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## Red Star Macalline Group Corporation Ltd.

紅星美凱龍家居集團股份有限公司

(A sino-foreign joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1528)

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board of directors (the “**Board**”) of Red Star Macalline Group Corporation Ltd. (the “**Company**” or “**Red Star Macalline**”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the “**Group**” or “**we**”) for the year ended 31 December 2019 (the “**Reporting Period**”), together with comparative figures for the same period of 2018. Such financial results in this announcement had been agreed by Ernst & Young Hua Ming (LLP), the external auditor of the Company.

## FINANCIAL HIGHLIGHTS

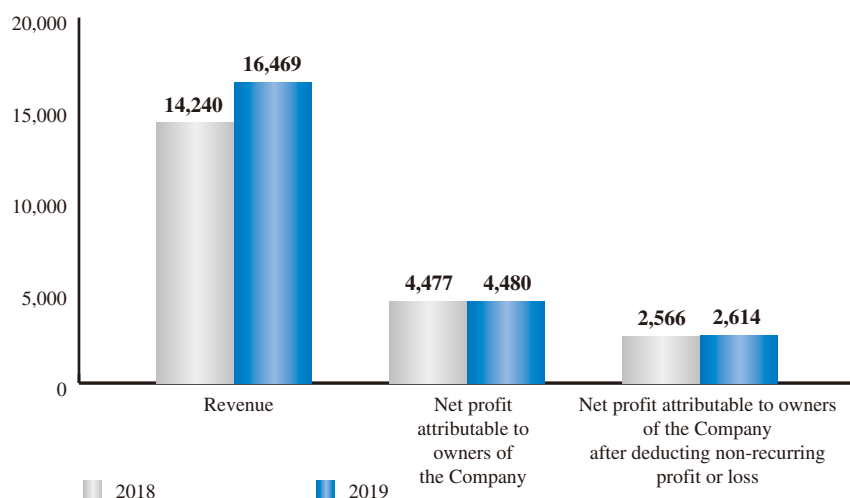
	<b>For the year ended 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<i>(RMB'000, except otherwise stated)</i>	
	<b>(Audited)</b>	<b>(Audited)</b>
Revenue	<b>16,469,238</b>	14,239,793
Gross profit	<b>10,733,627</b>	9,426,093
Gross profit margin	<b>65.2%</b>	66.2%
Net profit	<b>4,686,242</b>	4,705,447
Net profit attributable to owners of the Company	<b>4,479,682</b>	4,477,411
Net profit margin attributable to owners of the Company	<b>27.2%</b>	31.4%
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	<b>2,613,622</b>	2,566,154
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	<b>15.9%</b>	18.0%
Earnings per share	<b>RMB1.26</b>	RMB1.20
Dividend per share (tax inclusive)	<b>RMB0.253</b>	RMB0.27

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

# Key Financial Performance Indicators

## Key Financial Performance Indicators

RMB million



## OPERATIONAL HIGHLIGHTS

The following table sets forth certain operating statistics of Portfolio Shopping Malls<sup>(1)</sup> and Managed Shopping Malls<sup>(1)</sup> 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
	Note	(Audited)	(Audited)
<b>I. Revenue</b>	5	<b>16,469,237,788.92</b>	14,239,792,500.44
Less: Cost of sales		<b>5,735,611,011.50</b>	4,813,699,821.07
Taxes and surcharges		<b>429,040,601.76</b>	387,369,974.23
Distribution and selling expenses	6	<b>2,290,930,826.31</b>	1,700,337,297.30
General and administrative expenses	7	<b>1,751,866,715.59</b>	1,490,961,410.80
Research and development expenses		<b>38,206,412.50</b>	43,165,869.51
Financial expenses	8	<b>2,260,079,805.40</b>	1,533,151,372.35
Including: Interest expenses		<b>2,411,290,093.44</b>	1,670,758,123.43
Interest income		<b>195,395,541.15</b>	301,034,720.66
Add: Other income		<b>104,900,495.94</b>	111,159,889.42
Investment income		<b>786,438,650.13</b>	229,672,928.92
Including: Investment income from associates and joint ventures		<b>137,729,826.00</b>	183,468,563.89
Gain on fair value changes		<b>1,632,073,263.93</b>	1,767,009,613.56
Impairment loss of credit (losses are presented with parentheses)		<b>(297,862,062.06)</b>	(247,494,708.99)
Gain/(loss) from disposal of assets		<b>8,101,725.36</b>	(656,552.23)
<b>II. Operating profit</b>		<b>6,197,154,489.16</b>	6,130,797,925.86
Add: Non-operating income		<b>46,074,966.28</b>	38,512,766.67
Less: Non-operating expenses	9	<b>40,151,435.89</b>	149,990,961.12
<b>III. Total profit</b>		<b>6,203,078,019.55</b>	6,019,319,731.41
Less: income tax expenses	10	<b>1,516,836,338.46</b>	1,313,872,428.30
<b>IV. Net profit</b>		<b>4,686,241,681.09</b>	4,705,447,303.11
(I) According to the classification of continuity of operation			
1. Net profit from continuing operations		<b>4,686,241,681.09</b>	4,705,447,303.11
2. Net profit from discontinued operations		—	—
(II) According to the classification of ownership			
1. Non-controlling interests		<b>206,560,028.48</b>	228,036,060.65
2. Net profit attributable to owners of the Company		<b>4,479,681,652.61</b>	4,477,411,242.46

		For the year ended 31 December	
		2019	2018
		(Audited)	(Audited)
	Note		
<b>V. Other comprehensive income/(loss)</b>			
<b>(after tax)</b>		<b>1,004,835,312.35</b>	<b>(350,053,843.84)</b>
Other comprehensive income/(loss) (after tax)			
attributable to owners of the Company		<b>940,241,172.07</b>	<b>(284,856,658.06)</b>
(I) Other comprehensive income that will			
not be reclassified to profit or loss			
1. Changes in fair value of other equity			
instrument investments		<b>964,367,163.82</b>	<b>(284,856,658.06)</b>
(II) Other comprehensive income that will			
be reclassified to profit or loss			
1. Effective part of fair value hedging		<b>(24,125,991.75)</b>	—
Other comprehensive income/(loss) (after tax)			
attributable to non-controlling interests		<b>64,594,140.28</b>	<b>(65,197,185.78)</b>
<b>VI. Total comprehensive income</b>		<b>5,691,076,993.44</b>	<b>4,355,393,459.27</b>
Total comprehensive income attributable to			
owners of the Company		<b>5,419,922,824.68</b>	<b>4,192,554,584.40</b>
Total comprehensive income attributable to			
non-controlling interests		<b>271,154,168.76</b>	<b>162,838,874.87</b>
<b>VII. Earnings per share</b>			
(1) Basic earnings per share	11	<b>1.26</b>	1.20
(2) Diluted earnings per share		<b>N/A</b>	N/A

# CONSOLIDATED BALANCE SHEET

As at 31 December 2019

		As at 31 December 2019 (Audited)	As at 31 December 2018 (Audited)
	Note		
<b>Current assets</b>			
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	13	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	14	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
<b>Total current assets</b>		<b>13,954,445,451.69</b>	<b>15,718,592,711.04</b>
<b>Non-current assets</b>			
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	15	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	16	5,850,884,335.94	6,182,556,566.38
<b>Total non-current assets</b>		<b>108,339,973,106.97</b>	<b>95,142,125,107.52</b>
<b>Total assets</b>		<b>122,294,418,558.66</b>	<b>110,860,717,818.56</b>

		As at 31 December 2019 (Audited)	As at 31 December 2018 (Audited)
	Note		
<b>Current liabilities</b>			
Short-term loans	17	3,387,894,541.95	5,166,655,101.70
Accounts payable	18	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	19	7,799,973,358.09	8,496,897,574.07
Non-current liabilities due within one year	20	9,804,740,633.43	4,145,791,830.22
Other current liabilities		348,314,909.66	1,161,684,557.80
<b>Total current liabilities</b>		<b>27,767,945,494.43</b>	<b>25,313,806,916.61</b>
<b>Non-current liabilities</b>			
Long-term loans	21	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
<b>Total non-current liabilities</b>		<b>45,541,622,669.50</b>	<b>40,251,085,221.73</b>
<b>Total liabilities</b>		<b>73,309,568,163.93</b>	<b>65,564,892,138.34</b>
<b>Equity</b>			
Share capital	22	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
<b>Total equity attributable to shareholders of the Company</b>		<b>45,714,637,942.01</b>	<b>41,714,060,715.39</b>
Non-controlling interests		3,270,212,452.72	3,581,764,964.83
<b>Total equity</b>		<b>48,984,850,394.73</b>	<b>45,295,825,680.22</b>
<b>Total liabilities and equity</b>		<b>122,294,418,558.66</b>	<b>110,860,717,818.56</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

## 1. GENERAL INFORMATION

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

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

As permitted in the Reply on Approval of Initial Public Offering of Shares by Red Star Macalline Group Corporation Ltd. Zheng Jian Xu Ke [2017] No. 2373 Document issued by the China Securities Regulatory Commission on 22 December 2017, the Company carried out public offering of no more than 315,000,000 RMB-denominated ordinary shares (A shares) and was granted listing and trading at Shanghai Stock Exchange. As at 17 January 2018, the Company completed the public offering of RMB-denominated ordinary shares (A shares) totaling 315,000,000 shares with a nominal value of RMB1.00 per share, and the issue price per share amounted to RMB10.23. Upon completion of the offering, the paid-in capital (share capital) of the Company amounted to RMB3,938,917,038.00, among which the amount of RMB-denominated ordinary shares (A shares) subject to trading moratorium was 2,561,103,969 shares, the amount of RMB-denominated ordinary 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.

The business scope of the Company is: providing the invested enterprises with management service, enterprise management and product information consulting; providing the home furnishing business stores with design planning and management services; wholesale of furniture, building materials (steel exclusive) and decoration materials, and relevant supporting services; exhibition and display services; (products involving quota license or special provisions management shall be subject to relevant state regulations) (with license if required). The controlling shareholder of the Company is RSM Holding, a limited liability company incorporated in the PRC, and the actual controller is Mr. CHE Jianxing.

## 2. BASIS OF PREPARATION

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

\* For identification purpose only



As of 31 December 2019, the Group's current liabilities in aggregate exceeded its current assets in aggregate with an amount of RMB13,813.5 million. The management of the Group had assessed its ongoing operation for the 12 months starting from 1 January 2020, and after taking into account unutilized bank facilities held by the Group and the Group's expected net operating cash inflows and financing arrangements as at 31 December 2019, believed that the liquidity risk of the Group is exposed to due to the fact that its current assets are less than its current liabilities as at 31 December 2019 falls within the range of control, and thus it has no material effect on the ongoing operation and financial statements of the Group. Therefore, these financial statements have been prepared on an ongoing concern basis.

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

The Group has implemented the New Lease Standards from 1 January 2019. The financial statements are prepared based on the Notice on the Amendment and Issuance of Financial Statements Format of General Enterprises for 2019 (Cai Kuai [2019] No. 6) promulgated by the Ministry of Finance and the Notice on the Amendment and Issuance of Consolidated Financial Statements Format (2019 Edition) (Cai Kuai [2019] No. 16).

#### ***New Lease Standards***

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) ("New Lease Standards"). The New Lease Standards have revised the Accounting Standards for Business Enterprises No. 21 — Leases promulgated by the Ministry of Finance in 2006.

The New Lease Standards have mainly revised the guidelines for the definition of lease, subleasing, contract consolidation and split; cancelled the classification of operating leases and finance leases of the lessee, and required right-of-use assets and lease liabilities to be recognized for all leases (except short-term leases and low-value asset leases); improved lessee's subsequent measurement, added accounting treatment methods under the scenarios of option revaluation and modification of lease; enriched the disclosure contents for the lessors to provide the users of statements with more useful information.

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.

#### ***Changes in presentation of financial statements***

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), in the balance sheet, the item "notes receivable and accounts receivable" shall be split into "notes receivable" and "accounts receivable", the item "notes payable and accounts payable" shall be split into "notes payable" and "accounts payable", notes measured at fair value through other comprehensive income previously included in the item "other current assets" are changed to be presented in the item "receivables financing" separately, "interest receivable" in item "other receivables" are changed to only reflect the interest of the relevant financial instruments which is due but not received at the balance sheet date (the interest of financial instruments calculated on the basis of the effective interest rate method should be included in the carrying amounts of corresponding financial instruments), "interest payable" in item "other payables" are changed to only reflect the interest of the relevant financial instruments which is due but not paid at the balance sheet date (the interest of financial instruments calculated on the basis of the effective interest rate method should be included in the carrying amounts of corresponding financial instruments); in the income statement, in addition to the revenue expenditures incurred during research and development, the item "research and development expenses" shall also include the amortization of intangible assets developed by the Group as previously presented in item "general and administrative expenses". The Group has retrospectively adjusted the comparative amounts 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.



## 4. BASIS OF PREPARATION AND PRINCIPLE OF MEASUREMENT

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

## 5. REVENUE

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

	Owne d/Lease d Portfolio Shopping Malls	Managed Shopping Malls	Construction and design	Sales of merchandise and related services	Other	Unallocated items	Total
<b>2019 (Audited)</b>							
Segment revenue							
— External transaction revenue	<u>7,798,760,658.12</u>	<u>4,702,248,186.58</u>	<u>2,250,505,124.04</u>	<u>568,999,157.09</u>	<u>1,148,724,663.09</u>	<u>—</u>	<u>16,469,237,788.92</u>
Segment operating profit (loss)	<u>3,559,376,430.83</u>	<u>1,994,033,791.37</u>	<u>665,342,383.56</u>	<u>(141,768,419.27)</u>	<u>184,804,447.27</u>	<u>(64,634,144.60)</u>	<u>6,197,154,489.16</u>
<b>2018 (Audited)</b>							
Segment revenue							
— External transaction revenue	<u>7,167,976,016.22</u>	<u>4,176,778,594.26</u>	<u>1,479,553,020.36</u>	<u>466,289,187.59</u>	<u>949,195,682.01</u>	<u>—</u>	<u>14,239,792,500.44</u>
Segment operating profit (loss)	<u>3,593,777,333.15</u>	<u>1,657,697,812.15</u>	<u>372,186,585.71</u>	<u>(71,947,935.31)</u>	<u>295,710,201.34</u>	<u>283,373,928.82</u>	<u>6,130,797,925.86</u>

## 6. DISTRIBUTION AND SELLING EXPENSES

	<b>2019 (Audited)</b>	<b>2018 (Audited)</b>
Advertising and promotional expenses	<b>1,599,900,465.91</b>	1,116,818,206.66
Energy and maintenance expenses	<b>458,457,126.20</b>	422,449,462.40
Salary, bonus and benefits	<b>73,609,099.43</b>	74,323,302.54
After-sales service expenses	<b>54,116,114.43</b>	42,012,169.62
Depreciation and amortization	<b>38,446,684.21</b>	10,619,733.02
Office and administrative expenses	<b>28,284,770.57</b>	11,365,384.68
Others	<b>38,116,565.56</b>	22,749,038.38
Total	<b><u>2,290,930,826.31</u></b>	<u>1,700,337,297.30</u>

## 7. GENERAL AND ADMINISTRATIVE EXPENSES

	2019 (Audited)	2018 (Audited)
Salary, bonus and benefits	990,808,570.15	894,771,469.46
Office and administrative expenses	431,822,807.54	340,886,856.32
Other professional services expenses	143,858,698.41	139,569,232.37
Depreciation and amortization	65,109,886.61	50,425,617.50
Auditing expenses	15,493,248.61	11,506,348.94
Energy and maintenance expenses	9,529,822.04	6,405,972.57
Others	95,243,682.23	47,395,913.64
Total	<u>1,751,866,715.59</u>	<u>1,490,961,410.80</u>

## 8. FINANCIAL EXPENSES

	2019 (Audited)	2018 (Audited)
Interest expenses	2,677,320,391.98	1,873,767,131.68
Less: Interest income	195,395,541.15	301,034,720.66
Less: Capitalized interest expenses	<u>266,030,298.54</u>	<u>203,009,008.25</u>
<b>Net interest expenses</b>	<b>2,215,894,552.29</b>	<b>1,369,723,402.77</b>
Foreign exchange gain or loss	15,630,888.33	139,958,434.14
Others	<u>28,554,364.78</u>	<u>23,469,535.44</u>
Total	<u>2,260,079,805.40</u>	<u>1,533,151,372.35</u>

## 9. NON-OPERATING EXPENSES

	2019 (Audited)	2018 (Audited)
Compensation expenses	18,829,460.94	126,155,948.41
Charitable donations	5,759,200.00	10,576,739.79
Others	<u>15,562,774.95</u>	<u>13,258,272.92</u>
Total	<u>40,151,435.89</u>	<u>149,990,961.12</u>

## 10. INCOME TAX EXPENSES

	2019 (Audited)	2018 (Audited)
Current income tax expenses	997,629,354.82	429,550,144.25
Deferred income tax expenses	<u>519,206,983.64</u>	<u>884,322,284.05</u>
Total	<u>1,516,836,338.46</u>	<u>1,313,872,428.30</u>

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

Certain PRC subsidiaries of the Group enjoy the preferential tax rate of 15% under the Western China Development Plan in accordance with the EIT Law and relevant regulations during the Reporting Period. Certain PRC subsidiaries of the Group enjoy the preferential tax rate of 15% in Tibet Autonomous Region. Certain PRC subsidiaries of the Group as new enterprises in Kashi and Khorgos of Xinjiang, two Special Economic Development Zones, were approved to be exempt from enterprise income tax in accordance with the EIT Law and relevant regulations during the Reporting Period.

## 11. EARNINGS PER SHARE

Calculation of the basic earnings per share for the year ended 31 December 2018 and 2019 is as follows:

	2019 (Audited)	2018 (Audited)
Net profit attributable to owners of the Company for the current period	4,479,681,652.61	4,477,411,242.46
Including: Net profit attributable to ongoing operations	4,479,681,652.61	4,477,411,242.46
Net profit attributable to terminated operations	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>3,550,000,000</u>	<u>3,746,302,941</u>
Basic earnings per share	<u>1.26</u>	<u>1.20</u>

The Group does not have dilutive ordinary shares.

## 12. DIVIDENDS

During the Reporting Period, the Company has declared a final dividend of RMB0.27 per share to the owners of the Company for the year ended 31 December 2018, with the total final dividend declared amounting to approximately RMB958,500,000.00, and such dividend has been paid during the Reporting Period. The Board has proposed the distribution of an ordinary final dividend of RMB0.253 per share for the year ended 31 December 2019. The Board has also proposed the issuance of one share per 10 shares by way of conversion of capital reserve. The distribution of dividend is subject to approval by the shareholders (the “**Shareholder**”) of the Company at the annual general meeting (the “**AGM**”) and Class Meetings to be held on 18 June 2020, as well as the grant of a listing of and permission to deal in new H shares (in respect of the capitalization issue) on the Hong Kong Stock Exchange. The dividend is expected to be distributed on or around 18 August 2020.

### 13. ACCOUNTS RECEIVABLE

Accounts receivable are disclosed by category:

Category	As at 31 December 2019 (Audited)				
	Book balance		Bad debt allowance		Book value
	Amount	Percentage(%)	Amount	Proportion(%)	Amount
Accounts receivable for which bad debt allowance is provided individually	861,591,858.42	28.96	855,591,858.42	99.30	6,000,000.00
Accounts receivable for which bad debt allowance is provided by portfolio of credit risk characteristics	2,113,059,595.50	71.04	313,395,658.32	14.83	1,799,663,937.18
Total	2,974,651,453.92	100.00	1,168,987,516.74	39.30	1,805,663,937.18

Category	As at 31 December 2018 (Audited)				
	Book balance		Bad debt allowance		Book value
	Amount	Percentage(%)	Amount	Proportion(%)	Amount
Accounts receivable for which bad debt allowance is provided individually	902,007,709.64	31.78	851,684,477.71	94.42	50,323,231.93
Accounts receivable for which bad debt allowance is provided by portfolio of credit risk characteristics	1,936,659,225.85	68.22	299,063,873.02	15.44	1,637,595,352.83
Total	2,838,666,935.49	100.00	1,150,748,350.73	40.54	1,687,918,584.76

Accounts receivable portfolio for which bad debt allowance is provided by portfolio of credit risk characteristics:

Name	As at 31 December 2019 (Audited)				
	Book balance		Bad debt allowance		Book value
	Amount	Percentage (%)	Amount	Proportion (%)	Amount
<b>Accounts receivable</b>					
Within 1 year	1,123,622,127.62	53.18	79,698,946.78	7.09	1,043,923,180.84
1 to 2 years	481,813,634.70	22.80	61,147,117.16	12.69	420,666,517.54
2 to 3 years	256,143,833.18	12.12	54,569,654.38	21.30	201,574,178.80
3 to 4 years	167,890,000.00	7.95	64,361,767.00	38.34	103,528,233.00
4 to 5 years	37,050,000.00	1.75	19,677,255.00	53.11	17,372,745.00
5 to 6 years	41,540,000.00	1.97	28,940,918.00	69.67	12,599,082.00
Over 6 years	5,000,000.00	0.23	5,000,000.00	100.00	—
Total	2,113,059,595.50	100.00	313,395,658.32	14.83	1,799,663,937.18

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

## 14. OTHER RECEIVABLES

	As at 31 December 2019 (Audited)	As at 31 December 2018 (Audited)
Interest receivable	31,717,766.99	12,469,450.17
Dividends receivable	31,000,000.00	—
Other receivables	<u>647,294,328.27</u>	<u>1,919,255,069.19</u>
Total	<u>710,012,095.26</u>	<u>1,931,724,519.36</u>

Other receivables are disclosed by nature:

	As at 31 December 2019 (Audited)	As at 31 December 2018 (Audited)
Loan and advances	417,486,046.46	1,037,186,601.66
Sales proceeds collected and paid on behalf of the tenants	93,108,529.97	504,214,047.79
Deposits	58,350,162.76	161,820,517.67
Others	<u>78,349,589.08</u>	<u>216,033,902.07</u>
Total	<u>647,294,328.27</u>	<u>1,919,255,069.19</u>

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

2019	Stage 1 Expected credit losses in the next 12 months	Stage 2 Lifetime expected credit losses (No credit-impaired)	Stage 3 Lifetime expected credit losses (Credit-impaired)	Total
Balance of bad debt provision on 1 January 2019	125,758,428.17	—	159,047,506.67	284,805,934.84
— 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 this year	53,974,117.30	—	10,000,000.00	63,974,117.30
Reversal during this year	—	—	(1,711,902.92)	(1,711,902.92)
Write-off during this year	(1,800,847.77)	—	(8,446,854.73)	(10,247,702.50)
Reclassification during this year	(68,747,689.66)	—	(12,000,000.00)	(80,747,689.66)
<b>Balance of bad debt provision on 31 December 2019</b>	<b>101,184,008.04</b>	<b>—</b>	<b>154,888,749.02</b>	<b>256,072,757.06</b>

## 15. INVESTMENT PROPERTIES

	Completed properties	Properties under construction	Total
As at 31 December 2018 (Audited)	71,804,000,000.00	6,729,000,000.00	78,533,000,000.00
Additions during the Period	476,635,161.11	2,665,066,058.74	3,141,701,219.85
Transfer from properties under construction to completed properties	2,039,000,000.00	(2,039,000,000.00)	—
Additions from business combination	669,000,000.00	—	669,000,000.00
Acquisition of assets	—	1,592,605,288.15	1,592,605,288.15
Disposal of assets	(430,000,000.00)	—	(430,000,000.00)
Change in fair value	1,015,364,838.89	585,328,653.11	1,600,693,492.00
<b>As at 31 December 2019 (Audited)</b>	<b>75,574,000,000.00</b>	<b>9,533,000,000.00</b>	<b>85,107,000,000.00</b>



## 16. OTHER NON-CURRENT ASSETS

	As at 31 December 2019 (Audited)	As at 31 December 2018 (Audited)
Prepayments for construction and advance payment for land compensation	1,118,428,360.33	1,054,474,837.71
Earning right related to land consolidation	1,835,867,940.18	1,835,867,940.18
Prepayments for purchasing properties	1,126,150,960.96	2,023,201,395.18
Entrusted loans and borrowings	1,221,159,903.72	416,421,312.81
Prepayments for equity transfer	230,549,000.00	301,323,500.00
Prepayments for repurchase	247,705,000.00	247,705,000.00
Prepayments for land	32,923,170.75	210,862,580.50
Deposits	38,100,000.00	92,700,000.00
Total	<u>5,850,884,335.94</u>	<u>6,182,556,566.38</u>

## 17. SHORT TERM LOANS

	As at 31 December 2019 (Audited)	As at 31 December 2018 (Audited)
Mortgage loans	2,434,380,441.26	3,143,515,994.25
Pledge loans	—	979,312,063.44
Credit loans	350,568,684.02	701,907,497.48
Guaranteed loans	302,428,750.00	286,835,518.75
Pledge and guaranteed loans	300,516,666.67	—
Mortgage and guaranteed loans	—	55,084,027.78
Total	<u>3,387,894,541.95</u>	<u>5,166,655,101.70</u>

## 18. ACCOUNT PAYABLES

	As at 31 December 2019 (Audited)	As at 31 December 2018 (Audited)
Amounts payable for construction	945,247,859.30	616,071,095.78
Amounts payable for goods for construction or advertisements	531,122,995.77	354,045,884.56
Total	<u>1,476,370,855.07</u>	<u>970,116,980.34</u>

As at 31 December 2019, the Group had no significant accounts payable aged over one year.

## 19. OTHER PAYABLES

	As at 31 December 2019 (Audited)	As at 31 December 2018 (Audited)
Dividends payable	48,000,000.00	16,556,410.95
Other payables	7,751,973,358.09	8,480,341,163.12
Total	<u>7,799,973,358.09</u>	<u>8,496,897,574.07</u>

Other payables categorized by nature are presented as below:

	As at 31 December 2019 (Audited)	As at 31 December 2018 (Audited)
Deposit for quality from tenants	2,226,343,504.62	2,199,727,009.49
Amounts due to partners	1,907,521,251.46	1,438,160,139.88
Amounts payable to construction contractors	902,975,131.35	800,535,460.58
Amounts payable to equity transfer	756,899,618.95	512,739,975.11
Proceeds collected on behalf of the tenants	703,358,452.32	2,233,316,693.86
Rental deposits from tenants	681,454,337.68	708,621,532.51
Accrued expenses	330,712,588.52	277,643,310.09
Amounts payable to prepaid cards	9,996,855.95	16,165,219.09
Rent payable	—	57,739,035.70
Others	232,711,617.24	235,692,786.81
Total	<u>7,751,973,358.09</u>	<u>8,480,341,163.12</u>

## 20. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	As at 31 December 2019 (Audited)	As at 31 December 2018 (Audited)
Long-term loans due within one year-principal	3,407,200,952.18	2,355,738,787.02
Long-term loans due within one year-interest	38,733,650.00	33,131,060.84
Bonds payable due within one year- principal	3,157,772,715.57	1,496,573,720.79
Bonds payable due within one year-interest	171,858,690.41	124,493,601.14
Commercial mortgage backed securities due within one year- principal	2,426,270,000.00	62,800,000.00
Commercial mortgage backed securities due within one year-interest	54,507,456.43	39,547,483.49
Long-term rental due within one year	—	20,000,000.00
Financial lease payables due within one year	—	13,507,176.94
Lease liabilities due within one year	548,397,168.84	—
Total	<u>9,804,740,633.43</u>	<u>4,145,791,830.22</u>

## 21. LONG TERM LOANS

	As at 31 December 2019 (Audited)	As at 31 December 2018 (Audited)
Mortgage loans	7,219,210,000.03	8,671,995,000.02
Pledge loans	602,350,000.00	1,814,850,000.00
Mortgage and pledge loans	5,176,096,029.92	2,802,292,625.00
Mortgage and guaranteed loans	2,777,970,285.81	992,225,147.98
Credit loans	—	25,000,000.00
Mortgage, pledge and guaranteed loans	<u>144,000,000.00</u>	<u>—</u>
Total	<u><u>15,919,626,315.76</u></u>	<u><u>14,306,362,773.00</u></u>

## 22. SHARE CAPITAL

		Changes during the period			
	Opening amount	Issue of new shares	Others <sup>(note 1)</sup>	Sub-total	Closing amount
1 January to 31 December 2019 (Audited)					
I. Restricted shares					
1. State ownership	—	—	—	—	—
2. State-owned corporate shares	—	—	—	—	—
3. Other domestic shares	2,561,103,969	—	(80,788,197)	(80,788,197)	2,480,315,772
Include: Domestic non-stated-owned corporate shares	2,561,103,969	—	(80,788,197)	(80,788,197)	2,480,315,772
Domestic natural person shares	—	—	—	—	—
Total restricted shares	2,561,103,969	—	(80,788,197)	(80,788,197)	2,480,315,772
II. Unrestricted shares					
1. RMB-denominated ordinary shares	315,000,000	—	80,788,197	80,788,197	395,788,197
2. Overseas listed foreign shares	673,896,031	—	—	—	673,896,031
Total unrestricted shares	<u>988,896,031</u>	<u>—</u>	<u>80,788,197</u>	<u>80,788,197</u>	<u>1,069,684,228</u>
Total	<u><u>3,550,000,000</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>3,550,000,000</u></u>

Note 1: On 17 January 2019, the Company's A shares had been listed for 12 months, and the lock-up period of 80,788,197 shares jointly 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) has expired, and such shares became domestic-listed A shares (non-restricted shares) on that date.

# MANAGEMENT DISCUSSION AND ANALYSIS

## — Industry review

In 2019, given the complicated situation of obviously rising risks and challenges at home and abroad, all districts and departments, according to the decisions and arrangements of the Party Central Committee and the State Council, followed the general principle of making progress while maintaining stability, adhered to the new development idea and promoted high-quality development; continued to pursue supply-side structural reform as its main task, strove to deepen reforms and expand opening-up, and continued to conduct the three critical battles, the Chinese economy achieved steady growth, stable improvement in quality and benefit, and sustained healthy and steady development.

According to the statistics from Frost & Sullivan, in 2019, the Group had a 15.5% market share in the chain home improvement and furnishing mall sector and a 6.3% market share in the whole home improvement and furnishing mall sector (including chain and non-chain) in terms of sales volume, owning the largest market share in China's steadily growing home improvement and furnishings retail industry.

## — Business review

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

As at the end of the Reporting Period, the Group operated 87 Portfolio Shopping Malls, 250 Managed Shopping Malls and 12 home furnishing shopping malls through strategic cooperation<sup>(1)</sup>. In addition, the Group opened 44 franchised home improvement material projects by way of franchising<sup>(2)</sup>, which include a total of 428 home improvement material stores/industry streets<sup>(3)</sup>. The Group's 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, the Group has 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, the Group continued to strategically locate its 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, the Group operated 87 Portfolio Shopping Malls, covering a total operating area of 7,736,844 sq.m., with an average occupancy rate of 93.4%<sup>(4)</sup>. 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. The same mall growth of mature shopping malls<sup>(5)</sup> during the Reporting Period was 6.1%. Such growth was mainly due to the aggregated contribution from the increase in unit income from operation and the increase in operating area of mature Portfolio Shopping Malls during the Reporting Period.

During the Reporting Period, the Group 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, the Group had 33 pipeline Portfolio Shopping Malls. The Group will continue to focus on the prime locations of Tier I and Tier II Cities to strategically expand its 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, the Group continued to rapidly develop Managed Shopping Malls in Tier III Cities and other cities. The Group also established a strict internal screening and reviewing mechanism to ensure steady and rapid development of its Managed Shopping Malls. As at the end of the Reporting Period, the Group operated 250 Managed Shopping Malls covering a total operating area of 13,250,106 sq.m., with an average occupancy rate of 93.5%<sup>(6)</sup>. 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, the Group 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, the Group has 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, the Group will focus on increasing the rate of expansion of its 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) “Same mall growth of mature shopping malls” is the growth in operating income during the Reporting Period compared with the same period in the prior year for all Portfolio Shopping Malls that were in operation for at least three financial years and were still in operation as at the end of the Reporting Period.
- (6) 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***

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

### **2.2 *Operational management***

The Group 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 its service quality; the Group 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, the Group 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, the Group 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, the Group 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., the Group shaped a high-end brand image of a global household trendsetter.

### **2.4 *Property management***

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



### 3. *Expansionary business: robust development*

During the Reporting Period, the development of the Group's 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", the Group 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, the Group's 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. The Group 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*

The Group has 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. The Company has 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 its consumers. At the same time, the Company has 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, the Group continued to realize its 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, the Group 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, the Group 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, the Group has 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 with system platform as the center to realize end-to-end logistics distribution by integrating industry resources*

During the Reporting Period, the Company continued to expand terminal service systems of home decoration and furnishing industry to provide professional distribution and installation services to its 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 its 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 the Company’s human resources policies closely in line with the Company’s corporate strategies and oriented by Red Star Macalline’s “Thirteen-Word Values”, the Company 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, the Group 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.

## — 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. During the Reporting Period, the increase of 8.8% 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 12.6% from our Managed Shopping Malls during the Reporting Period was the result of increased revenue from the Group’s business expansion to provide business consulting and tenant sourcing advisory services to property owners on the one hand, and on the other hand, the year-on-year increase in the number of newly opened Managed Shopping Malls also brought an increase in related management revenue progressively. During the Reporting Period, increase in revenue from the construction and design business is because the Group has proactively taken businesses of building construction in shopping malls from certain owners of external commercial properties.

The following table sets forth our revenue by segments:

	For the year ended 31 December			
	2019 (Audited)		2018 (Audited)	
	Amount	%	Amount	%
Owned/Leased Portfolio				
Shopping Malls	<b>7,798,760,658.12</b>	<b>47.2</b>	7,167,976,016.22	50.3
Managed Shopping Malls	<b>4,702,248,186.58</b>	<b>28.6</b>	4,176,778,594.26	29.3
Construction and design	<b>2,250,505,124.04</b>	<b>13.7</b>	1,479,553,020.36	10.4
Sales of merchandise and related services	<b>568,999,157.09</b>	<b>3.5</b>	466,289,187.59	3.3
Others	<b>1,148,724,663.09</b>	<b>7.0</b>	949,195,682.01	6.7
Total	<b><u>16,469,237,788.92</u></b>	<b><u>100.0</u></b>	<b><u>14,239,792,500.44</u></b>	<b><u>100.0</u></b>

## 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, primarily due to the fact that the gross profit margins of both Owned/Leased Portfolio Shopping Malls and Managed Shopping Malls have increased, while the significant increase in the revenue from construction and design and others and the change in revenue structure resulted in a decrease in comprehensive gross profit margin during the Reporting Period.

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

	<b>For the year ended 31 December</b>	
	<b>2019</b> <b>(Audited)</b>	<b>2018</b> <b>(Audited)</b>
Owned/Leased Portfolio Shopping Malls	<b>78.8%</b>	77.6%
Managed Shopping Malls	<b>65.4%</b>	60.4%
Construction and design	<b>35.1%</b>	32.7%
Sales of merchandise and related services	<b>22.6%</b>	33.7%
Others	<b>51.6%</b>	74.1%
	<hr/>	<hr/>
Total	<b>65.2%</b>	66.2%

## 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, which was 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%.

Interest expenses were comprised of interest of bank and other borrowings, interest of financial lease and bond interests, etc. 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 nonrecurring

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.

	<b>For the year ended 31 December</b>		<b>Increase/ Decrease</b>
	<b>2019 (Audited)</b>	<b>2018 (Audited)</b>	
Net profit attributable to owners of the Company	<b>4,479,681,652.61</b>	4,477,411,242.46	0.05%
Net profit margin attributable to owners of the Company	<b>27.2%</b>	31.4%	-4.2 ppts
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	<b>2,613,622,255.31</b>	2,566,153,840.44	1.85%
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	<b>15.9%</b>	18.0%	-2.1 ppts

During the Reporting Period, the Group's earnings per share was RMB1.26, as compared to RMB1.20 in the same period of 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 (including the book balance of accounts receivable of RMB2,974.7 million and the bad debt allowance of RMB1,169.0 million), representing an increase of RMB117.8 million from RMB1,687.9 million as at the end of 2018, which was primarily due to the increase in income resulting in the increase of related accounts receivable during the Reporting Period.

#### **9. *Other receivables***

As at the end of the Reporting Period, the book value of other receivables of the Group was RMB710.0 million, representing a decrease of RMB1,221.7 million from RMB1,931.7 million as at the end of 2018, which was mainly due to the decrease in sales proceeds collected on behalf of the tenants, and reclassification of project-related borrowings to other current assets during the Reporting Period.



## **10. Other equity instrument investments**

As at the end of the Reporting Period, the book value of other equity instruments investments of the Group was RMB3,999.2 million, which was mainly because the Group invested in the equity of upstream and downstream enterprises in the household industry and home furnishing products manufacturer related to artificial intelligence, for strategic purposes, and planned to hold such equity investments for a long time.

## **11. 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 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 investment properties of the Group realized a gain on fair value changes of RMB1,600.7 million. The above growth was mainly due to the increase in rent 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.

## **12. Capital expenditure**

During the Reporting Period, the Group's capital expenditure amounted to RMB4,320.3 million (2018: RMB3,438.1 million), which mainly includes purchase expenditure of investment properties and construction development expenditure. The expenditure in this year increased by 25.7% as compared with 2018, mainly because the Group actively expanded the coverage of main businesses and the acquired premium shopping malls properties during the Reporting Period increased.

## **13. 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.

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

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.

#### **14. 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:

	<b>As at 31 December 2019 (Audited)</b>	<b>As at 31 December 2018 (Audited)</b>
Asset-liability ratio <sup>(1)</sup>	<b>59.9%</b>	59.1%
Net gearing ratio <sup>(2)</sup>	<b>69.4%</b>	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 borrowings, long-term borrowings, bond payables, financial lease payables, and commercial mortgage-backed securities payables) less cash and bank balances and then divided by the total equity at the end of each period.

### ***15. Collateralized and pledged assets***

As of the end of the Reporting Period, the Group had collateralized/pledged investment properties, fixed assets and construction in progress with a total book value of RMB71,493.4 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.

### ***16. Contingent liabilities***

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

### ***17. 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.

### ***18. Material acquisitions and disposals***

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

### ***19. Capital commitment***

As at the end of the Reporting Period, the amount of capital expenditure in respect of the acquisition and development of investment properties which the Group has contracted for but not recognized in the financial statements was RMB2,095.0 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 RMB647.7 million.

## **20. Foreign exchange risk**

As at the end of the Reporting Period, financial assets and liabilities denominated in currencies other than the functional currency of the Group mainly included USD-denominated notes, 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.

## **21. Human resources**

As at the end of the Reporting Period, the Group had 27,113 employees (31 December 2018: 24,339 employees). The Group signs labor contracts with employees according to the Labor Law of the People's Republic of China and the relevant provisions of the employee's locality. The Group will determine the employees' basic wage and bonus level according to the employees' performance, work experience and the market wage standard, and shall pay social insurance and housing provident fund for the employees. In 2019, the Group paid a total of RMB3,651.2 million for salary expenditure (2018: RMB3,461.7 million). Meanwhile, the Group also kept investing resources to provide various education and training opportunities for its employees, aiming to standardize the management work and improve the operation performance, and continuously improved the knowledge and technical competence as well as professional practice competence of the employees.

## **— Outlook**

The Group constantly shoulders the responsibility of “building cozy and harmonious homes and improving quality of shopping and home life”. In 2020 and going forward, the Group 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. The Group 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”.

The Group's future development plans are as follows:

1. The Group 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. The Group will deeply promote business transformation, make a breakthrough in full-cycle services of home furnishings consumption and strengthen the brand mentality of “omni-channel service provider for the pan-home improvement and furnishing industry”;
3. The Group will build a comprehensive service system and strive to become the new retail benchmark in the home decoration and furnishing industry;
4. The Group will work together with Alibaba to deeply expand the layout of the new retail sector;
5. The Group will be proactive in innovation and attach importance to the application of capital markets and financial instruments; and
6. The Group will continue to improve corporate governance of the Company, standardize our operation and implement social responsibilities.

## **FINAL DIVIDEND**

The Board has proposed the distribution of an ordinary final dividend of RMB0.253 per share for the year ended 31 December 2019. The Board has also proposed the issuance of one share per 10 shares by way of conversion of capital reserve. Based on the total share capital of 3,550,000,000 shares as of 31 December 2019, a total of RMB898,150,000.00 of final dividend will be paid and an additional 355,000,000 shares will be issued, of which the cash dividend of RMB727,654,304.16 will be paid to holders of A Shares and the cash dividend of RMB170,495,695.84 will be paid to holders of H Shares respectively, which are subject to approval at the AGM and Class Meetings, as well as the grant of a listing of and permission to deal in new H shares (in respect of the capitalization issue) on the Hong Kong Stock Exchange. The dividend is expected to be distributed on or around 18 August 2020.

## **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 details, 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 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 midterm 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**”) ([www.hkexnews.hk](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](http://www.chinamoney.com.cn)) and the website of Shanghai Clearing House ([www.shclearing.com](http://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 ([www.hkexnews.hk](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 ([www.hkexnews.hk](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%.

## CLOSURE OF THE REGISTER OF MEMBERS

The register of members of H shares of the Company will be closed from Monday, 15 June 2020 to Thursday, 18 June 2020, both days inclusive, in order to determine the identity of the H Shareholders who are entitled to attend the AGM on 18 June 2020. All share transfer documents accompanied by the relevant share certificates and transfer forms must be lodged for registration with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Room 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 12 June 2020.

The Shareholders whose names appear on the register of members of the Company on Friday, 12 June 2020 after close of business are entitled to attend and vote at the AGM.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Other than deviation from Code Provision A.2.1 of the Corporate Governance Code, the Company has complied with the principle and code provisions of the Corporate Governance Code (the “**Corporate Governance Code**”) as set out in Appendix 14 to the 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 our chairman and chief executive officer. In view of Mr. CHE's experience, personal profile and his roles in our Group and that Mr. CHE has assumed the role of chief executive officer and the general manager of our Company since June 2007, the Board considers it beneficial to the business prospect and operational efficiency of our Group that Mr. CHE, in addition to acting as the chairman of the Board, continues to act as the chief executive officer of our Company. While this will constitute a deviation from Code Provision A.2.1 of the Corporate Governance Code, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) any decision to be made by our Board requires approval by at least a majority of our directors and that our Board has 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 require, among other things, that he acts for the benefit and in the best interests of our Group and will make decisions for our Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Group. Moreover, the overall strategic and other key business, financial, and operational policies of our Group are made collectively after thorough discussion at both Board and senior management levels.

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

## COMPLIANCE WITH MODEL CODE

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

## 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 99.8% of the net proceeds in total for fundraising investment projects as required. 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 (collectively referred to as “**Announcements on Change in Use of Proceeds**”). All net proceeds have been utilized in a manner consistent with the disclosure set out in the section headed “Future Plans and Uses of Proceeds” in the Prospectus and Announcements on Change in Use of Proceeds of the Company. Unutilized amount is expected to be used in two years.

Analysis of use/intended use and utilized net proceeds from the Global Offering as of 31 December 2019 is as follows:

Use/Intended use	Planned use (RMB million)	Actual use of proceeds for the year ended 31 December 2019 (RMB million)	Unutilized net proceeds for the year ended 31 December 2019 (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 in or acquisition of other market participants in home furnishing industry, development funds for e-commerce business and information technology systems, and working capital and daily expenses	2,436.0	2,424.8	11.2

## ISSUANCE OF A SHARE AND USE OF PROCEEDS

A shares of the Company were listed and traded on the Shanghai Stock Exchange on 17 January 2018 (Stock Code: 601828) at the issue price of RMB10.23 per share with an issuance size of 315,000,000 shares. The total proceeds raised from this offering was RMB3,222,450,000.00, and the net proceeds raised (after deducting the issuing expenses of A shares of RMB172,442,150.37) was RMB3,050,007,849.63 (“A Shares Offering Proceeds”). The net amount raised per subscribed share is RMB9.68 per share, and the closing price per share on the date of listing was RMB14.42. For details, please refer to the announcements of the Company dated 2 January 2018, 16 January 2018, 7 February 2018 and 7 September 2018. As of the end of the Reporting Period, the Group has utilized approximately 86.45% of the net proceeds in total for fundraising investment projects and replenishing working capital as required.

Analysis of the use of proceeds from issuance of A share as of 31 December 2019 is as follows:

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

Proposed investment projects		Total investment planned (RMB'000)	Accumulated investment amount as of the end of Reporting Period (RMB'000)	Remarks
Home furnishing shopping mall construction project	Tianjin Beichen Shopping Mall Project	245,137	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 <sup>(1)</sup>	669,084	666,733	Fully invested
	Changsha Jinxia Shopping Mall Project	190,000	107,719	Expected to be invested by December 2020
	Xining Expo Shopping Mall Project <sup>(1)</sup>	110,000	107,786	Fully invested
	Sub-total	<u>1,750,000</u>	<u>1,663,154</u>	
New intelligent home furnishing shopping mall project		400,000	73,569	
Repayment of bank loans		400,000	400,000	
Supplement of liquidity		150,008	150,008	
Repayment of interest-bearing debts		<u>350,000</u>	<u>350,000</u>	
Total		<u><b>3,050,008</b></u>	<u><b>2,636,731</b></u>	

Note:

- (1) Urumqi Convention and Exhibition Mall and Xining Expo Shopping Mall have opened businesses during the Reporting Period. The Company would determine the actual usage of the remaining funds raised subject to the subsequent capital arrangements.

## AUDIT COMMITTEE

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

## PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND 2019 ANNUAL REPORT

This announcement is published on the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of the Company at [www.chinaredstar.com](http://www.chinaredstar.com). The Company's 2019 annual report containing all the information as required by the Listing Rules will be dispatched to Shareholders and published on the website of the Hong Kong Stock Exchange and on the website of the Company in due course.

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

Shanghai, the PRC  
17 April 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.*