	61,811,558.73	87.49	Accounts receivable are expected to be unrecoverable
Chongqing Red Star Macalline Expo Home Furnishing Plaza Company Limited (重慶紅星美凱龍博覽家居生活廣場有限責任公司)	66,705,245.32	30,772,151.83	46.13	Accounts receivable are expected to be unrecoverable
Tianjin Red Star Macalline Home Fashion Plaza Company Limited (天津紅星美凱龍時尚家居廣場有限公司)	54,119,655.10	50,219,635.10	92.79	Accounts receivable are expected to be unrecoverable
Shenyang Dadong Red Star Macalline Home Furnishing Company Limited (瀋陽大東紅星美凱龍傢俱建材市場有限公司)	39,617,941.11	31,700,000.00	80.01	Accounts receivable are expected to be unrecoverable
Baotou Red Star Macalline Home Furnishing Plaza Company Limited (包頭紅星美凱龍家居生活廣場有限責任公司)	37,324,838.84	20,674,970.00	55.39	Accounts receivable are expected to be unrecoverable
Lizhuo Xingyu Entertainment Media Advertising (Beijing) Co., Ltd. (立卓興宇影視傳媒廣告(北京)有限公司)	14,045,187.00	14,045,187.00	100.00	Accounts receivable are expected to be unrecoverable
Weifang Kaili Property Company Limited (濰坊凱利置業有限公司)	12,000,000.00	12,000,000.00	100.00	Accounts receivable are expected to be unrecoverable
	3,698,327,893.33	562,299,239.60	15.20	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. Other Receivables (Continued)

The Group's other receivables with bad debts provided by adopting the aging analysis method are as follows:

	Book balance	2017 Proportion for provision (%)	Bad debt allowance
Within 1 year	176,103,519.74	5.00	8,805,175.99
1 to 2 years	537,369.93	10.00	53,736.99
2 to 3 years	14,428,435.24	20.00	2,885,687.05
3 to 4 years	500,703.18	50.00	250,351.59
4 to 5 years	871,000.00	80.00	696,800.00
	192,441,028.09	6.60	12,691,751.62

Other receivables with bad debts provided by adopting the balance percentage are as follows:

	Book balance	2017 Proportion for provision (%)	Bad debt allowance
Portfolio II	198,673,425.12	5.00	9,933,671.25

Bad debt allowance made for 2018 was RMB82,271,208.94 (in 2017: RMB131,567,873.65) and collected or reversed bad debt allowance amounted to RMB0.00 (in 2017: RMB0.00).

The actual written-off of accounts receivables in 2018 was RMB0.00 (in 2017: RMB12,200,000.00).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. Other Receivables (Continued)

Other receivables are classified by nature as follows:

	2018	2017
Loan and advances		
— to related parties	22,310,629,865.39	18,162,868,765.04
— to the third parties	98,870,935.64	187,716,771.70
Deposits	52,802,821.76	53,728,096.62
Others	1,773,882.86	1,143,601.74
	22,464,077,505.65	18,405,457,235.10

On 31 December 2018, the top five entities with the largest amounts of other receivables are as follows:

	Closing balance	Proportion of the total amount to other receivables (%)	Nature	Aging	Bad debt allowance as at the end of the year
Nanjing Mingdu Home Furnishing Plaza Company Limited (南京名都家居廣場有限公司)	1,445,966,149.79	6.25	Amounts due to and from subsidiaries	Within 1 year	—
Shanghai Red Star Macalline Home Furnishing Design Expo Company Limited (上海紅星美凱龍家居藝術設計博覽有限公司)	985,216,304.45	4.26	Amounts due to and from subsidiaries	Within 1 year	129,552,550.73
Red Star Macalline Shibo (Tianjin) Home Furnishing Plaza Company Limited (紅星美凱龍世博(天津)家居生活廣場有限公司)	889,756,259.43	3.85	Amounts due to and from subsidiaries	Within 1 year	80,000,000.00
Wuhan Red Star Macalline Shibo Home Furnishing Plaza Development Company Limited (武漢紅星美凱龍世博家居廣場發展有限公司)	871,357,784.03	3.77	Amounts due to and from subsidiaries	Within 1 year	100,000,000.00
Shanghai Hongxin Oukai Home Furnishing Company Limited (上海虹欣歐凱家居有限公司)	782,329,717.28	3.38	Amounts due to and from subsidiaries	Within 1 year	—
	4,974,626,214.98	21.51			309,552,550.73

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. Other Receivables (Continued)

On 31 December 2017, the top five entities with the largest amounts of other receivables are as follows:

	Closing balance	Proportion of the total amount to other receivables (%)	Nature	Aging	Bad debt allowance as at the end of the year
Shanghai Xingkai Chengpeng Business Management Company Limited (上海星凱程騰企業管理有限公司)	1,147,945,032.57	6.04	Amounts due to and from subsidiaries	Within 1 year	17,874,886.21
Tianjin Red Star Macalline International Home Furnishing Expo Company Limited (天津紅星美凱龍國際家居博覽有限公司)	1,022,223,347.08	5.38	Amounts due to and from subsidiaries	Within 1 year	—
Red Star Macalline Shibo (Tianjin) Home Furnishing Plaza Company Limited (紅星美凱龍世博(天津)家居生活廣場有限公司)	893,147,559.66	4.70	Amounts due to and from subsidiaries	Within 1 year	93,648,300.00
Shanghai Hongxin Oukai Home Furnishing Company Limited (上海虹欣歐凱家居有限公司)	703,291,355.41	3.70	Amounts due to and from subsidiaries	Within 1 year	—
Shanghai Red Star Macalline Home Furnishing Design Expo Company Limited (上海紅星美凱龍家居藝術設計博覽有限公司)	694,030,004.07	3.65	Amounts due to and from subsidiaries	Within 1 year	129,552,550.73
	4,460,637,298.79	23.47			241,075,736.94

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. Long-term Equity Investments

2018

	Opening balance	Increase/decrease during the year			Carrying amount at the end of the year
		Increase in investment	Decrease in investment	Investment gain/loss under equity method	
Investments in subsidiaries					
Changzhou Macalline International Computer and Electronics Furnishing Plaza Co., Ltd.	(1,955,167.87)	—	—	—	(1,955,167.87)
Changzhou world Furniture and Home Plaza Co., Ltd.	15,447,913.31	—	—	—	15,447,913.31
Wuxi Red Star International Home Furnishing Company Limited	47,998,405.33	—	—	—	47,998,405.33
Lianyungang Red Star International Home Furnishing Plaza Company Limited	3,465,415.12	—	—	—	3,465,415.12
Nanjing Red Star International Home Furnishing Mall Company Limited	59,689,261.20	—	—	—	59,689,261.20
Nanjing Mingdu Home Furnishing Plaza Company Limited	47,227,734.43	—	—	—	47,227,734.43
Shanghai Red Star Macalline Decorative Furniture Mall Co., Ltd	136,115,702.30	—	—	—	136,115,702.30
Shanghai Red Star Macalline Global Home Furnishing Company Limited	138,455,620.20	—	—	—	138,455,620.20
Shanghai Hongxin Oukai Home Furnishing Company Limited	92,508,623.92	—	—	—	92,508,623.92
Shanghai Xinwei Property Company Limited	272,756,078.13	—	—	—	272,756,078.13
Shanghai Red Star Macalline Home Furnishing Market Management Company Limited	(1,408,244.71)	—	—	—	(1,408,244.71)
Changsha Red Star Macalline Home Furnishing Plaza Company Limited	5,000,000.00	—	—	—	5,000,000.00
Changsha Red Star Macalline International Home Furnishing Art Expo Company Limited	871,353.75	—	—	—	871,353.75

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. Long-term Equity Investments (Continued)

2018 (continued)

	Opening balance	Increase/decrease during the year			Carrying amount at the end of the year
		Increase in investment	Decrease in investment	Investment gain/loss under equity method	
Jinan Red Star Macalline Shibo Home Living Plaza Company Limited	71,243,669.12	—	—	—	71,243,669.12
Chengdu Red Star Macalline Shibo Home Living Plaza Company Limited	30,275,655.03	—	—	—	30,275,655.03
Zhengzhou Red Star Macalline International Home Furnishing Company Limited	15,300,000.00	—	—	—	15,300,000.00
Shanghai Red Star Macalline Home Furnishing and Decorating Market Management Company Limited	1,349,876.56	—	—	—	1,349,876.56
Zhengzhou Red Star Macalline Global Home Living Plaza Management Company Limited	510,000.00	—	—	—	510,000.00
Hangzhou Red Star Macalline Shibo Furniture Plaza Company Limited	20,000,000.00	—	—	—	20,000,000.00
Shanghai Red Star Macalline Brand Management Company Limited	5,000,000.00	—	—	—	5,000,000.00
Chongqing Red Star Macalline Global Home Furnishing Plaza Company Limited	10,000,000.00	—	—	—	10,000,000.00
Chongqing Red Star Macalline Shibo Home Living Plaza Company Limited	23,496,190.89	—	—	—	23,496,190.89
Wuhan Red Star Macalline Shibo Home Furnishing Plaza Development Company Limited	552,878,664.00	—	—	—	552,878,664.00
Shanghai Red Star Macalline Home Furnishing Design Expo Company Limited	445,000,000.00	—	—	—	445,000,000.00
Yantai Red Star Macalline Home Furnishing Company Limited	192,120,000.00	—	—	—	192,120,000.00
Shenyang Mingdu Home Furnishing Plaza Company Limited	153,000,000.00	—	—	—	153,000,000.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. Long-term Equity Investments (Continued)

2018 (continued)

	Opening balance	Increase/decrease during the year			Carrying amount at the end of the year
		Increase in investment	Decrease in investment	Investment gain/loss under equity method	
Chongqing Red Star Macalline Expo Home Furnishing Plaza Company Limited	280,000,000.00	—	—	—	280,000,000.00
Changsha Yinhong Home Furnishing Company Limited	249,990,049.97	—	—	—	249,990,049.97
Shanghai Jingdu Investment Company Limited	5,100,000.00	—	—	—	5,100,000.00
Tianjin Red Star Macalline Home Furnishings Plaza Co., Ltd	424,878,664.00	—	—	—	424,878,664.00
Panjin Red Star Macalline Global Home Furnishings Plaza Co., Ltd.	94,087,000.00	60,000,000.00	—	—	154,087,000.00
Shanghai Red Star Macalline Business Consulting Company Limited	650,000.00	—	—	—	650,000.00
Shenyang Red Star Macalline Home Furnishing Company Limited	28,058,441.28	—	—	—	28,058,441.28
Shanghai Xingkai Chengpeng Business Management Company Limited	10,000,000.00	—	—	—	10,000,000.00
Shanghai Red Star Macalline Trading Company Limited	50,000,000.00	—	—	—	50,000,000.00
Harbin Red Star Macalline Shibo Furniture Plaza Company Limited	310,000,000.00	—	—	—	310,000,000.00
Chongqing Red Star Macalline Zhongkun Home Living Plaza Company Limited	55,000,000.00	—	—	—	55,000,000.00
Yantai Red Star International Home Furnishing Management Company Limited (煙台紅星國際家居管理有限公司)	—	—	—	—	—
Zhongshan Red Star Macalline Shibo Furniture Plaza Company Limited	149,939,332.00	—	—	—	149,939,332.00
Shenyang Dadong Red Star Macalline Home Furnishing Company Limited	3,000,000.00	—	—	—	3,000,000.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. Long-term Equity Investments (Continued)

2018 (continued)

	Opening balance	Increase/decrease during the year			Carrying amount at the end of the year
		Increase in investment	Decrease in investment	Investment gain/loss under equity method	
Wuxi Red Star Macalline Home Furnishing Plaza Company Limited	534,818,797.96	—	—	—	534,818,797.96
Xi'an Red Star Macalline Home Furnishing Plaza Company Limited	30,000,000.00	—	—	—	30,000,000.00
Daqing Red Star Macalline Shibo Furniture Company Limited	70,000,000.00	—	—	—	70,000,000.00
Langfang Kaihong Home Living Plaza Company Limited	70,000,000.00	—	—	—	70,000,000.00
Wuhan Red Star Macalline Global Home Furnishing Plaza Development Company Limited	149,939,332.00	—	—	—	149,939,332.00
Beijing Century Kailong Business Investment Company Limited	10,000,000.00	—	—	—	10,000,000.00
Tianjin Red Star Macalline Home Fashion Plaza Company Limited	5,000,000.00	—	—	—	5,000,000.00
Shanghai Red Star Ogloria Home Living Market Management Company Limited	500,000.00	—	—	—	500,000.00
Hefei Red Star Macalline Shibo Furniture Plaza Company Limited	349,848,330.00	—	—	—	349,848,330.00
Nanjing Red Star Macalline International Home Living Company Limited	764,016,993.00	—	—	—	764,016,993.00
Shanghai Xingyi Tonghui Business Service Company Limited	150,000,000.00	—	—	—	150,000,000.00
Tianjin Red Star Macalline International Home Furnishing Expo Company Limited	204,285,714.29	—	—	—	204,285,714.29
Tianjin Red Star Macalline World Trade Home Furnishing Company Limited	200,000,000.00	—	—	—	200,000,000.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. Long-term Equity Investments (Continued)

2018 (continued)

	Opening balance	Increase/decrease during the year		Investment gain/loss under equity method	Carrying amount at the end of the year
		Increase in investment	Decrease in investment		
Harbin Red Star Macalline International Home Furnishing Company Limited	349,817,995.00	—	—	—	349,817,995.00
Changchun Red Star Macalline Shibo Home Living Plaza Company Limited	47,600,000.00	350,000,000.00	—	—	397,600,000.00
Red Star Xizhao Investment Company Limited	90,000,000.00	—	—	—	90,000,000.00
Red Star Macalline Home Furnishing Mall Management Company Limited	50,000,000.00	—	—	—	50,000,000.00
Yangzhou Red Star Macalline International Home Furnishing Plaza Company Limited	3,000,000.00	—	—	—	3,000,000.00
Shanghai Red Star Macalline Longmei Home Furnishing Market Management Company Limited	1,000,000.00	—	—	—	1,000,000.00
Jiangsu Sunan Construction Company Limited	53,170,000.00	100,000,000.00	—	—	153,170,000.00
Shenyang Red Star Macalline Shibo Home Furnishing Company Limited	35,068,057.50	46,375,384.40	—	—	81,443,441.90
Shanghai Red Star Macalline Bulk Purchasing of Construction and Furnishing Materials Trading Company	10,000,000.00	—	—	—	10,000,000.00
Shenyang Red Star Macalline Home Living Expo Company Limited	50,000,000.00	—	—	—	50,000,000.00
Lanzhou Red Star Macalline Shibo Home Furnishing Plaza Company Limited	30,000,000.00	—	—	—	30,000,000.00
Shanghai Red Star Macalline Network Technology Company Limited	81,500,000.00	—	(81,500,000.00)	—	—
Hohhot Red Star Macalline Shibo Home Furnishing Plaza Company Limited	123,280,264.00	—	—	—	123,280,264.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. Long-term Equity Investments (Continued)

2018 (continued)

	Opening balance	Increase/decrease during the year			Carrying amount at the end of the year
		Increase in investment	Decrease in investment	Investment gain/loss under equity method	
Kunming Diken Trading Company Limited	177,690,900.00	—	—	—	177,690,900.00
Shanghai Red Star Macalline Decorating Public Network Technology Company Limited	3,200,000.00	—	(3,200,000.00)	—	—
Urumchi Red Star Macalline Shibo Furniture Plaza Company Limited	50,000,000.00	—	—	—	50,000,000.00
Dongguan Red Star Macalline Shibo Furniture Plaza Company Limited	70,000,000.00	—	—	—	70,000,000.00
Suzhou Industry Park Zhongxiang Meitong Storage Company Limited	157,923,842.65	—	—	—	157,923,842.65
Shanghai Xinghe Zhaipei Home Furnishing Service Company Limited	3,000,000.00	17,000,000.00	—	—	20,000,000.00
Red Star Macalline Group (Shanghai) Logistics Company Limited	40,886,820.00	13,113,180.00	—	—	54,000,000.00
Shanghai Red Star Macalline Industrial Company Limited	206,841,181.40	—	—	—	206,841,181.40
Shanghai Red Star Macalline Xinglong Home Furnish Company Limited	39,000,000.00	—	—	—	39,000,000.00
Hong Kong Red Star Macalline Global Home Furnishing Company Limited	112,839,554.51	—	—	—	112,839,554.51
Red Star Macalline (Shanghai) Business Management Company Limited	100,000,000.00	—	—	—	100,000,000.00
Shanghai Huangpu Red Star Microfinance Co., Ltd. (上海黃浦紅星小額貸款有限公司)	—	—	—	—	—
Changsha Red Star Macalline Jinxia Home Living Plaza Company Limited	120,000,000.00	—	—	—	120,000,000.00
Shanghai Macalline Xinghe Asset Management Company Limited	10,000,000.00	—	—	—	10,000,000.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. Long-term Equity Investments (Continued)

2018 (continued)

	Opening balance	Increase/decrease during the year			Carrying amount at the end of the year
		Increase in investment	Decrease in investment	Investment gain/loss under equity method	
Anhui Tenghui Investment Group Hefei Company Limited	40,000,000.00	—	—	—	40,000,000.00
Beijing Red Star Macalline International Home Furnishing Plaza Company Limited	344,780,641.87	—	—	—	344,780,641.87
Beijing Red Star Macalline EXPO Home Plaza Co. Ltd. (北京紅星美凱龍世博傢俱廣場有限公司)	31,856,462.57	—	—	—	31,856,462.57
Beijing Macalline Home Furnishing Material Market Company Limited (北京美凱龍傢俱建材市場有限公司)	630,335.17	—	—	—	630,335.17
Red Star Macalline Shibo (Tianjin) Home Furnishing Plaza Company Limited	230,851,821.21	—	—	—	230,851,821.21
Beijing Hehe Juzhong Advertising Media Co., Ltd. (北京和合聚眾廣告傳媒有限公司)	—	—	—	—	—
Kunshan Red Star Macalline Global Home Furnishing Company Limited	1,000,000.00	—	—	—	1,000,000.00
Tongxiang Red Star Macalline Shibo Home Furnishing Plaza Management Company Limited	500,000.00	—	—	—	500,000.00
Beijing Red Star Macalline Business Management Company Limited	2,700,000.00	—	—	—	2,700,000.00
Wuxi Red Star Macalline Business Management Company Limited	700,000.00	—	—	—	700,000.00
Red Star Macalline Home Furnishing Group Finance Company Limited	270,000,000.00	—	—	—	270,000,000.00
Nanchang Red Star Macalline Global Home Furnishing Plaza Company Limited	15,300,000.00	—	—	—	15,300,000.00
Shanghai Xingyijia Business Management Co., Ltd. (上海星藝佳商業管理有限公司)	120,000.00	—	—	—	120,000.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. Long-term Equity Investments (Continued)

2018 (continued)

	Opening balance	Increase/decrease during the year			Carrying amount at the end of the year
		Increase in investment	Decrease in investment	Investment gain/loss under equity method	
Shanghai Jinshan Red Star Macalline Global Home Furnishing Company Limited	25,000,000.00	—	—	—	25,000,000.00
Suzhou Red Star Macalline Shibo Home Furnishing Plaza Company Limited	151,611,912.79	—	—	—	151,611,912.79
Xining Red Star Macalline Shibo Home Furnishing Plaza Company Limited	72,162,700.00	175,000,000.00	—	—	247,162,700.00
Shanghai Red Star Macalline Labour Dispatch Company Limited	2,000,000.00	—	—	—	2,000,000.00
Shanghai Jisheng Wellborn Global Home Furnishing Brand Management Company Limited	5,000,000.00	—	—	—	5,000,000.00
Shanghai Yumu Enterprise Management Company Limited	5,000,000.00	—	—	—	5,000,000.00
Shanghai Yuxu Enterprise Management Company Limited	5,000,000.00	—	—	—	5,000,000.00
Shanghai Yuzhu Enterprise Management Company Limited	5,000,000.00	—	—	—	5,000,000.00
Shanghai Yuxiao Business Management Company Limited	5,000,000.00	—	—	—	5,000,000.00
Shanghai Jiajinsuo Investment Holding Company Limited	140,000,000.00	—	—	—	140,000,000.00
Red Star Macalline Glory Casa (Shanghai) Home Furnishing Company Limited	200,000,000.00	—	—	—	200,000,000.00
Shanghai Red Star Ogloria Brand Management Company Limited	—	100,000.00	—	—	100,000.00
Chengdu Tianfu New District Red Star Macalline World Trade Home Furnishing Company Limited	—	210,000,000.00	—	—	210,000,000.00
Shanghai Red Star Macalline Design Cloud Information Technology Co., Ltd. (上海紅星美凱龍設計雲信息科技有限公司)	—	50,000,000.00	—	—	50,000,000.00
Zhengzhou Huashanghui Huarong Real Estate Co., Ltd. (鄭州華商匯華融置業有限公司)	—	5,500,000.00	—	—	5,500,000.00

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. Long-term Equity Investments (Continued)

2018 (continued)

	Increase/decrease during the year				Carrying amount at the end of the year
	Opening balance	Increase in investment	Decrease in investment	Investment gain/loss under equity method	
Kunming Red Star Macalline Shibo Home Furnishing Plaza Company Limited	—	—	—	—	—
Chongqing Red Star Macalline International Home Furnishing Plaza Company Limited	—	50,000,000.00	—	—	50,000,000.00
Yunnan Red Star Macalline Home Furnishing Plaza Company Limited	—	69,976,000.00	—	—	69,976,000.00
Khorgos Red Star Yiming Venture Capital Company Limited	—	9,000,000.00	—	—	9,000,000.00
Khorgos Hongju Corporate Management Co., Ltd.	—	7,000,000.00	—	—	7,000,000.00
Shanghai Huojing Business Management Company Limited	—	6,500,000.00	—	—	6,500,000.00
Taiyuan Red Star Macalline Global Home Furnishing Plaza Company Limited (太原紅星美凱龍全球家居廣場有限公司)	—	5,100,000.00	—	—	5,100,000.00
Chengdu Red Star Macalline Xinnan Business Management Company Limited	—	5,000,000.00	—	—	5,000,000.00
Tibet Macalline Business Management Company Limited	—	51,000,000.00	—	—	51,000,000.00
Tianjin Jinrui Corporate Management Company Limited	—	1,220,000,000.00	—	—	1,220,000,000.00
Shanghai Huaixing Culture Company Limited	—	1,600,000.00	—	—	1,600,000.00
Kunshan Kaide Commercial Real Estate Co., Ltd.	—	50,428,227.57	—	—	50,428,227.57
Changzhou Meilong Trading Company Limited (常州美龍貿易有限公司)	—	30,000.00	—	—	30,000.00
Ningbo Aoyang Home Shopping Plaza Company Limited	—	1.00	—	—	1.00
Sub-total	10,105,491,893.88	2,502,722,792.97	(84,700,000.00)	—	12,523,514,686.85

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. Long-term Equity Investments (Continued)

2018 (continued)

	Opening balance	Increase/decrease during the year			Carrying amount at the end of the year
		Increase in investment	Decrease in investment	Investment gain/loss under equity method	
Joint ventures					
Xiamen Baoxiang Red Star Macalline Home Furnishing Plaza Company Limited	4,279,068.25	—	—	(3,555,120.75)	723,947.50
Chengdu Dongtai Shopping Mall Company Limited	805,528,810.79	—	—	95,780,508.44	901,309,319.23
Shanghai Mingyi Enterprise Development Co., Ltd.	19,733,335.25	—	—	21,278,661.38	41,011,996.63
Nanchang Red Star Macalline Global Home Expo Center Co., Ltd.	27,000,000.00	—	—	(9,013,425.68)	17,986,574.32
Shenzhen Red Star Macalline Business Management Company Limited	—	180,000.00	—	(5,968.28)	174,031.72
Sub-total	856,541,214.29	180,000.00	—	104,484,655.11	961,205,869.40

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. Long-term Equity Investments (Continued)

2018 (continued)

	Opening balance	Increase/decrease during the year			Carrying amount at the end of the year
		Increase in investment	Decrease in investment	Investment gain/loss under equity method	
Associates					
Zhejiang Mingdu Investment Company Limited	165,300,000.00	—	—	—	165,300,000.00
Shenzhen Red Star Macalline Century Center Home Furnishing Plaza Company Limited	45,255,062.96	—	(45,255,062.96)	—	—
Wuhan Red Star Macalline Zhengda Logistics Company Limited	—	—	—	—	—
Wuhan Zhengkai Logistics Co., Ltd.	127,000,000.00	—	—	(16,825.42)	126,983,174.58
Meiwu 365 (Tianjin) Technology Company Limited	17,900,796.13	—	—	(783,921.88)	17,116,874.25
Shanghai Jiazhan Construction Engineering Company Limited	7,304,104.60	—	—	330,718.29	7,634,822.89
Shanghai Reyli Network Technology Company Limited	5,274,701.29	—	(5,000,000.00)	(274,701.29)	—
Hangzhou Red Star Macalline Global Home Living Company Limited	58,626,478.44	—	—	5,229,752.25	63,856,230.69
Shenyudao Cultural Tourism Holding Co., Ltd.	—	200,000,000.00	—	(5,236,546.50)	194,763,453.50
Qianzhi (Shanghai) Home Furnishing Co., Ltd. (乾智(上海)家居有限公司)	—	1,500,000.00	—	—	1,500,000.00
Shanxi Red Star Heji Home Shopping Plaza Company Limited (陝西紅星和記家居購物廣場有限公司)	—	4,500,000.00	—	—	4,500,000.00
Sub-total	426,661,143.42	206,000,000.00	(50,255,062.96)	(751,524.55)	581,654,555.91
Total	11,388,694,251.59	2,708,902,792.97	134,955,062.96	103,733,130.56	14,066,375,112.16

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

4. Revenue and Cost of Sales

	2018		2017	
	Revenue	Costs	Revenue	Costs
Principal business	1,733,807,905.19	357,146,747.26	1,704,748,683.71	276,523,553.00
Other businesses	213,257,842.68	—	178,885,386.15	—
	1,947,065,747.87	357,146,747.26	1,883,634,069.86	276,523,553.00

Details of Revenue are showing as follows:

	2018	2017
Revenue from the brand consulting and management service for the early stage of the project	309,897,178.13	426,444,691.13
Revenue from annual brand consulting and management service for the project	308,941,518.85	257,799,705.77
Leasing and management revenue	784,218,146.13	811,765,296.17
Other revenue	544,008,904.76	387,624,376.79
Total	1,947,065,747.87	1,883,634,069.86

5. Investment Income

	2018	2017
long-term equity interest investment income calculated by cost method	1,914,190,837.86	3,895,388,000.00
long-term equity interest investment income calculated by equity method	103,733,130.56	115,726,018.01
Investment gain/(loss) from disposal of long-term equity investments	(72,570,506.00)	1,867,397.44
Investment gain from other debt investments during holding period	2,523,405.48	—
Total	1,947,876,867.90	4,012,981,415.45

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (RMB)

XIV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

6. Cash and bank

As at 31 December 2018, when preparing the cash flow statement, other cash and bank and the time deposits with maturity of more than three months of the Company were excluded from cash and cash equivalents.

Supplementary Information

For the year ended 31 December 2018 (RMB)

1. Statement of Non-Recurring Profit or Loss

	Amount in 2018
Gain or loss on disposal of non-current assets, including the offset part of the assets impairment allowance provided	(656,552.23)
Government grants credited to profit or loss for the current period (exclusive of those that are closely related to the normal operation of enterprise and received in a certain amount or fixed quantity according to the requirements of national policies)	111,159,889.42
Funds-use income received from non-financial enterprises and credited to the profit or loss for the current period	238,677,360.90
Gains derived from the excess of the attributable fair value of net identifiable assets of the investee upon acquisition of the investment over the cost of investment of acquisition of subsidiaries, associates and joint venture	9,857,414.57
Gains or losses on changes in fair values derived from financial assets held for trading and financial liabilities held for trading and investment income from disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets, except for effective hedging operations related to the normal operations of the Company	21,490,571.51
Reverse of the impairment allowance for accounts receivables tested for impairment individually	48,810,841.80
Gain or loss arising from changes in fair value of investment properties measured subsequently at fair value	1,820,173,117.45
Non-operating income and expenses other than the above items	(121,335,609.02)
The value-added portion of investment gains from investment properties valuation of associates and joint ventures attributable to the enterprise	78,705,000.00
Investment gain on disposal of associates	(28,449,710.38)
Effect on income tax	(138,530,698.66)
Effect on minority interest (after tax)	(128,644,223.34)
	1,911,257,402.02

Non-recurring profit or loss is recognized by our Group in accordance with the requirements of Explanatory announcement No.1 on information disclosure by companies offering securities to the public – non-recurring profit or loss (CSRC Announcement [2008] No.43).

Supplementary Information

For the year ended 31 December 2018 (RMB)

2. Return on Net Assets and Earnings per Share

2018

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to shareholders of ordinary shares of the Company	10.63	1.20	N/A
Net profit attributable to shareholders of ordinary shares of the Company, after deducting non-recurring gains and losses	6.23	0.68	N/A

2017

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to shareholders of ordinary shares of the Company	10.48	1.13	N/A
Net profit attributable to shareholders of ordinary shares of the Company, after deducting non-recurring gains and losses	5.93	0.64	N/A

Our Group has no diluted potential ordinary shares.

Five-Year Financial Summary

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	14,239,793	10,959,513	9,436,082	8,756,120	7,935,131
Net profits	4,705,447	4,278,014	3,673,442	4,369,755	3,922,004
— Owners of the Company	4,477,411	4,077,898	3,397,183	4,098,068	3,632,917
— Non-controlling interests	228,036	200,116	276,259	271,687	289,087
Earnings per share					
— Basic (RMB)	1.20	1.13	0.94	1.22	1.21
— Diluted (RMB)	N/A	N/A	N/A	N/A	N/A

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
— Non-current assets	95,142,125	82,447,132	72,739,319	75,328,818	66,792,413
— Current assets	15,718,593	14,567,492	8,796,085	7,860,755	5,125,479
Total Assets	110,860,718	97,014,624	81,535,404	83,189,573	71,917,892
— Current liabilities	25,313,807	22,716,747	13,542,202	10,622,807	10,419,993
— Non-current liabilities	40,251,085	30,365,903	28,072,429	27,298,562	24,084,806
Total liabilities	65,564,892	53,082,651	41,614,631	37,921,369	34,504,799
Net assets	45,295,826	43,931,973	39,920,773	45,268,204	37,413,093
Total Equity	45,295,826	43,931,973	39,920,773	45,268,204	37,413,093
— Equity attributable to owners of the Company	41,714,061	40,426,772	36,565,852	41,144,559	33,444,992
— Non-controlling interests	3,581,765	3,505,201	3,354,921	4,123,645	3,968,101

The financial summary for the years 2018, 2017 and 2016 were extracted from the Consolidated Financial Statements prepared in accordance with the CASBE, while the financial summary for the years 2015 and 2014 were extracted from the consolidated financial statements of the Group for the corresponding reporting period prepared in accordance with the IFRSs.

Definitions

“A Share(s)”	the ordinary share(s) issued by the Company pursuant to the A Share Offering, with a nominal value of RMB1.00 each, which is/are listed on the Shanghai Stock Exchange and traded in RMB
“AGM”	the annual general meeting of the Company proposed to be convened on Thursday, 16 May 2019
“Articles of Association”	articles of association of the Company (as amended from time to time)
“Associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	Audit Committee of the Board of Directors
“Board” or “Board of Directors”	the board of directors of the Company
“Changzhou Macalline”	Changzhou Macalline International Computer and Electronics Furnishing Plaza Co., Ltd.** (常州美凱龍國際電腦家電裝飾城有限公司), a limited liability company established in the PRC, which is a direct wholly-owned subsidiary of our Company
“Changzhou RSHFC”	Changzhou Red Star Home Furnishing City** (常州市紅星裝飾城), a limited liability company established in the PRC on 13 November 1998, which is directly wholly-owned by Mr. CHE Jianxing
“Chengdu Property”	Chengdu Red Star Macalline Real Estate Co., Ltd.** (成都紅星美凱龍置業有限公司), a limited liability company established in the PRC on 27 October 2009, which is indirectly wholly-owned by RSED
“China” or “PRC”	the People’s Republic of China, except where the context requires, references in this annual report to the PRC or China do not apply to Hong Kong, Macau Special Administrative Region and Taiwan
“Close Associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Company” or “Our Company” or “Red Star Macalline”	Red Star Macalline Group Corporation Ltd. (紅星美凱龍家居集團有限公司), a sino-foreign joint stock limited company established in the PRC, the H Shares of which are listed and traded on the Main Board of the Hong Kong Stock Exchange, and the A Shares of which are listed and traded on the Shanghai Stock Exchange

“Company Law”	the Company Law of the People’s Republic of China (《中華人民共和國公司法》)
“Connected Person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consolidated Financial Statements”	the audited consolidated financial statements of the Group for the year ended 31 December 2018
“Controlling Shareholder(s)” or “our Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules, and unless the context otherwise requires, refers to Mr. CHE and RSM Holding
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	director(s) of the Company
“Domestic Shares”	ordinary shares issued by our Company, with a Renminbi-denominated nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
“GDP”	gross domestic product; except as otherwise specified, all references to GDP growth rates are to real as opposed to nominal rates of GDP growth
“Global Offering”	the initial public offering of the H Shares whereby the H Shares were listed on the Main Board of Hong Kong Stock Exchange on 26 June 2015
“Greenland Jinniu”	Greenland Group Chengdu Jinniu Real Estate Development Co., Ltd.** (綠地集團成都金牛房地產開發有限公司), a limited liability company established in the PRC, which is our Connected Person and indirectly held as to 50% by Greenland Group Chengdu Property Co., Ltd. and 50% by Chengdu Property
“Group”	the Company and its subsidiaries

Definitions

“H Share(s)”	overseas-listed foreign invested ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which is/are listed and traded on the Hong Kong Stock Exchange
“HK\$” or “HK dollars”	the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRSs”	International Financial Reporting Standards
“Jining Hongrui”	Jining Hongrui Real Estate Co., Ltd.** (濟寧鴻瑞置業有限公司), a limited liability company established in the PRC, which is our Connected Person and directly held as to 40.2% by Ms. QIAN Yumei, 26.8% by Ms. ZHANG Jianfang and 33% by Jiangsu Kerui Property Management Corporation** (江蘇可瑞資產管理有限公司), an independent third party
“Listing”	listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
“Managed Shopping Mall(s)”	shopping mall(s) managed by us under contract management agreements
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“MOF”	the Ministry of Finance of the PRC

“Mr. CHE”	Mr. CHE Jianxing
“Nomination Committee”	Nomination Committee of the Board of Directors
“Other Cities”	for the purpose of this annual report only, cities at prefecture-level, excluding Tier I Cities, Tier II Cities and Tier III Cities
“Portfolio Shopping Mall(s)”	all of the following shopping malls: (i) shopping malls in which all or a majority of the operating areas are owned by us; (ii) the repurchased shopping malls (other than Chengdu Jinniu Shopping Mall); (iii) shopping malls leased by us; (iv) shopping malls for which we operate and consolidate their results of operation and pay the relevant property owners a fixed amount of annual fees; and (v) shopping malls held by us and associates or joint venture partners and operated by us. For further details, please refer to the Prospectus of the Company
“Project Company”	Project companies holding certain managed shopping mall companies, and each of them a “Project Company”
“Red Star Furniture Group”	Red Star Furniture Group Co., Ltd.** (紅星傢俱集團有限公司), formerly known as Changzhou Red Star Furniture Group Company** (常州紅星傢俱集團公司), a company established in the PRC on 27 June 1994, which is held as to 45% by Mr. CHE Jianxing, 45% by Changzhou RSHFC and 10% by Ms. CHE Jianfang
“Remuneration and Evaluation Committee”	Remuneration and Evaluation Committee of the Board of Directors
“Reporting Period”	the period from 1 January 2018 to 31 December 2018
“Repurchase Agreement”	the repurchase agreement dated 23 October 2015 entered into between the Company and Chengdu Property
“RMB”	Renminbi, the lawful currency of the PRC

Definitions

“RSED”	Chongqing Red Star Macalline Enterprise Development Co., Ltd.** (重慶紅星美凱龍企業發展有限公司) (formerly known as “Shanghai Red Star Macalline Enterprise Development Co., Ltd.” (上海紅星美凱龍企業發展有限公司)), a limited liability company established in the PRC on 11 June 2010, which is held as to 70.15% by RSM Holding, 14% by Millbranch Investment SRL, an affiliate of Warburg Pincus LLC, 8.08% by Candlewood Investment SRL, 4.72% by Springwood Investment SRL, 0.81% by Lianyungang Fairbay Infrastructure Construction Company Limited, 0.37% by Shanghai Hongmei, 1.66% by Shanghai Meilong Assets Management Company Limited** (上海美龍資產管理有限公司) and 0.22% by Shanghai Xingkai Business Administration Company Limited** (上海興凱企業管理有限公司)
“RSM Holding”	Red Star Macalline Holding Group Company Limited** (紅星美凱龍控股集團有限公司) (formerly known as “Shanghai Red Star Macalline Investment Company Limited” (上海紅星美凱龍投資有限公司)), a limited liability company established in the PRC and is a Controlling Shareholder of our Company, which is held as to 92% by Mr. CHE Jianxing and 8% by Ms. CHE Jianfang
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shaanxi Hongrui”	Shaanxi Hongrui Home Furnishings Plaza Co., Ltd.** (陝西鴻瑞家居生活廣場有限公司), a limited liability company established in the PRC, which is our Connected Person and held as to 39.6% by Ms. QIAN Yumei, 26.4% by Ms. ZHANG Jianfang and 34% by Jiangsu Kerui Property Management Corporation** (江蘇可瑞資產管理有限公司) and YAN Xiaojing, each an independent third party
“Shanghai Hongmei”	Shanghai Hongmei Investment Management Center (Limited Partnership)** (上海洪美投資管理中心(有限合夥)), a limited partnership established in the PRC on 27 February 2012, which is a Shareholder of our Company and holds approximately 0.35% of the issued Shares of our Company
“Share(s)”	Share(s) of the Company, including both Domestic Share(s) and H Share(s)
“Shareholder(s)”	the holder(s) of the shares of the Company
“Strategy and Investment Committee”	Strategy and Investment Committee of the Board of Directors
“Supervisor(s)”	member(s) of the Supervisory Committee of the Company

“Supervisory Committee”	the Supervisory Committee of the Company
“Tier I Cities”	for the purpose of this annual report, Shanghai, Beijing, Guangzhou and Shenzhen
“Tier II Cities”	for the purpose of this annual report, Chongqing, Tianjin, Suzhou, Hangzhou, Zhengzhou, Changsha, Urumqi, Ningbo, Chengdu, Lanzhou, Nanjing, Nanning, Nanchang, Xiamen, Hefei, Hohhot, Harbin, Dalian, Taiyuan, Kunming, Wuxi, Qingdao, Xi’an, Changchun, Shijiazhuang, Wuhan, Shenyang, Jinan, Wenzhou, Fuzhou, Guiyang, Foshan, Dongguan and Haikou
“Tier III Cities”	for the purpose of this annual report, Daqing, Zhongshan, Yancheng, Baotou, Taizhou, Pingdingshan, Jilin, Anyang, Jiangmen, Chifeng, Xingtai, Zhoukou, Yichang, Yueyang, Songyuan, Jinhua, Handan, Xinyang, Baoding, Nantong, Nanyang, Xianyang, Weihai, Liuzhou, Quanzhou, Luoyang, Maoming, Tangshan, Xuzhou, Guilin, Zhuzhou, Tai’an, Taizhou, Zhuhai, Changzhou, Changde, Huai’an, Zibo, Liaocheng, Tongliao, Chenzhou, Langfang, Huizhou, Zhanjiang, Huzhou, Jiaozuo, Ordos, Heze, Xinxiang, Yulin, Jiaxing, Zhangzhou, Dezhou, Anshan, Hengyang, Xiangyang, Dongying, Linyi, Yangzhou, Zaozhuang, Cangzhou, Jining, Binzhou, Weifang, Yantai, Shaoxing, Wuhu, Xuchang, Ganzhou, Lianyungang, Zhenjiang, Yinchuan, Lhasa, Xining and Shangqiu
“Xingyi Tonghui”	Shanghai Xingyi Tonghui Business Service Company Limited** (上海星易通匯商務服務有限公司), a limited liability company established in the PRC and a direct wholly-owned subsidiary of our Company
“Xuzhou RSHFC”	Xuzhou Red Star Macalline International Home Furnishings City Co., Ltd.** (徐州紅星美凱龍國際傢俱裝飾城有限公司), a limited liability company established in the PRC, which is our Connected Person and directly held as to 50% by Mr. CHE Jianlin, 25% by Mr. CHE Jianguo and 25% by ZHOU Lichen and WANG Lili, each an independent third party
“Xuzhou RSHFP”	Xuzhou Red Star Macalline Global Home Furnishings Plaza Co., Ltd.** (徐州紅星美凱龍全球家居生活廣場有限公司), a limited liability company established in the PRC, which is our Connected Person and held as to 75% by Mr. CHE Jianlin and 25% by Mr. CHE Jianguo



Definitions

“Yangzhou RSHFP”

Yangzhou Red Star Macalline Global Home Furnishings Plaza Property Co., Ltd.**
(揚州紅星美凱龍全球家居生活廣場置業有限公司), a limited liability company established in the PRC, which is our Connected Person and directly held as to 95% by Mr. CHE Jianlin and 5% by YAN Xiaojing, an independent third party

“Prospectus”

the prospectus of the Company dated 16 June 2015

** *For identification only*



紅星美凱龍家居集團股份有限公司
Red Star Macalline Group Corporation Ltd.