Red Star Macalline Group Corporation Ltd.
紅星美凱龍家居集團股份有限公司
(A sino-foreign joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1528)

UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

UNAUDITED CONSOLIDATED RESULTS

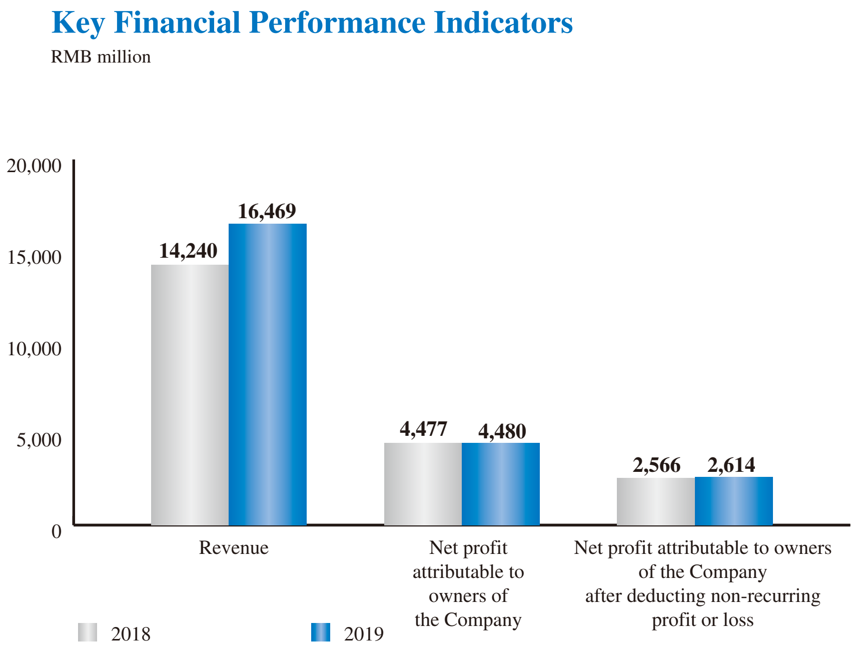
The board of directors (the "**Board**") of Red Star Macalline Group Corporation Ltd. (the "**Company**" or "**Red Star Macalline**") is pleased to announce the unaudited consolidated annual results of the Company and its subsidiaries (the "**Group**" or "**we**") for the year ended 31 December 2019 (the "**Reporting Period**"), together with comparative figures for the same period in 2018.

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2019	2018
	(RMB'000, except otherwise stated)	
	(Unaudited)	(Audited)
Revenue	**16,469,238**	14,239,793
Gross profit	**10,733,627**	9,426,093
Gross profit margin	**65.2%**	66.2%
Net profit	**4,686,242**	4,705,447
Net profit attributable to owners of the Company	**4,479,682**	4,477,411
Net profit margin attributable to owners of the Company	**27.2%**	31.4%
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	**2,613,622**	2,566,154
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	**15.9%**	18.0%
Earnings per share	**RMB1.26**	RMB1.20

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

KEY FINANCIAL PERFORMANCE INDICATORS



OPERATIONAL HIGHLIGHTS

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

	As at 31 December 2019	As at 31 December 2018
Number of shopping malls	**337**	308
Operating area of shopping malls (sq.m.)	**20,986,950**	18,939,341
Number of cities covered	**212**	199
Number of Portfolio Shopping Malls	**87**	80
Operating area of Portfolio Shopping Malls (sq.m.)	**7,736,844**	6,918,993
Average occupancy rate of Portfolio Shopping Malls	**93.4%**	96.2%
Number of Managed Shopping Malls	**250**	228
Operating area of Managed Shopping Malls (sq.m.)	**13,250,106**	12,020,347
Average occupancy rate of Managed Shopping Malls	**93.5%**	95.0%

Note:

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

CONSOLIDATED INCOME STATEMENT

For the Year Ended 31 December 2019

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

	For the year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
I. Revenue	**16,469,237,788.92**	14,239,792,500.44
Less: Cost of sales	**5,735,611,011.50**	4,813,699,821.07
Taxes and surcharges	**429,040,601.76**	387,369,974.23
Distribution and selling expenses	**2,290,930,826.31**	1,700,337,297.30
General and administrative expenses	**1,751,866,715.59**	1,490,961,410.80
Research and development expenses	**38,206,412.50**	43,165,869.51
Financial expenses	**2,260,079,805.40**	1,533,151,372.35
Including: Interest expenses	**2,411,290,093.44**	1,670,758,123.43
Interest income	**195,395,541.15**	301,034,720.66
Add: Other income	**104,900,495.94**	111,159,889.42
Investment income	**786,438,650.13**	229,672,928.92
Including: Investment income from associates and joint ventures	**137,729,826.00**	183,468,563.89
Gain from fair value changes	**1,632,073,263.93**	1,767,009,613.56
Impairment loss of credit (losses are presented with parentheses)	**(297,862,062.06)**	(247,494,708.99)
Gain/(loss) from disposal of assets	**8,101,725.36**	(656,552.23)
II. Operating profit	**6,197,154,489.16**	6,130,797,925.86
Add: Non-operating income	**46,074,966.28**	38,512,766.67
Less: Non-operating expenses	**40,151,435.89**	149,990,961.12
III. Total profit	**6,203,078,019.55**	6,019,319,731.41
Less: income tax expenses	**1,516,836,338.46**	1,313,872,428.30
IV. Net profit	**4,686,241,681.09**	4,705,447,303.11
(I) According to the classification of continuity of operation		
1. Net profit from continuing operations	**4,686,241,681.09**	4,705,447,303.11
2. Net profit from discontinued operations	—	—
(II) According to the classification of ownership		
1. Non-controlling interests	**206,560,028.48**	228,036,060.65
2. Net profit attributable to owners of the Company	**4,479,681,652.61**	4,477,411,242.46

	For the year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
V. Other comprehensive income/(loss) (after tax)	**1,004,835,312.35**	(350,053,843.84)
Other comprehensive income/(loss) (after tax) attributable to owners of the Company	**940,241,172.07**	(284,856,658.06)
(I) Other comprehensive income that will not be reclassified to profit or loss		
1. Changes in fair value of other equity instrument investments	**964,367,163.82**	(284,856,658.06)
(II) Other comprehensive income that will be reclassified to profit or loss		
1. Changes in fair value of hedging costs	**(24,125,991.75)**	—
Other comprehensive income/(loss) (after tax) attributable to non-controlling interests	**64,594,140.28**	(65,197,185.78)
VI. Total comprehensive income	**5,691,076,993.44**	4,355,393,459.27
Total comprehensive income attributable to owners of the Company	**5,419,922,824.68**	4,192,554,584.40
Total comprehensive income attributable to non-controlling interests	**271,154,168.76**	162,838,874.87
VII. Earnings per share		
(I) Basic earnings per share	**1.26**	1.20
(II) Diluted earnings per share	**N/A**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	As at 31 December 2019 (Unaudited)	As at 31 December 2018 (Audited)
Current assets		
Cash and bank balances	**7,229,239,369.35**	8,527,607,964.92
Financial assets held for trading	**233,385,470.05**	236,256,219.87
Derivative financial assets	**31,751,504.22**	—
Accounts receivable	**1,805,663,937.18**	1,687,918,584.76
Receivables financing	**41,040,000.00**	55,000,000.00
Prepayments	**340,717,638.07**	319,437,303.71
Other receivables	**710,012,095.26**	1,931,724,519.36
Inventories	**330,978,528.99**	251,352,502.91
Contract assets	**1,039,368,953.49**	807,109,773.17
Non-current assets due within one year	**555,066,245.64**	319,250,999.36
Other current assets	**1,637,221,709.44**	1,582,934,842.98
Total current assets	**13,954,445,451.69**	15,718,592,711.04
Non-current assets		
Long-term receivables	**800,494,682.51**	1,795,159,925.01
Long-term equity investments	**3,654,279,035.20**	3,026,101,128.50
Other equity instrument investments	**3,999,157,825.44**	3,302,748,467.57
Other non-current financial assets	**368,774,540.60**	324,850,000.00
Investment properties	**85,107,000,000.00**	78,533,000,000.00
Fixed assets	**897,496,154.61**	192,418,042.50
Construction in progress	**2,329,221,258.37**	84,866,598.69
Right-of-use assets	**3,087,184,216.82**	—
Intangible assets	**449,262,332.89**	460,830,931.51
Development expenditure	**34,245,602.45**	—
Goodwill	**97,597,047.85**	16,592,357.41
Long-term prepaid expenses	**489,797,913.40**	400,731,940.53
Deferred tax assets	**1,174,578,160.89**	822,269,149.42
Other non-current assets	**5,850,884,335.94**	6,182,556,566.38
Total non-current assets	**108,339,973,106.97**	95,142,125,107.52
Total assets	**122,294,418,558.66**	110,860,717,818.56

	As at 31 December 2019 (Unaudited)	As at 31 December 2018 (Audited)
Current liabilities		
Short-term loans	**3,387,894,541.95**	5,166,655,101.70
Accounts payable	**1,476,370,855.07**	970,116,980.34
Advance from customers	**1,159,059,013.47**	1,249,019,601.25
Contract liabilities	**2,221,835,457.96**	2,601,978,507.73
Payroll payable	**830,362,911.55**	913,986,023.52
Taxes payable	**739,393,813.25**	607,676,739.98
Other payables	**7,799,973,358.09**	8,496,897,574.07
Non-current liabilities due within one year	**9,804,740,633.43**	4,145,791,830.22
Other current liabilities	**348,314,909.66**	1,161,684,557.80
Total current liabilities	**27,767,945,494.43**	25,313,806,916.61
Non-current liabilities		
Long-term loans	**15,919,626,315.76**	14,306,362,773.00
Bonds payable	**6,592,440,970.73**	7,156,394,519.96
Lease liabilities	**3,321,817,733.91**	—
Long-term payables	**634,392,235.62**	1,385,921,007.85
Deferred income	**225,902,560.47**	212,456,044.43
Deferred tax liabilities	**11,989,277,103.64**	11,008,662,811.23
Other non-current liabilities	**6,858,165,749.37**	6,181,288,065.26
Total non-current liabilities	**45,541,622,669.50**	40,251,085,221.73
Total liabilities	**73,309,568,163.93**	65,564,892,138.34
Equity		
Share capital	**3,550,000,000.00**	3,550,000,000.00
Capital reserve	**4,239,976,571.04**	4,490,018,895.43
Other comprehensive income	**1,483,127,041.17**	1,227,776,839.27
Surplus reserve	**1,954,818,567.23**	1,816,847,121.56
Retained earnings	**34,486,715,762.57**	30,629,417,859.13
Total equity attributable to owners of the Company	**45,714,637,942.01**	41,714,060,715.39
Non-controlling interests	**3,270,212,452.72**	3,581,764,964.83
Total equity	**48,984,850,394.73**	45,295,825,680.22
Total liabilities and equity	**122,294,418,558.66**	110,860,717,818.56

Note: On 7 December 2018, the Ministry of Finance promulgated the Notice on the Amendment and Issuance of the Accounting Standard for Business Enterprises No. 21 — Leases (Cai Kuai [2018] No. 35) (the "**New Lease Standards**").The Group implemented the New Lease Standards from 1 January 2019 and adjusted the cumulative effect of the application of New Lease Standards into the opening balance of retained earnings and other related items in the financial statements at the beginning of 2019, and had not adjusted the information in comparable period. According to the requirements of the Notice on the Amendment and Issuance of Financial Statements Format of General Enterprises for 2019 (Cai Kuai [2019] No. 6) and the Notice on the Amendment and Issuance of Consolidated Financial Statements Format (2019 Edition) (Cai Kuai [2019] No. 16), the Group has retrospectively adjusted comparative figures of the items in the balance sheet such as "Receivables financing", "Other receivables", "Non-current assets due within one year", "Other current assets", "Short-term loans", "Other payables", "Non-current liabilities due within one year" correspondingly. However, such changes in accounting policy did not have any impact on the Group's net profits and total equity, or the Company's net profits and total equity.

MANAGEMENT DISCUSSION AND ANALYSIS

I. FINANCIAL REVIEW

1. Revenue

During the Reporting Period, the Group's revenue amounted to RMB16,469.2 million, representing an increase of 15.7% from RMB14,239.8 million during the same period in 2018, 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.

2. Gross profit and gross profit margin

During the Reporting Period, the Group's gross profit was RMB10,733.6 million, representing an increase of 13.9% from RMB9,426.1 million in 2018; the Group's integrated gross profit margin was 65.2%, representing a decrease of 1.0 percentage point from 66.2% in 2018.

3. Distribution and selling expenses

During the Reporting Period, the Group's distribution and selling expenses amounted to RMB2,290.9 million (accounting for 13.9% of the revenue), representing an increase of 34.7% from RMB1,700.3 million (accounting for 11.9% of the revenue) in 2018, which was primarily due to the increase in advertising fee and marketing fee resulting from brand publicity activities of the Group and promoting and marketing activities for newly-opened shopping malls.

4. General and administrative expenses

During the Reporting Period, the Group's general and administrative expenses amounted to RMB1,751.9 million (accounting for 10.6% of the revenue), representing an increase of 17.5% from RMB1,491.0 million (accounting for 10.5% of the revenue) in 2018, primarily due to the increases in the staff remuneration and welfare, and office and administrative expenses arising from the increase in the number of staff for expansionary business, the enhancement in staff remuneration standards, and the newly-added internet application platform team, in order to develop an omni-channel consumption platform in the pan-home improvement and furnishing industry in accordance with our strategic layout.

5. Financial expenses

During the Reporting Period, the Group's financial expenses were mainly comprised of interest expenses, interest income and exchange gains and losses, etc. Financial expenses increased from RMB1,533.2 million in 2018 to RMB2,260.1 million in 2019, representing an increase of 47.4%, among which interest expenses increased from RMB1,873.8 million in 2018 to RMB2,677.3 million in 2019, representing an increase of 42.9%. This was primarily due to the increase in the amount of interest-bearing liabilities as a result of the increase in bank loans, the issuance of domestic corporate bonds and commercial mortgage-backed securities during the Reporting Period in order to meet the operation and development needs of the Group, and the increase of overall interest rates in the market.

6. Income tax expenses

During the Reporting Period, the income tax expenses of the Group amounted to RMB1,516.8 million, representing an increase of 15.4% from RMB1,313.9 million in 2018, which was mainly due to the tax clearance differences in respect of prior years of RMB366.0 million in 2018.

7. 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 RMB4,479.7 million, which remained stable as compared with RMB4,477.4 million in 2018; the net profit attributable to owners of the Company after deducting non-recurring profit or loss amounted to RMB2,613.6 million, representing an increase of 1.85% from RMB2,566.2 million in 2018. The above performance was primarily due to a comprehensive result of the Group's steady business growth, continually providing customers with high value-added quality services through extension of the industry chain, sustainable growth of revenue and gross profit, and increase in expenditures required for business expansion.

During the Reporting Period, the Group's earnings per share was RMB1.26, as compared to RMB1.20 for the same period in 2018.

8. Accounts receivable

As at the end of the Reporting Period, the book value of accounts receivable of the Group amounted to RMB1,805.7 million, representing an increase of RMB117.8 million from RMB1,687.9 million as at the end of 2018, primarily due to the increase of related accounts receivable led by the growth of the revenue during the Reporting Period.

9. Investment properties and gain from fair value changes

As at the end of the Reporting Period, the book value of the Group's investment properties amounted to RMB85,107.0 million, representing an increase of 8.4% from RMB78,533.0 million as at the end of 2018. During the Reporting Period, the Group's investment properties realized a gain from fair value changes of RMB1,600.7 million. The above growth was mainly due to the increase in rental and related income level of our Portfolio Shopping Malls, advancement in construction progress of investment properties under development and the purchase of new properties during the Reporting Period.

10. *Cash and bank balances and cash flow*

As at the end of the Reporting Period, the cash and bank balances of the Group amounted to RMB7,229.2 million (of which, the balance of cash and cash equivalents amounted to RMB6,776.1 million), representing a decrease of RMB1,298.4 million from RMB8,527.6 million (of which, the balance of cash and cash equivalents amounted to RMB7,614.5 million) as at the end of 2018.

	For the year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
Net cash flow from operating activities	**4,093,981,030.60**	5,857,930,704.35
Net cash flow from investment activities	**(4,082,774,044.60)**	(10,994,440,295.78)
Net cash flow from financing activities	**(849,680,902.47)**	2,475,297,944.71
Impact of exchange rate changes on cash and cash equivalents	**80,048.26**	6,405,135.96
Net increase/(decrease) in cash and cash equivalents	**(838,393,868.21)**	(2,654,806,510.76)

During the Reporting Period, the Group's net cash inflow from operating activities amounted to RMB4,094.0 million, representing a decrease of RMB1,763.9 million as compared with the net inflow of RMB5,857.9 million during the same period in 2018. It was primarily due to the adjustment of the settlement method of the Group for sales proceeds collected and paid on behalf of the tenants of the shopping malls during the Reporting Period, in which collection and payment on behalf of tenants during the Reporting Period was recorded as a net outflow, which in turn resulted in a decrease in net cash flow from operating activities as compared to 2018.

During the Reporting Period, the Group's net cash outflow from investment activities amounted to RMB4,082.8 million, representing a decrease of RMB6,911.6 million as compared with the net outflow of RMB10,994.4 million during the same period in 2018. It was primarily due to the increased acquisitions of strategic assets and increased investments in upstream and downstream enterprises in the home industry chain in 2018, while the screening level for targeted investments was further improved and the cash paid for various investments decreased during the Reporting Period.

During the Reporting Period, the Group's net cash outflow from financing activities amounted to RMB849.7 million, representing a decrease of RMB3,325.0 million as compared with net inflow of RMB2,475.3 million during the same period in 2018. The main change was the fund of approximately RMB3,050.0 million raised by the Company's issuance of A shares in 2018.

11. Major debt ratios

Among the total debts of the Group, the portion repayable within one year or on demand amounted to RMB12,537.1 million, the portion repayable over one year but less than two years amounted to RMB9,818.2 million, the portion repayable over two years but less than five years amounted to RMB11,939.4 million and the portion repayable over five years amounted to RMB6,906.5 million. The Group will promptly repay the above borrowings at maturity.

The following table sets out our major debt ratios:

	As at 31 December 2019 (Unaudited)	As at 31 December 2018 (Audited)
Asset-liability ratio[(1)]	**59.9%**	59.1%
Net gearing ratio[(2)]	**69.4%**	62.3%

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 loans, long-term loans, bonds payable, financial lease payables, and commercial mortgage-backed securities payables) less cash and bank balances and then divided by total equity at the end of each period.

12. Collateralized and pledged assets

As of the end of the Reporting Period, the Group had collateralized/pledged investment properties and construction in progress with a total book value of RMB69,038.5 million, other equity instrument investments and restricted cash and bank balances with a total book balance of RMB707.0 million for obtaining loans, the balance of such loans is RMB30,211.1 million; the Group holds restricted cash and bank balances with a balance of RMB266.4 million for deposit reserve placed with the central bank, hedging operations, etc.

13. Contingent liabilities

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

14. Financial resources

In the future, the main sources of capital of the Group will be from cash generated from our operating activities, bank borrowings, issuance of bonds and share capital contributions from shareholders. To ensure that the capital of the Group is effectively utilized, the Group will continue to regularly monitor its liquidity needs, comply with its financing agreements and maintain sufficient cash reserves and appropriate credit limits so as to meet its liquidity demand.

15. Material acquisitions and disposals

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

16. Foreign exchange risk

As at the end of the Reporting Period, financial assets and liabilities denominated in currencies other than the functional currency of the Group mainly included USD-denominated notes, the HKD short-term borrowings and certain deposits denominated in other currencies. To manage these additional foreign exchange risk exposures, the management of the Group has actively adopted relevant risk control measures, including selecting appropriate forward contracts and currency swaps and other foreign debt hedging instruments, enhancing internal control awareness and strategies, increasing discussion with international banks and closely monitoring and anticipating trends of foreign exchange market, in order to be prepared to hedge our risk in a timely manner. We believe that foreign exchange risks related to such assets and liabilities denominated in other currencies will not have material impacts on operating results of the Group.

II. BUSINESS REVIEW

1. Business Development and Deployment: Steady Development of Shopping Malls and Strategic Deployment with a Nationwide Coverage

As at the end of the Reporting Period, we operated 87 Portfolio Shopping Malls, 250 Managed Shopping Malls and 12 home furnishing shopping malls through strategic cooperation[(1)]. In addition, the Company opened 44 franchised home improvement material projects by way of franchising[(2)], which include a total of 428 home improvement material stores/industry streets[(3)]. Our Portfolio Shopping Malls and Managed Shopping Malls cover 212 cities in 29 provinces, municipalities and autonomous regions in China, with a total operating area of 20,986,950 sq.m. Through applying the two-pronged development model of Portfolio Shopping Malls and Managed Shopping Malls, we have acquired the properties in prime locations in Tier I Cities and Tier II Cities, accumulated extensive experience in the operation of shopping malls, constantly strengthened brand value, and set a relatively high entry barrier for other companies.

During the Reporting Period, we continued to strategically locate our Portfolio Shopping Malls in prime locations in Tier I Cities and Tier II Cities, especially in prime regions in municipalities. As of the end of the Reporting Period, we operated 87 Portfolio Shopping Malls, covering a total operating area of 7,736,844 sq.m., with an average occupancy rate of 93.4%[(4)]. Among these Portfolio Shopping Malls, 20 Portfolio Shopping Malls, representing 23.0% 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 above-mentioned Portfolio Shopping Malls was 2,084,277 sq.m., representing 26.9% of the total operating area of the Portfolio Shopping Malls.

During the Reporting Period, we opened 6 new Portfolio Shopping Malls and 3 Managed Shopping Malls were converted into Portfolio Shopping Malls. As at the end of the Reporting Period, we had 33 pipeline Portfolio Shopping Malls. We will continue to focus on the prime locations of Tier I and Tier II Cities to strategically expand our Portfolio Shopping Malls network in the future.

In addition, by virtue of a reputable brand name in the home improvement and furnishing industry and 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 operated 250 Managed Shopping Malls covering a total operating area of 13,250,106 sq.m., with an average occupancy rate of 93.5%(5). Among these Managed Shopping Malls, 134 Managed Shopping Malls, representing 53.6% of the total number of Managed Shopping Malls, were located in eastern China and northern China (excluding Shanghai, Beijing and Tianjin). The operating area of the aforesaid Managed Shopping Malls was 7,634,964 sq.m., representing 57.6% of the total operating area of Managed Shopping Malls. During the Reporting Period, we opened 35 new Managed Shopping Malls and closed 10 Managed Shopping Malls. In addition, 3 Managed Shopping Malls were converted into Portfolio Shopping Malls.

As at the end of the Reporting Period, among the pipeline Managed Shopping Malls, we have obtained land use right certificates/land parcels for 359 contracted projects. Along with steady social and economic development of the country, further progress of urbanization strategy, and stable growth in disposable income per capita, we will focus on increasing the rate of expansion of our Managed Shopping Malls business throughout China.

Notes:

(1) During the Reporting Period, the Company acquired 46.5% of equity interests in Shandong Inzone Green Home Co., Ltd. (山東銀座家居有限公司), and became one of its largest shareholders ranked *pari passu* with Shandong Commercial Group Co., Ltd. (山東省商業集團有限公司). As of 31 December 2019, Shandong Inzone Green Home Co., Ltd. and its controlling subsidiaries operated 12 home furnishing shopping malls in total in the PRC. Strategic cooperative operation shopping malls mean the home furnishing shopping malls which, based on strategic objectives considered by the Company, to be held through joint investment with the partners, to jointly hold the properties and co-operate.

(2) Franchised home improvement material projects represent the home improvement material stores and home improvement material industry streets operated by the Group by way of franchising. For such franchised home improvement material stores/industry streets, the Group will not participate in the daily operation and management after their commencement of projects.

(3) For home improvement material stores/industry streets, the Group regards those with independent market logos as home improvement material stores/industry streets for the purpose of operation and management convenience after taking into full account the physical form of the managed property and the types of products sold.

(4) 3 shopping malls were not included for the purpose of calculating the occupancy rate due to adjustments in business planning.

(5) 6 shopping malls were not included for the purpose of calculating the occupancy rate due to adjustments in business planning, and another one currently closed mall was not included for the purpose of calculating the occupancy rate.

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

2.1 *Tenant sourcing management*

We continuously optimized the brands and the categories of merchandise in shopping malls and promoted the upgrade of home furnishing shopping malls consumption; we constantly improved the standards of our refined rental management, used smart marketing platforms to increase merchant sales and achieve continuous growth in rental income; we continued to enhance brand resource and dealer resource management, and improved service capabilities for brands and dealers; we catered to the consumption upgrading trend, stepped up efforts in introducing global brands and continued to build international pavilions; we gathered global excellent brands, reserved business attraction and integrated business resources through holding exhibitions.

2.2 *Operational management*

We have comprehensively and deeply carried out the "Word of Mouth Advertising" project, and put forward unified high standards and strict requirements for the operation and management of shopping malls in terms of environmental quality, service, credit system, consumer satisfaction, etc. to further enhance the recognition of our service quality; we continued to launch the "Leading Green" project to improve consumers' green home living quality and improved the operation and management efficiency of shopping malls through digital space management measures.

2.3 *Marketing management*

In terms of marketing management, we continued to iterate the IMP (Intelligent Marketing Platform), a global furniture intelligent marketing platform, and upgraded Red Star Macalline from a one-stop home furnishing shopping mall to an online and offline all-fields super-traffic shopping mall in home furnishing industry. Making omni-channel efforts to draw in customers, we helped merchants build private domain traffic pools to realize in-depth operations over the whole chain and cycle covering a full range of scenarios for every home improvement user from introduction, interaction, shop visiting, conversion, and repurchase to joint purchase. In terms of brand management, we continued to focus on promoting the brand positioning of "Selecting Global Top-notch Design Products". Through continuous innovation and deep cultivation in visual communication, content marketing, IP cooperation, cross-sector marketing, etc., we shaped a high-end brand image of a global household trend-setter.

2.4 Property management

We strictly managed and controlled the safety risks in our shopping malls with prevention control at the forefront, complemented by emergency plans through our staff and technology; we continued to improve the environment of malls to enhance the experience of our merchants and customers.

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 the pan-home improvement and furnishing industry" and by upholding the core concept of "home", we continued to carry out upstream and downstream cross-border business extensions and to build up a community of shared business future for pan-home improvement and furnishing industry. During the Reporting Period, our online and offline integration platform provided consumers with industry chain services for pan-home improvement and furnishing consumption ranging from design, home renovation, to the purchase of household items. We also provided full-range and all-dimensional logistics services to satisfy multiple needs of users on both ends of the platform so as to realize resources sharing.

3.1 Internet-based pan-home improvement and furnishing consumption

We have established the internet-based new retail platform based on the concept of "home", which provides consumers with industry chain services for pan-home improvement and furnishing 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 furnishing consumption platform with the offline real shopping mall network by digitally transforming and upgrading the existing home improvement and furnishing malls. 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 have 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, we continued to realize our strategic objective of "One Stop High-end Home Decoration", and to provide consumers with one-stop solutions covering design, home decoration, goods and services.

In respect of design, we continued to provide value-added services to end consumers through the M+ Top Indoor Design Award, the "Star Design" platform and the Design Cloud software to direct the traffic to the shopping malls accurately.

In respect of commodity retailing, during the Reporting Period, we signed a strategic cooperation agreement with Alibaba (China) Technology Co., Ltd. (hereinafter referred to as "**Alibaba**"), a proposer and initiator of "new retailing", to introduce Alibaba's advanced business philosophy and technical support in the new retail sector to the online and offline integration platform, to further promote the Company's pan-home improvement and furnishing consumption industry chain services.

In terms of home decoration, in order to serve more customer groups and provide better shopping experiences, we have established the Red Star Macalline Home Decoration Industry Business Division. Adhering to the concept of "Macalline • Space Aesthetics", the Home Decoration Industry Business Division is committed to improving shopping experiences, providing consumers with whole package services covering decorative design, engineering construction and research and development, main furniture and soft accessories, smart home furnishing and residential equipment for villas, houses, hotel apartments, delicately decorated apartments, commercial and office space, etc., to drive the sales in the shopping malls comprehensively.

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

During the Reporting Period, we continued to expand terminal service systems of home decoration and furnishing industry to provide professional distribution and installation services to our tenants and consumers to facilitate the "last mile" distribution, installation and after-sales service, and to improve customers satisfaction and loyalty to the brands of our tenants as well as the brand of "Red Star Macalline".

4. Continuously Upgrading Information Infrastructures to Support the Development of the Integration of Online and Offline Businesses

During the Reporting Period, the Information Technology Center adhered to the work philosophy of being an honest person and doing what is right and centered on the Group's continuous consolidation of the results of informatization construction in gradually pushing towards the goals of digitalization and intelligentization. Bearing in mind our original intention and mission, we vigorously promoted the information construction of the Group's headquarters and its shopping malls nationwide. We continuously empowered business development through financial intelligence and data intelligence work to ensure the Group's achievement of goals and rapid development.

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

During the Reporting Period, with our human resources policies closely in line with our corporate strategies and oriented by Red Star Macalline's "Thirteen-Word Values", we 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, including management of overall performance, talent development, business support, human resources operation and employee relations.

As at the end of the Reporting Period, we had a total of 27,113 employees.

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 by the Company 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 and written consultation reports to owners of operational properties 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 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 30 years in 2014, the Company has the right to use the licensed trademarks in our Portfolio Shopping Malls and Managed Shopping Malls and in all business operations related to those shopping malls, and to authorize any third parties to use the licensed trademarks within the properties of the shopping malls.

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

OUTLOOK

We constantly shoulder the responsibility of "building cozy and harmonious homes and improving quality of shopping and home life". In 2020 and going forward, we will continue to follow the operational management mode of "market-oriented operation and shopping mall-based management" to provide customers with better and more professional services. We will consolidate our leading position in the market as well as the professional status of "Red Star Macalline" as an expert of home life in our customers' minds, to pursue our enterprise development goal of growing into China's most advanced and professional "omni-channel platform service provider for home decoration and furnishing industry".

Our future development plans are as follows:

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

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

3. We will work together with Alibaba to deeply expand the layout of the new retail sector;

4. We will deeply promote business transformation and strengthen the brand mentality of "omni-channel service provider for the pan-home improvement and furnishing industry";

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

6. We will continue to improve corporate governance of the Company, standardize our operation and implement social responsibilities.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

1. Results of the Issuance of the 2020 First Tranche of Mid-term Notes

According to the Resolution on the General Mandate for the Issue of Domestic Debt Financing Instruments and Relevant Authorization considered and passed at the 2018 first extraordinary general meeting convened by the Company 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 mid-term notes, corporate bonds, and other debt financing instruments recognized by domestic regulators, with a total amount of not exceeding RMB15 billion. The Company has filed an application to the National Association of Financial Market Institutional Investors (the "**NAFMII**") for the registration of 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.

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 of 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 the NAFMII.

On 22 May 2019, in order to better play the role of non-financial corporate debt financing instruments on the Company's overall capital use, after re-evaluating its debt financing instrument structure, the Company applied to the NAFMII for the reduction of the registration amount of the mid-term notes under the aforementioned Notice for Acceptance of Registration (Zhong Shi Xie Zhu [2018] No. MTN506).

On 6 June 2019, the Company received the Letter in Relation to the Reduction of Registered Amount of Mid-Term Notes of Red Star Macalline Group Corporation Ltd. (Zhong Shi Xie Han [2019] No. 567) issued by the NAFMII approving the reduction of RMB3 billion from the registration amount of the mid-term notes of the Company under the aforementioned Notice for Acceptance of Registration (Zhong Shi Xie Zhu [2018] No. MTN506). The remaining valid registration amount under the Notice for Acceptance of Registration (Zhong Shi Xie Zhu [2018] No. MTN506) is RMB2 billion after the reduction of RMB3 billion from the original registration amount of RMB5 billion.

From 16 January 2020 to 17 January 2020, the issuance of the 2020 first tranche of mid-term notes of the Company was completed with amount in total of RMB500 million with an interest rate of 5.70%. For details, please refer to the announcement of the Company dated 21 January 2020 as disclosed on the designated media in China and the announcement dated 20 January 2020 as disclosed on the website of The Stock Exchange of Hong Kong Limited (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).

2. The Exemption of Tenants in Portfolio Shopping Malls from One-month Rent and Management Fee

On 29 January 2020, the Company received a proposal from Mr. CHE Jianxing, the Chairman, to convene an extraordinary meeting of the Board to consider the resolution on the matters in relation to the exemption of relevant qualified tenants in Portfolio Shopping Malls from one-month rent and management fee.

In order to undertake the social responsibilities actively and support the development of tenants, the relevant qualified tenants in the relevant Portfolio Shopping Malls will be exempted from the rent and the management fee for a month of the year 2020 by the Company to facilitate their smooth operation under the novel coronavirus pneumonia epidemic. For details, please refer to the announcement of the Company dated 3 February 2020 as disclosed on the designated media in China and the announcement dated 2 February 2020 as disclosed on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk).

3. Share Option Incentive Scheme

For the purpose of further improving the corporate governance structure of the Company, establishing and enhancing the long-term incentive and constraint mechanism of the Company, attracting and retaining talents, fully mobilizing the proactiveness and creativities of the core cadres of the Company, effectively promoting the cohesiveness of the core team and the core competitiveness of the enterprise, effectively aligning the interests of Shareholders, the Company and the core team, enabling all parties to focus on the long-term development of the Company, and ensuring the achievements of the development strategies and operation objectives of the Company, the Company issued RMB-denominated ordinary shares (A shares) of the Company to the participants directly (the "**Incentive Scheme**") on the premise of fully protecting the interests of shareholders and on the principle of income equivalent to contribution. The number of share options proposed to be granted to the participants under the Incentive Scheme is 30.85 million, representing approximately 0.87% of the total issued share capital of 3,550 million shares of the Company as at the date of announcement of the draft Incentive Scheme (i.e. 23 February 2020), among which, the first grant of share options consists of 27.765 million, representing approximately 0.78% of the total issued share capital of 3,550 million shares of the Company as at the date of announcement of the draft Incentive Scheme and 90.00% of the total number of share options under the Incentive Scheme; the reserved share options consist of 3.085 million, representing approximately 0.09% of the total issued share capital of 3,550 million shares of the Company as at the date of announcement of the draft Incentive Scheme and 10.00% of the total number of share options under the Incentive Scheme. The Incentive Scheme is subject to approval by shareholders at the 2020 first extraordinary general meeting, the A shareholders' class meeting and the H shareholders' class meeting to be convened on 21 April 2020. For details, please refer to the announcement of the Company dated 24 February 2020 as disclosed on the designated media in China and the announcement and the circular of the Company dated 23 February 2020 and 30 March 2020, respectively, as disclosed on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk).

4. Announcement on Results of Public Issuance of the First Tranche of 2020 Corporate Bonds

As approved by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2019] No. 628), the Company was granted the permission to publicly issue corporate bonds with the total nominal value of up to RMB4 billion to qualified investors, and such corporate bonds shall be issued in installments.

According to the Announcement on Public Issuance of the First Tranche of 2020 Corporate Bonds of Red Star Macalline Group Corporation Ltd., the issuance size of the first tranche of publicly issued 2020 corporate bonds of Red Star Macalline Group Corporation Ltd. (the "**Bonds**") was up to RMB500 million (inclusive). 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 Bonds have a maturity of three years and were attached with the Company's option to adjust the coupon rate and the bondholders' put option at the end of the second year.

The issuance of the Bonds was completed on 10 March 2020, the actual issuance size was RMB500 million, with a coupon rate of 4.95%.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Other than deviation from Code Provision A.2.1 of the Corporate Governance Code, the Company has complied with the principle and code provisions of the Corporate Governance Code (the "**Corporate Governance Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") during the year ended 31 December 2019.

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

Mr. CHE Jianxing ("**Mr. CHE**") is the Chairman and chief executive officer of the Company. In view of Mr. CHE's experience, personal profile and his roles in the Group and that Mr. CHE has assumed the role of chief executive officer and the general manager of the Company since June 2007, the Board considers it beneficial to the business prospect and operational efficiency of the Group that Mr. CHE, in addition to acting as the chairman of the Board, continues to act as the chief executive officer of the Company. While this will constitute a deviation from Code Provision A.2.1 of the Corporate Governance Code, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) any decision to be made by our Board requires approval by at least a majority of our directors and that our Board has 4 independent non-executive directors out of the 12 directors, which is in compliance with the Listing Rules requirement of one-third of the board, and we believe that there is sufficient checks and balances in the Board; (ii) Mr. CHE and the other directors are aware of and undertake to fulfill their fiduciary duties as directors, which requires, among other things, that he acts for the benefit and in the best interests of the Group 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 Group. 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 the Group in order to assess whether separation of the roles of chairman of the Board and chief executive officer is necessary.

COMPLIANCE WITH MODEL CODE

The Company has adopted a code of conduct regarding directors' and supervisors' securities transactions on terms as required under the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiries were made to all directors and supervisors who had confirmed that they had complied with all the provisions and standards as set out in the Model Code during the year ended 31 December 2019 and up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to restrictions imposed in some regions of China to fight against the novel coronavirus (COVID-19). The unaudited annual results set out in this announcement have not been agreed by the auditor of the Company. After the audit process is prepared and completed in accordance with the 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 Company will publish the relevant audited results announcement.

The Company's audit committee has reviewed the unaudited annual results announcement and the unaudited consolidated annual financial statements of the Group for the year ended 31 December 2019.

HOW AND WHY TRAVEL AND OTHER RESTRICTIONS AFFECT THE COMPANY' ABILITY TO REPORT ON TIME

Due to the impact of the epidemic, the Company needs more time to proofread the annual financial data. As a national enterprise operating across mainland China (including provinces and regions severely affected by the novel coronavirus), the Company must respond to the requirements of the central and local governments and their efforts to control the spread of the novel coronavirus, and adopt the telecommuting and/or home quarantine policy to protect the health of the Company's employees, which may reduce the overall working efficiency of employees, including relevant financial and accounting personnel. Therefore, most of the Company's subsidiaries in Hubei and other affected provinces and regions have to delay submission of financial statements to the headquarters for consolidation, and the Company will need more time to review and proofread all necessary financial data in order to prepare the audited annual results announcement for the year ended 31 December 2019.

Due to the epidemic, local travel restrictions, the delay in the resumption of work nationwide and the policy of requiring 14-day home quarantine for returnees in many places, it is expected that the auditor cannot complete all the audit process before 31 March 2020, including on-site audit and process of obtaining external confirmation.

Our investment properties, the major assets of the Company, are required to be assessed by valuer at the end of each accounting period. In view of the traffic restrictions due to the epidemic, the delay in the resumption of work nationwide and the policy of requiring 14-day home quarantine for returnees in many places, the difficulty of implementing the valuation process and the time required to obtain the basis for the valuation will increase significantly. Based on the above, the valuer cannot complete all valuations before 31 March 2020.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein; (ii) the proposed date on which the forthcoming annual general meeting will be held; (iii) final dividends for the year ended 31 December 2019 (if any); and (iv) the date from which the register of members will be closed in order to ascertain shareholders' eligibility to attend and vote at the annual general meeting (and the proposed arrangements relating to dividend payment, if any); (v) arrangements for publication and despatch of the 2019 annual report; and (vi) details of use of proceeds from global offering and issuance of A shares and its use of proceeds. In addition, the Company will issue further announcement(s) as and when necessary if there are other material developments in course of the completion of the auditing process.

This announcement will be published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.chinaredstar.com).

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed by the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

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

Shanghai, the PRC
30 March 2020

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