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Red Star Macalline Group Corporation Ltd.

紅星美凱龍家居集團股份有限公司

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

(Stock Code: 1528)

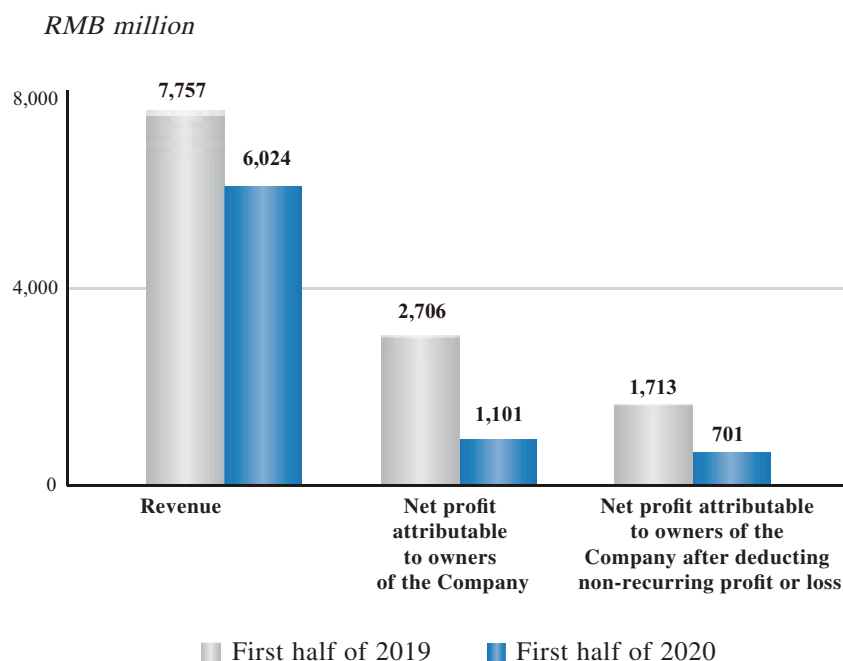
INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board of directors (the “**Board**”) of Red Star Macalline Group Corporation Ltd. (the “**Company**” or “**Red Star Macalline**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**” or “**we**”) for the six months ended 30 June 2020 (the “**Reporting Period**”), together with comparative figures for the same period in 2019.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2020	2019
	<i>(RMB'000, except otherwise stated)</i>	
	(Unaudited)	(Unaudited)
Revenue	6,024,441	7,757,114
Gross profit	4,029,841	5,194,654
Gross profit margin	66.9%	67.0%
Net profit	1,154,254	2,861,354
Net profit attributable to owners of the Company	1,101,316	2,705,544
Net profit margin attributable to owners of the Company	18.3%	34.9%
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	700,784	1,713,037
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	11.6%	22.1%
Earnings per share	RMB0.28	RMB0.69

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 of the dates indicated:

	As at 30 June 2020	As at 31 December 2019
Number of shopping malls	334	337
Operating area of shopping malls (sq.m.)	20,953,810	20,986,950
Number of cities covered	209	212
Number of Portfolio Shopping Malls	87	87
Operating area of Portfolio Shopping Malls (sq.m.)	7,698,002	7,736,844
Average occupancy rate of Portfolio Shopping Malls	90.2%	93.4%
Number of Managed Shopping Malls	247	250
Operating area of Managed Shopping Malls (sq.m.)	13,255,808	13,250,106
Average occupancy rate of Managed Shopping Malls	90.1%	93.5%

Note: (1) See definitions in the 2019 annual report of the Company.

CONSOLIDATED INCOME STATEMENT**Six Months Ended 30 June 2020***(All amounts are expressed in RMB, except otherwise stated)*

		Six months ended 30 June	
		2020	2019
	<i>Note</i>	(Unaudited)	(Unaudited)
I. Revenue	4	6,024,440,866.01	7,757,114,487.46
Less: Cost of sales		1,994,600,248.22	2,562,460,143.99
Taxes and surcharges		171,935,988.05	201,843,925.76
Distribution and selling expenses	5	631,248,850.58	931,616,435.07
General and administrative expenses	6	744,460,616.43	702,578,978.40
Research and development expenses		10,843,802.66	17,266,342.46
Financial expenses	7	1,348,360,314.59	984,694,930.36
Including: Interest expenses		1,330,162,274.91	1,095,285,647.01
Interest income		79,419,260.20	108,474,110.83
Add: Other income		86,015,355.42	58,576,197.18
Investment income		142,586,655.69	339,678,258.34
Including: Investment income from associates and joint ventures		(1,684,944.69)	40,647,033.37
Gain from fair value changes		296,599,198.00	905,235,903.48
Impairment loss of credit (losses are presented with parentheses)		(3,533,290.62)	(104,004,939.19)
Gain/(loss) from disposal of assets		(21,769,125.68)	7,106,901.16
II. Operating profit		1,622,889,838.29	3,563,246,052.39
Add: Non-operating income		17,349,304.55	21,942,159.07
Less: Non-operating expenses		83,519,321.52	10,542,968.10
III. Total profit		1,556,719,821.32	3,574,645,243.36
Less: income tax expenses	8	402,466,107.25	713,291,013.53
IV. Net profit		1,154,253,714.07	2,861,354,229.83
(I) According to the classification of continuity of operation			
1. Net profit from continuing operations		1,154,253,714.07	2,861,354,229.83
2. Net profit from discontinued operations		—	—
(II) According to the classification of ownership			
1. Non-controlling interests		52,937,226.16	155,809,872.39
2. Net profit attributable to owners of the Company		1,101,316,487.91	2,705,544,357.44

	<i>Note</i>	Six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
V. Other comprehensive income (after tax)		727,023,799.35	489,366,397.64
Other comprehensive income (after tax)			
attributable to owners of the Company		726,063,977.01	467,467,546.09
(I) Other comprehensive income that will not be reclassified to profit or loss		638,295,020.72	497,751,188.30
1. Changes in fair value of other equity instrument investments		638,295,020.72	497,751,188.30
(II) Other comprehensive income that will be reclassified to profit or loss		87,768,956.29	(30,283,642.21)
1. Exchange differences arising upon translation of financial statements denominated in foreign currencies		877,342.99	—
2. Others		86,891,613.30	(30,283,642.21)
Other comprehensive income (after tax)			
attributable to non-controlling interests		959,822.34	21,898,851.55
VI. Total comprehensive income		1,881,277,513.42	3,350,720,627.47
Total comprehensive income attributable to owners of the Company		1,827,380,464.92	3,173,011,903.53
Total comprehensive income attributable to non-controlling interests		53,897,048.50	177,708,723.94
VII. Earnings per share			
(I) Basic earnings per share	9	0.28	0.69
(II) Diluted earnings per share		N/A	N/A

CONSOLIDATED BALANCE SHEET**As at 30 June 2020***(All amounts are expressed in RMB, except otherwise stated)*

		As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
	<i>Note</i>		
Current Assets			
Cash and bank balances		9,507,910,275.02	7,229,239,369.35
Financial assets held for trading		224,317,048.53	233,385,470.05
Derivative financial assets		54,411,653.17	31,751,504.22
Accounts receivable	11	1,763,189,542.79	1,805,663,937.18
Receivables financing		5,050,000.00	41,040,000.00
Prepayments		298,569,054.37	340,717,638.07
Other receivables	12	957,222,438.37	710,012,095.26
Inventories		341,959,132.10	330,978,528.99
Contract assets		1,174,598,481.33	1,039,368,953.49
Non-current assets due within one year		539,865,162.57	555,066,245.64
Other current assets		2,025,200,191.40	1,637,221,709.44
Total current assets		16,892,292,979.65	13,954,445,451.69
Non-current assets			
Long-term receivables		623,094,256.54	800,494,682.51
Long-term equity investments		3,695,526,825.82	3,654,279,035.20
Other equity instrument investments		4,167,940,005.40	3,999,157,825.44
Other non-current financial assets		527,395,540.60	368,774,540.60
Investment properties	13	90,073,000,000.00	85,107,000,000.00
Fixed assets		2,723,859,176.04	897,496,154.61
Construction in progress		73,038,612.20	2,329,221,258.37
Right-of-use assets		2,961,499,013.78	3,087,184,216.82
Intangible assets		451,081,950.43	449,262,332.89
Development expenditure		25,705,719.48	34,245,602.45
Goodwill		97,597,047.85	97,597,047.85
Long-term prepaid expenses		423,211,098.92	489,797,913.40
Deferred tax assets		1,368,515,937.40	1,174,578,160.89
Other non-current assets	14	5,853,088,515.15	5,850,884,335.94
Total non-current assets		113,064,553,699.61	108,339,973,106.97
Total assets		129,956,846,679.26	122,294,418,558.66

		As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
	Note		
Current Liabilities			
Short-term loans	15	3,542,520,312.60	3,387,894,541.95
Accounts payable	16	1,215,496,992.79	1,476,370,855.07
Advance from customers		700,930,999.01	1,159,059,013.47
Contract liabilities		1,958,019,506.82	2,221,835,457.96
Payroll payable		307,782,951.80	830,362,911.55
Taxes payable		378,253,118.37	739,393,813.25
Other payables	17	8,993,260,126.36	7,799,973,358.09
Non-current liabilities due within one year	18	13,135,290,909.69	9,804,740,633.43
Other current liabilities		1,460,249,495.06	348,314,909.66
Total current liabilities		31,691,804,412.50	27,767,945,494.43
Non-current liabilities			
Long-term loans	19	18,965,773,667.69	15,919,626,315.76
Bonds payable		6,133,665,432.80	6,592,440,970.73
Lease liabilities		3,281,976,954.50	3,321,817,733.91
Long-term payables		735,107,244.77	634,392,235.62
Deferred income		224,009,166.70	225,902,560.47
Deferred tax liabilities		12,418,653,584.88	11,989,277,103.64
Other non-current liabilities		6,769,752,020.50	6,858,165,749.37
Total non-current liabilities		48,528,938,071.84	45,541,622,669.50
Total liabilities		80,220,742,484.34	73,309,568,163.93
Equity			
Share capital	20	3,550,000,000.00	3,550,000,000.00
Capital reserve		3,998,404,942.12	4,239,976,571.04
Other comprehensive income		1,769,322,647.53	1,483,127,041.17
Surplus reserve		1,954,818,567.23	1,954,818,567.23
Retained earnings		35,129,750,621.13	34,486,715,762.57
Total equity attributable to owners of the Company		46,402,296,778.01	45,714,637,942.01
Non-controlling interests		3,333,807,416.91	3,270,212,452.72
Total equity		49,736,104,194.92	48,984,850,394.73
Total liabilities and equity		129,956,846,679.26	122,294,418,558.66

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months ended 30 June 2020

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 Stock Exchange of Hong Kong Limited (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 shares (A shares) subject to trading moratorium was 2,561,103,969 shares; the amount of RMB-denominated shares (A shares) not subject to trading moratorium was 315,000,000 shares, and the amount of overseas listed foreign shares (H shares) not subject to trading moratorium was 1,062,813,069 shares. The Company completed the business registration in respect of such change on 20 March 2018.

As considered and approved at the 2017 Annual General Meeting, A Shareholders’ Class Meeting and H Shareholders’ Class Meeting, the Company repurchased 388,917,038 overseas-listed foreign shares (H shares) at a 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 home furnishing business stores with design planning and management services; wholesale of furniture, building materials (steel exclusive) and decoration materials, and relevant supporting services; exhibition and display services; (products involving quota license or special management provisions shall be subject to relevant state regulations) (with license if required). The controlling shareholder of the Company is RSM Holding, a limited liability company incorporated in the PRC, and the actual controller is Mr. CHE Jianxing.

* For identification purpose only

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 guidelines, interpretation and other relevant provisions promulgated and revised thereafter (the “Accounting Standards for Business Enterprises”).

As at 30 June 2020, the Group’s current liabilities in aggregate exceeded its total current assets in an amount of RMB14,799.5 million. The management of the Group had assessed its ongoing operation for the 12 months starting from 30 June 2020, and after taking into account the unutilized bank facilities held by the Group and the Group’s expected operating cash inflows and financing arrangements as at 30 June 2020, believed that the liquidity risk of the Group is exposed to falls within the range of control due to the fact that its current assets are less than its current liabilities as at 30 June 2020, 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. BASIS OF ACCOUNTING AND PRINCIPLES OF MEASUREMENT

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

4. REVENUE

The following is the Group’s revenue and operating results by operating segments:

	Owne d/leas e d Portfolio Shopping Malls	Managed Shopping Malls	Construction and design	Home decoration related services and sales of merchandise	Other	Unallocated items	Total
Six months ended 30 June 2020							
(Unaudited)							
Segment revenue							
— external transaction revenue	<u>3,027,912,524.15</u>	<u>1,828,941,707.49</u>	<u>640,753,919.60</u>	<u>182,300,235.25</u>	<u>344,532,479.52</u>	<u>—</u>	<u>6,024,440,866.01</u>
Segment operating profit (loss)	<u>1,545,998,537.92</u>	<u>889,592,043.37</u>	<u>93,340,635.37</u>	<u>(88,041,090.77)</u>	<u>41,305,036.84</u>	<u>(859,305,324.44)</u>	<u>1,622,889,838.29</u>
Six months ended 30 June 2019							
(Unaudited)							
Segment revenue							
— external transaction revenue	<u>3,952,122,177.57</u>	<u>2,162,449,497.83</u>	<u>937,841,156.07</u>	<u>206,083,076.14</u>	<u>498,618,579.85</u>	<u>—</u>	<u>7,757,114,487.46</u>
Segment operating profit (loss)	<u>2,069,165,267.06</u>	<u>994,274,045.09</u>	<u>239,941,210.13</u>	<u>(40,431,527.61)</u>	<u>78,399,667.11</u>	<u>221,897,390.61</u>	<u>3,563,246,052.39</u>

5. DISTRIBUTION AND SELLING EXPENSES

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Salary, bonus and benefits	57,965,830.58	38,697,383.14
Depreciation and amortization	8,018,842.54	14,011,099.12
Energy and maintenance expenses	181,420,109.41	212,239,343.45
Advertising and promotional expenses	342,738,313.22	618,580,445.85
After-sales service expenses	15,701,566.39	19,034,710.88
Office and administrative expenses	13,762,189.03	15,182,559.09
Others	11,641,999.41	13,870,893.54
Total	<u>631,248,850.58</u>	<u>931,616,435.07</u>

6. GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Salary, bonus and benefits	382,198,422.77	376,349,537.35
Depreciation and amortization	86,940,278.35	37,581,565.74
Energy and maintenance expenses	1,118,473.42	3,058,712.95
Other professional services expenses	61,194,617.59	63,528,202.49
Office and administrative expenses	154,963,392.42	182,256,307.98
Others	58,045,431.88	39,804,651.89
Total	<u>744,460,616.43</u>	<u>702,578,978.40</u>

7. FINANCIAL EXPENSES

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Interest expenses	1,494,947,836.22	1,206,143,277.27
Less: Capitalized interest expenses	164,785,561.32	110,857,630.27
Less: Interest income	79,419,260.20	108,474,110.83
Net interest expenses	1,250,743,014.70	986,811,536.17
Foreign exchange gain or loss	75,872,756.72	(16,013,615.47)
Others	21,744,543.17	13,897,009.66
Total	1,348,360,314.59	984,694,930.36

8. INCOME TAX EXPENSES

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Current income tax expenses	283,647,287.87	607,301,878.82
Deferred income tax expenses	118,818,819.38	105,989,134.71
Total	402,466,107.25	713,291,013.53

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

Certain 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 9% in Tibet Autonomous Region. Certain PRC subsidiaries of the Group enjoy the preferential tax rate of 15% for high-tech enterprises. Certain PRC subsidiaries of the Group as new enterprises in Kashi and Khorgas 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.

9. EARNINGS PER SHARE

Calculation of the basic earnings per share for the six months ended 30 June 2020 and 30 June 2019 is as follows:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Net profit attributable to owners of the Company for the period	1,101,316,487.91	2,705,544,357.44
Including: Net profit attributable to ongoing operations	1,101,316,487.91	2,705,544,357.44
Net profit attributable to terminated operations	—	—
Weighted average number of ordinary shares for the purpose of basic earnings per share ⁽¹⁾	3,905,000,000	3,905,000,000
Basic earnings per share	0.28	0.69

The Group does not have dilutive ordinary shares.

Note :

- (1) During the Reporting Period, the Company issued one share per 10 shares by way of conversion of capital reserve to all of its shareholders and such capitalization shares have been distributed after the Reporting Period. According to the Public Issuance of Securities Companies Information Disclosure and Compilation Rules No. 09 – Calculation and Disclosure of Return on Equity and Earnings Per Share (CSRC Announcement [2010] No. 2), the Company's basic earnings per share during the same period in 2019 was recalculated and presented based on the number of shares after the conversion.

10. DIVIDENDS

During the Reporting Period, the Company has declared a final dividend of RMB0.253 per share to the owners of the Company for the year ended 31 December 2019, with the total final dividend declared amounting to approximately RMB898,150,000.00 and the issuance of one share per 10 shares by way of conversion of capital reserve, and such dividend and capitalization shares have been paid after the Reporting Period. The Board of the Company has not recommended any payment of dividend during the Reporting Period.

11. ACCOUNTS RECEIVABLE

Accounts receivables are disclosed by category:

Category	As at 30 June 2020 (Unaudited)				
	Book balance		Bad debt allowance		Book value
	Amount	Percentage (%)	Amount	Proportion (%)	Amount
Accounts receivable for which bad debt allowance is provided individually	774,932,185.49	26.74	768,932,185.49	99.23	6,000,000.00
Accounts receivable for which bad debt allowance is provided by portfolio of credit risk characteristics	2,123,170,008.06	73.26	365,980,465.27	17.24	1,757,189,542.79
Total	<u>2,898,102,193.55</u>	<u>100.00</u>	<u>1,134,912,650.76</u>	<u>39.16</u>	<u>1,763,189,542.79</u>
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	<u>2,974,651,453.92</u>	<u>100.00</u>	<u>1,168,987,516.74</u>	<u>39.30</u>	<u>1,805,663,937.18</u>

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

As at 30 June 2020 (Unaudited)					
Category	Book balance		Bad debt allowance		Book value
	Amount	Percentage (%)	Amount	Proportion (%)	Amount
Within 1 year	977,020,200.07	46.02	75,852,486.49	7.76	901,167,713.58
1 to 2 years	397,969,583.66	18.74	52,201,865.80	13.12	345,767,717.86
2 to 3 years	385,305,308.49	18.15	74,030,382.11	19.21	311,274,926.38
3 to 4 years	167,434,915.84	7.89	51,453,330.87	30.73	115,981,584.97
4 to 5 years	100,300,000.00	4.72	45,635,390.00	45.50	54,664,610.00
5 to 6 years	81,900,000.00	3.86	53,567,010.00	65.41	28,332,990.00
Over 6 years	13,240,000.00	0.62	13,240,000.00	100.00	–
Total	2,123,170,008.06	100.00	365,980,465.27	17.24	1,757,189,542.79

As at 31 December 2019 (Audited)					
Category	Book balance		Bad debt allowance		Book value
	Amount	Percentage (%)	Amount	Proportion (%)	Amount
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

12. OTHER RECEIVABLES

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Interest receivable	44,134,231.35	31,717,766.99
Dividends receivable	31,000,000.00	31,000,000.00
Other receivables	882,088,207.02	647,294,328.27
Total	<u>957,222,438.37</u>	<u>710,012,095.26</u>

Other receivables are disclosed by nature:

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Loan and advances	426,788,242.84	417,486,046.46
Sales proceeds collected and paid on behalf of the tenants	260,459,090.57	93,108,529.97
Deposits	84,184,754.87	58,350,162.76
Others	110,656,118.74	78,349,589.08
Total	<u>882,088,207.02</u>	<u>647,294,328.27</u>

The movement of bad debt allowance for other receivables based on 12-month expected credit losses and the lifetime expected credit losses, respectively, are as follows:

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Lifetime expected credit losses (No credit- impaired)	Stage 3 Lifetime expected credit losses (Credit- impaired)	Total
Balance of bad debts allowance on 1 January 2020	101,184,008.04	–	154,888,749.02	256,072,757.06
Provision during the period	32,774,026.47	–	–	32,774,026.47
Reversal during the period	(19,390,191.80)	–	–	(19,390,191.80)
Write-off during the period	–	–	(6,050,635.70)	(6,050,635.70)
Balance of bad debt allowance on 30 June 2020	<u>114,567,842.71</u>	<u>–</u>	<u>148,838,113.32</u>	<u>263,405,956.03</u>

13. INVESTMENT PROPERTIES

	Completed properties	Properties under construction	Total
As at 31 December 2019 (Audited)	75,574,000,000.00	9,533,000,000.00	85,107,000,000.00
Additions during the Period	147,957,613.20	788,047,968.46	936,005,581.66
Transfer from properties under construction to completed properties	821,000,000.00	–	821,000,000.00
Additions from business combination	–	3,020,104,494.63	3,020,104,494.63
Assets disposal	(107,000,000.00)	–	(107,000,000.00)
Changes in fair value	(13,957,613.20)	309,847,536.91	295,889,923.71
As at 30 June 2020 (Unaudited)	<u>76,422,000,000.00</u>	<u>13,651,000,000.00</u>	<u>90,073,000,000.00</u>

14. OTHER NON-CURRENT ASSETS

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Prepayments for construction and advance payments for land compensation	1,418,072,080.81	1,118,428,360.33
Earning right related to land consolidation	1,835,867,940.18	1,835,867,940.18
Prepayments for purchasing properties	935,848,736.34	1,126,150,960.96
Entrusted loans and borrowings	920,994,757.82	1,221,159,903.72
Prepayments for equity transfer	193,600,000.00	230,549,000.00
Prepayments for repurchase	247,705,000.00	247,705,000.00
Prepayments for land	–	32,923,170.75
Deposits	301,000,000.00	38,100,000.00
	<hr/>	<hr/>
Total	5,853,088,515.15	5,850,884,335.94
	<hr/> <hr/>	<hr/> <hr/>

15. SHORT-TERM LOANS

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Mortgage loans	2,568,452,602.60	2,434,380,441.26
Pledge loans	115,123,625.00	–
Credit loans	550,744,250.00	350,568,684.02
Guaranteed loans	308,199,835.00	302,428,750.00
Pledge and guaranteed loans	–	300,516,666.67
	<hr/>	<hr/>
Total	3,542,520,312.60	3,387,894,541.95
	<hr/> <hr/>	<hr/> <hr/>

16. ACCOUNTS PAYABLE

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Amounts payable for advertisements and purchase of goods	339,711,848.53	531,122,995.77
Amounts payable for construction	875,785,144.26	945,247,859.30
	<hr/>	<hr/>
Total	1,215,496,992.79	1,476,370,855.07
	<hr/> <hr/>	<hr/> <hr/>

As at 30 June 2020, the Group had no significant accounts payable aged over one year.

17. OTHER PAYABLES

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Dividends payable	898,150,000.00	48,000,000.00
Other payables	<u>8,095,110,126.36</u>	<u>7,751,973,358.09</u>
Total	<u><u>8,993,260,126.36</u></u>	<u><u>7,799,973,358.09</u></u>

Other payables categorized by nature are presented as below:

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Proceeds collected on behalf of the tenants	1,799,032,434.15	703,358,452.32
Deposits from tenants	2,210,879,182.36	2,226,343,504.62
Amounts due to partners	2,131,910,225.73	1,907,521,251.46
Accrued expenses	270,559,227.07	330,712,588.52
Rental deposits from tenants	661,338,177.62	681,454,337.68
Amounts payable to construction contractors	667,024,496.00	902,975,131.35
Amounts payable to equity transfer	66,999,999.94	756,899,618.95
Amounts payable to prepaid cards	22,909,579.34	9,996,855.95
Others	<u>264,456,804.15</u>	<u>232,711,617.24</u>
Total	<u><u>8,095,110,126.36</u></u>	<u><u>7,751,973,358.09</u></u>

18. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Long-term loans due within one year-principal	4,435,732,835.29	3,407,200,952.18
Long-term loans due within one year-interest	64,524,522.50	38,733,650.00
Bonds payable due within one year-principal	5,152,041,820.21	3,157,772,715.57
Bonds payable due within one year-interest	283,252,996.24	171,858,690.41
Lease liabilities due within one year	550,748,431.09	548,397,168.84
Commercial mortgage backed securities due within one year-principal	2,429,886,499.25	2,426,270,000.00
Commercial mortgage backed securities due within one year-interest	116,769,329.11	54,507,456.43
Long-term payables due within one year	102,334,476.00	—
Total	<u>13,135,290,909.69</u>	<u>9,804,740,633.43</u>

19. LONG-TERM LOANS

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Mortgage loans	9,203,093,149.75	7,219,210,000.03
Pledge loans	—	602,350,000.00
Mortgage and guaranteed loans	3,362,800,470.22	2,777,970,285.81
Mortgage and pledge loans	5,767,880,047.72	5,176,096,029.92
Mortgage and pledge and guaranteed loans	532,000,000.00	144,000,000.00
Credit loans	100,000,000.00	—
Total	<u>18,965,773,667.69</u>	<u>15,919,626,315.76</u>

20. SHARE CAPITAL

Share capital	Changes during the period				Closing Amount
	Opening amount	Issue of new shares	Others	Sub-total	
1 January to 30 June 2020 (Unaudited):					
I. Restricted shares					
1. State-owned shares	-	-	-	-	-
2. Shares held by state-owned entities	-	-	-	-	-
3. Shares held by other domestic entities	2,480,315,772	-	-	-	2,480,315,772
Include: Shares held by domestic non-state-owned entities	2,480,315,772	-	-	-	2,480,315,772
Shares held by domestic natural persons	-	-	-	-	-
Total restricted shares	2,480,315,772	-	-	-	2,480,315,772
II. Unrestricted shares					
1. RMB-denominated ordinary shares	395,788,197	-	-	-	395,788,197
2. Overseas listed foreign shares	673,896,031	-	-	-	673,896,031
Total unrestricted shares	1,069,684,228	-	-	-	1,069,684,228
Total number of shares	3,550,000,000	-	-	-	3,550,000,000

MANAGEMENT DISCUSSION AND ANALYSIS

1. Overview

During the Reporting Period, the Group continued to focus on the strategic positioning of growing into an “omni-channel platform service provider for the pan-home improvement and furnishings industry”, actively seized market development opportunities, and formulated the strategy of “enhancing competitiveness of core business through new retail revolution and developing second growth curve through home improvement business”, focusing on the development of new business formats such as Tongcheng Retail, home decoration, Shejiyun, etc., aiming to enhance its delivery capabilities of home decoration design and its capabilities of online and offline traffic conversion, thereby providing customers with more personalized and high-quality home decoration services and a shopping experience closer to the needs of end consumers by using its original home furnishing shopping malls channel capabilities, strong supply chain integration capabilities and home furnishing industry operating experience accumulated over the years and leveraging its own home decoration business management platform and IMP intelligent marketing platform and Tmall “Home Decoration Tongcheng Station”.

Meanwhile, the Company continued to implement the two-pronged business model of Portfolio Shopping Malls and Managed Shopping Malls, with focuses on continuing development of our asset-light business model, and strategically expanded our shopping mall network nationwide in order to further enhance our market share, thereby continuously strengthening our market leadership in China’s home improvement and furnishings industry. As at the end of the Reporting Period, the Group operated 87 Portfolio Shopping Malls, 247 Managed Shopping Malls, and operated 12 home furnishing shopping malls through strategic cooperation⁽¹⁾. In addition, the Group opened 50 franchised home improvement material projects⁽²⁾ by way of franchising, which included a total of 430 home improvement material stores/industry streets⁽³⁾.

The Portfolio Shopping Malls and Managed Shopping Malls that we operated cover 209 cities in 29 provinces, municipalities and autonomous regions, with a total shopping mall operating area of 20,953,810 sq.m. During the Reporting Period, in order to integrate the resources of the Company more effectively, the Group has established a large operation center, which has combined the original investment promotion management center, planning management center and operation management promotion center to promote system integration and synergy. At the same time, the Group has achieved results in the aspects of smart shopping malls, business financial integration, information security and intelligent big data analysis through promoting the comprehensive digital and intelligent works in the information construction. In the future, we will continue to pursue our development goal of becoming the most advanced and professional “omni-channel platform service provider for the pan-home improvement and furnishings industry” in China.

During the Reporting Period, the Group achieved a revenue of RMB6,024.4 million, representing a decrease of 22.3% from RMB7,757.1 million for the same period in 2019. Gross profit margin decreased by 0.1 percentage points to 66.9% from 67.0% for the same period of last year. During the Reporting Period, net profit attributable to owners of the Company after deducting non-recurring profit or loss amounted to RMB700.8 million, representing a decrease of 59.1% from RMB1,713.0 million for the same period in 2019. As of the end of the Reporting Period, the Group’s cash and bank balances amounted to RMB9,507.9 million, representing an increase of 31.5% from RMB7,229.2 million as at the end of 2019. As of the end of the Reporting Period, the net gearing ratio⁽⁴⁾ of the Group increased from 69.4% as at the end of 2019 to 78.1%.

Notes:

- (1) The Company held 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 30 June 2020, 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 being sold.
- (4) Net gearing ratio is a ratio calculated by dividing the amount of interest-bearing liabilities (including short-term loans, long-term loans, bonds payable, financial lease payables and commercial mortgage backed securities payable) less cash and bank balances by the total equity at the end of each period.

2. Revenue

During the Reporting Period, the Group's revenue amounted to RMB6,024.4 million, representing a decrease of 22.3% from RMB7,757.1 million for the same period in 2019. The decrease in revenue was primarily due to the impact of the epidemic and the implementation of the rent-free policy. During the Reporting Period, the rental and related income of our Owned/Leased Portfolio Shopping Malls decreased by 23.4%, which was mainly due to the decline in the occupancy rate of the Portfolio Shopping Malls of the Group in areas affected by the epidemic and the implementation of the rent-free policy by the Group. During the Reporting Period, revenue from our Managed Shopping Malls has decreased by 15.4%, mainly due to the delay in performance of contracts affected by the epidemic, which resulted in a decrease in the number of projects for the revenue recognition of consulting services as compared with the same period in 2019, and the Group has waived the management fees of some Managed Shopping Malls. Due to the impact of the epidemic, revenue from construction and design, revenue from home decoration related services and sales of merchandise, and other revenue during the Reporting Period have declined by different degrees compared with the same period in 2019.

The following table sets forth our revenue by segments:

	Six months ended 30 June			
	2020 (Unaudited)		2019 (Unaudited)	
	Amount	%	Amount	%
Owned/Leased Portfolio Shopping Malls	3,027,912,524.15	50.3	3,952,122,177.57	50.9
Managed Shopping Malls	1,828,941,707.49	30.4	2,162,449,497.83	27.9
Construction and design	640,753,919.60	10.6	937,841,156.07	12.1
Home decoration related services and sales of merchandise	182,300,235.25	3.0	206,083,076.14	2.7
Others	344,532,479.52	5.7	498,618,579.85	6.4
Total	<u>6,024,440,866.01</u>	<u>100.0</u>	<u>7,757,114,487.46</u>	<u>100.0</u>

3. Gross profit and gross profit margin

During the Reporting Period, the Group's gross profit was RMB4,029.8 million, representing a decrease of 22.4% from RMB5,194.7 million for the same period in 2019; the comprehensive gross profit margin was 66.9%, representing a decrease of 0.1 percentage points from 67.0% for the same period in 2019.

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

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Owned/Leased Portfolio Shopping Malls	76.2%	79.5%
Managed Shopping Malls	67.9%	65.5%
Construction and design	24.0%	31.5%
Home decoration related services and sales of merchandise	28.2%	30.8%
Others	80.2%	55.3%
Total	<u>66.9%</u>	<u>67.0%</u>

4. Distribution and selling expenses and general and administrative expenses

During the Reporting Period, the Group's distribution and selling expenses amounted to RMB631.2 million (accounting for 10.5% of the revenue), representing a decrease of 32.2% from RMB931.6 million (accounting for 12.0% of the revenue) for the same period in 2019, primarily due to the decrease in advertising and promotional expenses as a result of the Group's prompt implementation of targeted measures and strict control of the expenses of brand promotion and other activities in response to the epidemic.

During the Reporting Period, the Group's general and administrative expenses amounted to RMB744.5 million (accounting for 12.4% of the revenue), which remained relatively stable as compared to RMB702.6 million (accounting for 9.1% of the revenue) for the same period in 2019, primarily due to the Group's effective responses to the epidemic and reduced non-essential expenses, leading to an obvious decrease in office and administrative expenses, and at the same time, the amount of depreciation and amortization has increased due to the commission of office buildings in Hongqiao, Shanghai during the Reporting Period.

5. Financial expenses

During the Reporting Period, the Group's financial expenses amounted to RMB1,348.4 million, representing an increase of 36.9% from RMB984.7 million for the same period in 2019; among which, the total interest expense amounted to RMB1,330.2 million, representing an increase of 21.4% from RMB1,095.3 million for the same period in 2019, which was primarily due to the increase in the amount of interest-bearing liabilities as the Group made more new bank withdrawals than it did in the same period in 2019 in order to achieve sufficient liquidity and obtain enough capital under the sudden outbreak of the epidemic.

6. Investment income

During the Reporting Period, the Group's investment income was RMB142.6 million, representing a decrease of 58.0% compared to RMB339.7 million in the same period in 2019, mainly due to the relatively higher income from disposals of financial assets held for trading and associated companies in the same period in 2019 and there were less disposals of such kinds during the Reporting Period.

7. Income tax expenses

During the Reporting Period, the income tax expenses of the Group amounted to RMB402.5 million, representing a decrease of 43.6% from RMB713.3 million for the same period in 2019, which was mainly due to the decrease in the profit before tax during the Reporting Period as a result of the epidemic.

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

During the Reporting Period, net profit attributable to owners of the Company amounted to RMB1,101.3 million, representing a decrease of 59.3% from RMB2,705.5 million for the same period in 2019; the net profit attributable to owners of the Company after deducting non-recurring profit or loss amounted to RMB700.8 million, representing a decrease of 59.1% from RMB1,713.0 million for the same period in 2019. The above decreases were primarily due to the impact of the epidemic and the implementation of rent-free policy by the Group.

	Six months ended 30 June		
	2020	2019	
	(Unaudited)	(Unaudited)	Increase/decrease
Net profit attributable to owners of the Company	1,101,316,487.91	2,705,544,357.44	-59.3%
Net profit margin attributable to owners of the Company	18.3%	34.9%	-16.6 pts
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	700,783,934.70	1,713,037,155.58	-59.1%
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	11.6%	22.1%	-10.5 pts

During the Reporting Period, the Group's earnings per share was RMB0.28, as compared to RMB0.69 for the same period in 2019.

9. Accounts receivable

As at the end of the Reporting Period, the book value of accounts receivable of the Group amounted to RMB1,763.2 million (including the balance of accounts receivable of RMB2,898.1 million and the bad debt allowance of RMB1,134.9 million), representing a decrease of RMB42.5 million from RMB1,805.7 million as at the end of 2019, primarily due to the decrease in accounts receivable arising from the decline of the revenue from Managed Shopping Malls of the Group during the Reporting Period.

10. 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 RMB90,073.0 million, representing an increase of 5.8% from RMB85,107.0 million as at the end of 2019. During the Reporting Period, the Group's investment properties realized gain from fair value changes of RMB295.9 million. The above growth trend was mainly due to advancement in construction progress of Owned Portfolio Shopping Malls under development, as well as the increase in the fair value of the properties as a result of the continuous steady improvement in rental and related income level for certain opened shopping malls during the Reporting Period.

11. Capital expenditure

During the Reporting Period, the Group's capital expenditure amounted to RMB1,348.5 million (the same period in 2019: RMB1,561.3 million), primarily including the expenditures incurred for the acquisition of land and construction expenditures related to investment properties.

12. Cash and bank balances and cash flow

As at the end of the Reporting Period, the Group's cash and bank balances amounted to RMB9,507.9 million (of which, the balance of cash and cash equivalents amounted to RMB8,806.2 million), representing an increase of RMB2,278.7 million from RMB7,229.2 million (of which, the balance of cash and cash equivalents amounted to RMB6,776.1 million) as at the end of 2019.

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Net cash flow from operating activities	1,065,894,804.21	1,179,077,717.75
Net cash flow from investment activities	(3,734,250,078.50)	(2,053,009,268.19)
Net cash flow from financing activities	4,711,941,869.39	1,049,691,408.56
Impact of exchange rate changes on cash and cash equivalents	(13,494,649.41)	93,087.83
Net increase in cash and cash equivalents	<u>2,030,091,945.69</u>	<u>175,852,945.95</u>

During the Reporting Period, the Group's net cash inflow from operating activities amounted to RMB1,065.9 million, representing a decrease of RMB113.2 million from RMB1,179.1 million for the same period in 2019, mainly due to the relief and delayed collection of rental and management fees under the impact of the epidemic.

During the Reporting Period, the Group's net cash outflow from investment activities amounted to RMB3,734.3 million, representing an increase of RMB1,681.3 million from RMB2,053.0 million for the same period in 2019. It was primarily due to the increased cash payments for various investment acquisitions during the Reporting Period.

During the Reporting Period, the Group's net cash inflow from financing activities amounted to RMB4,711.9 million, representing an increase of RMB3,662.2 million from RMB1,049.7 million for the same period in 2019, mainly due to the increase of new borrowings during the Reporting Period as compared with the same period in 2019.

13. Major debt ratios

Among the total debts of the Group, the portion repayable within one year or on demand amounted to RMB16,957.4 million, the portion repayable over one year but less than two years amounted to RMB11,033.6 million, the portion repayable over two years but less than five years amounted to RMB10,883.2 million and the portion repayable over five years amounted to RMB9,464.5 million. The Group will promptly repay the above borrowings at the time of maturity.

The following table sets out our major debt ratios:

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Asset-liability ratio ⁽¹⁾	61.7%	59.9%
Net gearing ratio	78.1%	69.4%

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

14. Pledged assets

As at the end of the Reporting Period, the Group had pledged investment properties and fixed assets with book value of RMB79,192.6 million and restricted cash and bank balances with book balance of RMB120.0 million in order to obtain loans, and the balance of the obtained loans was RMB34,114.0 million. The Group's restricted cash balance of RMB258.0 million has been deposited in the Central Bank as deposit reserves or used on hedging business, etc.

15. Contingent liabilities

As at the end of the Reporting Period, the Group had no contingent liability.

16. Capital commitments

As at the end of the Reporting Period, the amount of capital expenditure in respect of the acquisition and development of investment properties which the Group has contracted for but not recognized in the financial statements was RMB2,251.2 million. In addition, the Group has entered into agreements with its partners, pursuant to which the Group's commitment to contribute funds for development of investment properties jointly with the partners amounted to RMB626.3 million.

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 the shareholders. To ensure the capital of the Group is effectively utilized, the Group will continue to regularly monitor liquidity needs, comply with financing agreements and maintain sufficient cash reserves and appropriate credit limits so as to meet liquidity needs.

18. Material acquisitions and disposals

During the Reporting Period, the Group had no material acquisitions or disposals of subsidiaries or joint ventures/associates.

19. Foreign exchange risk

As at the end of the Reporting Period, financial assets and liabilities denominated in currencies other than the functional currency of the Group mainly included the US\$300 million USD-denominated notes issued on 21 September 2017, the new Euro short-term borrowings during the Reporting Period and certain deposits denominated in foreign currencies. To manage these additional risk exposures, the management of the Group has actively adopted relevant risk control measures to prepare for risk hedging, including selection of appropriate forward contracts and currency swaps and other foreign debt hedging instruments, enhancing internal control awareness and strategies, strengthening discussion with international banks, and closely monitored on trends of foreign exchange market. We believe that foreign exchange risks related to such assets and liabilities denominated in other currencies will not have material impacts on operating results of the Group.

20. Human resources

As at the end of the Reporting Period, the Group employed 25,361 employees (the same period in 2019: 25,463 employees) in total. The Group enters into labor contracts with employees according to the Labor Law of the PRC and the relevant provisions of the employee's locality. The Group determines the employee's basic wage and bonus level according to the employee's performance, work experience and the market wage standard, and pays social insurance and housing provident fund for the employees. During the Reporting Period, the Group's salary expenditures amounted to RMB1,425.7 million (the same period in 2019: RMB1,689.1 million). Meanwhile, the Group also continued to invest resources in providing various education and training opportunities for the staff, aiming to standardize the management work and improve the operation performance, and continuously improve the knowledge and technology level as well as business practice competence of the employees.

In order to give full play to the long-term mechanism of the Company's talent incentive measures, the Company has implemented the 2020 A Share Option Incentive Scheme during the Reporting Period, granting 27.765 million A share options to 982 participants with the exercise price of RMB11.02 per share on 13 May 2020 as the date of first grant.

In addition, the first phase of the Employee Stock Ownership Plan and the second phase of the Employee Stock Ownership Plan that have been implemented by the Company in 2019 are still in existence. At the end of the Reporting Period, the two phases of the Employee Stock Ownership Plan held a total of 33,629,905 A shares of the Company.

21. Business development and deployment: steady development of shopping malls and strategic deployment with a nationwide coverage

As at the end of the Reporting Period, the Company operated 87 Portfolio Shopping Malls, 247 Managed Shopping Malls and 12 home furnishing shopping malls through strategic cooperation. In addition, the Group authorized 50 franchised home improvement material projects to open for business by way of franchising, which includes a total of 430 home improvement material stores/industry streets. Portfolio Shopping Malls and Managed Shopping Malls of the Company cover 209 cities in 29 provinces, municipalities and autonomous regions in China, with a total operating area of 20,953,810 sq.m. Through applying the two-pronged development model of Portfolio Shopping Malls and Managed Shopping Malls, the Company has acquired the properties in prime locations in Tier I Cities and Tier II Cities, accumulated extensive experience in operating shopping malls, constantly strengthened brand value, and set a relatively high entry barrier for other companies.

During the Reporting Period, the Company 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 at the end of the Reporting Period, the Company operated 87 Portfolio Shopping Malls, covering a total operating area of 7,698,002 sq.m., with an average occupancy rate of 90.2%. 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 2,088,746 sq.m., representing 27.1% of the total operating area of the Portfolio Shopping Malls.

During the Reporting Period, the Company opened one new Portfolio Shopping Mall and closed one Portfolio Shopping Mall. As at the end of the Reporting Period, the Company had 33 pipeline Portfolio Shopping Malls. The Company 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 furnishings industry and extensive experience in shopping mall development, strength in tenant sourcing and operational management, the Company continued to rapidly develop Managed Shopping Malls in Tier III Cities and other cities without incurring substantial capital expenditures. The Company 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, the Company operated 247 Managed Shopping Malls covering a total operating area of 13,255,808 sq.m., with an average occupancy rate of 90.1%. Among these Managed Shopping Malls, 132 Managed Shopping Malls, representing 53.4% 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 7,605,554 sq.m., representing 57.4% of the total operating area of Managed Shopping Malls. During the Reporting Period, the Company opened one new Managed Shopping Malls and closed four Managed Shopping Malls.

As at the end of the Reporting Period, among the pipeline Managed Shopping Malls, the Company has obtained land use rights certificate/land parcels for 355 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.

22. Expansionary Business: Enhancing the competitiveness of the main business by new retail reform and creating the second growth curve of the home decoration business

Ever since 2020, the COVID-19 pandemic has brought plenty of new challenges and opportunities to the home furnishing industry. How to cope with the changing external environment and how to achieve new growth with the new opportunities have become the urgent problems to be addressed by every company in the home furnishing industry. Adhering to the long-term vision of “building a cozy and harmonious home and improving the taste in shopping and home life”, conforming to the new market changes and combining with its own strengths, the Company has formulated the strategic plan of “enhancing competitiveness of core business through new retail revolution and developing second growth curve through home improvement business”, and focused on the development of new business models such as Tongcheng Retail, home decoration and Shejiyun.

22.1 Home Decoration Business

The home decoration business has been committed to solving customers’ problems and is dedicated to creating a national home decoration brand integrating design, materials selection, construction, intelligence, environmental protection and service, and providing one-stop and individualized high-quality services characterized by “choosing decoration and buying furniture all in Red Star Macalline”.

22.2 Shejiyun

The Company developed “Shejiyun” software independently, which has truly realized “what you see is what you get”. As at the end of the Reporting Period, Shejiyun software has been popularized throughout China. The software has embraced approximately 800,000 floor plans of the residential quarters from all over the country and 200,000 real product models, which has been used by over 92,000 designers. Meanwhile, although we have only been using Shejiyun software to open up a complete service chain from design to goods purchase on a trial basis in Shanghai, within the three-month promotion period, the platform has already established partnership with more than 100 famous medium- and large-sized decoration enterprises in Shanghai, with the sales amount of goods driven by the platform in excess of RMB1.5 million.

22.3 Tongcheng Retail

As at the end of the reporting period, the Company’s Tongcheng Station business, which is integrated with Alibaba (China) Technology Co., Ltd., has been launched in 22 cities, covering 56 shopping malls and more than 9,800 brands. It will be further deepened, and by attracting more customer traffic through “Tongcheng Station + hypermarket digitization”, it will comprehensively promote the new retail transformation of the home decoration and furniture industry.

23. Operation and management of shopping malls

During the Reporting Period, in order to integrate the Company's resources from all business lines in a more effective manner and accelerate the improvement of operations of the marketing and development centers and shopping malls in various provinces, the Company has merged the original tenant sourcing management center, the planning and management center and the operation management and promotion center into a large group operation center which aims to promote system integration and synergy and enhance efficiency.

23.1 Tenant Sourcing Management

The Company continued to optimize the layout of brands and categories to promote experience consumption; constantly improved the standards of our refined rental management and leverage the IMP (Intelligent Marketing Platform) to increase the sales volume of tenants, thereby achieving sustainable growth of rental income; and constantly strengthened factories of brands and service systems of dealers to establish a business middle-office for tenant sourcing, so as to improve the ability to serve brands and dealers.

23.2 Operational Management

During the Reporting Period, the Company comprehensively carried out an in-depth operation and management improvement project with focus on "reputation" through upgrading service commitments and smart customer services, thus improving the ability to serve customers. Meantime, we continued to operate the product quality control system and merchant credit system to ensure customers' satisfaction with household-related consumption.

23.3 Marketing 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, crosssector marketing, etc., we shaped a high-end brand image of a global household trendsetter. The company 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, and from relying on natural traffic from shopping malls to generating traffic by merchants.

24. Property Management

The Company continued to strictly manage and control the safety risks in our shopping malls with prevention control at the forefront, complemented by emergency plans through our staff and technology. We constantly improved the environment of our shopping malls to enhance the shopping experience of our merchants and customers.

25. Continuously upgrading the information infrastructure to support the development of online and offline business integration

During the Reporting Period, the Information Technology Center adhered to the values of justice and righteousness and the work philosophy of fairness and justice, 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.

26. Highly efficient human resources management policies

During the Reporting Period, with the human resources policies of the Company oriented by Red Star Macalline's "Thirteen-Word Values" and closely in line with the main work, namely "Focusing on practical operation and enhancing notability and products", we further 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, 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 promotion of corporate values, management of overall performance, talent development, business support, human resources operation and employee relations.

27. The establishment of home furnishing shopping malls brand portfolio

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

28. Outlook and prospects

The Company always shoulder the responsibility of "building a cozy and harmonious home and improving the taste in shopping and home life". In the second half of 2020 and going forward, the Company will continue to provide customers with better and more professional services. We will consolidate our leading status in the market as well as the professional status of "Red Star Macalline" as an expert of home life with customers, to pursue our enterprise development goal of growing into China's most advanced and professional "omni-channel platform service provider for home decoration and furnishing industry".

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 strengthen the brand image of "omni-channel service provider for the pan-home improvement and furnishing industry" by deeply promoting the business transformation and making a breakthrough in full-cycle services of home furnishing consumption;
3. We will build comprehensive service system and strive to become the new retail benchmark in the home decoration and furnishing industry;
4. We will enhance the long-term competitiveness of the Company through digital strategies;
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, standardize our operation and implement social responsibilities.

CORPORATE GOVERNANCE AND OTHER INFORMATION

The Company is a sino-foreign joint stock company incorporated in the PRC with limited liability under the Company Law of the PRC on 6 January 2011. The Company's H shares were listed on the Main Board of the Hong Kong Stock Exchange on 26 June 2015. The Company's A shares were listed on the Shanghai Stock Exchange on 17 January 2018.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2020, other than deviation from Code Provision A.2.1 of the Corporate Governance Code, the Company has complied with the provisions of the Corporate Governance Code (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**”), which set out principles of good corporate governance in relation to, among other matters, the directors, the chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration, and communications with shareholders. The Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between the Group and the controlling shareholders (as defined under the Listing Rules) and/or directors to protect the interests of the minority shareholders.

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

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

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

COMPLIANCE WITH MODEL CODE

The Company has adopted a code of conduct regarding securities transactions by Directors and supervisors of the Company (“**Supervisors**”) on terms as required under the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 to the Listing Rules. The Company has conducted specific enquiries to the Directors and Supervisors, and all Directors and Supervisors have confirmed that they had complied with all the provisions and standards set out in the Model Code during the six months ended 30 June 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group did not purchase, sell or redeem any listed securities of the Company during the six months ended 30 June 2020.

INTERIM DIVIDENDS

The Board does not recommend payment of dividend for the six months ended 30 June 2020.

USE OF PROCEEDS FROM GLOBAL OFFERING

The net proceeds from the Company’s global offering (“**Global Offering**”) amounted to RMB5,573.3 million, used for the development of nine Portfolio Shopping Malls, investment or acquisition of other home improvement and furnishings retailers and other market participants, refinancing of our existing indebtedness, development of our O2O business and information technology systems, working capital and other general corporate purposes. The Board resolved on 31 July 2015 and 16 January 2018 to change the intended use of part of the net proceeds from the Global Offering. For details, please refer to the announcements of the Company dated 31 July 2015 and 16 January 2018. (collectively referred to as “**Announcements on Change in Use of Proceeds**” below). All net proceeds have been utilized in a manner consistent with the disclosure set out in the section headed “Future Plans and Uses of Proceeds” in the Prospectus and Announcements on Change in Use of Proceeds of the Company. As at the end of the Reporting Period, the Company had cumulatively used 99.7% of the net proceeds in the abovementioned fund-raising investment projects.

Analysis of use/intended use and utilized net proceeds from the Global Offering as at 30 June 2020 is as follows:

Use/Intended use	Planned use (RMB million)	Actual use of proceeds as at 30 June 2020 (RMB million)	Unutilized net proceeds as at 30 June 2020 (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	2,429.1	6.9

A SHARE OFFERING 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 87.8% of the net proceeds for fundraising investment projects and replenishing working capital as required.

Analysis of the use of proceeds from issuance of A shares as at 30 June 2020 is as follows:

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

Proposed investment projects		Total investment planned (RMB'000)	Investment amount at 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	669,084	666,733	Fully invested
	Changsha Jinxia Shopping Mall Project	190,000	137,967	Expected to be invested by December 2020
	Xining Expo Shopping Mall Project	110,000	107,786	Fully invested
	Sub-total	<u>1,750,000</u>	<u>1,693,402⁽¹⁾</u>	
New intelligent home furnishing shopping mall		400,000	84,085	
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>3,050,008</u>	<u>2,677,495</u>	

Note:

- (1) The Company would determine the actual usage of the remaining funds raised subject to the subsequent capital arrangements.

EVENTS AFTER THE REPORTING PERIOD

1、Continuing connected transactions – Service Framework Agreement in respect of Decoration and Renovation Engineering and Construction and Procurement Framework Agreement in respect of Decoration and Renovation Materials and Furnishings

On 6 August 2020, the Company entered into the Service Framework Agreement in respect of Decoration and Renovation Engineering and Construction with RSM Holding. The Group will provide decoration and renovation engineering and construction services to RSM Holding and its subsidiaries from 6 August 2020 to 31 March 2021. The fee cap of the decoration and renovation engineering and construction services during the term of service is RMB570,000,000.

In addition, Betterhome Construction Technology Co., Ltd. (“**Betterhome Construction**”), a subsidiary of the Company, entered into the Procurement Framework Agreement in respect of Decoration and Renovation Materials and Furnishings with RSM Holding. Betterhome Construction and its subsidiaries will provide products to RSM Holding and its subsidiaries from 6 August 2020 to 31 March 2021. The procurement amount cap of the products during the term of service is RMB210,000,000.

For the details about abovementioned continuing connected transactions, please refer to the announcement of the Company dated 6 August 2020 as disclosed on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

2、Implementation of the Profit Distribution Plan for 2019

According to the profit distribution plan for 2019, the Company distributed cash dividend of RMB2.53 (tax inclusive) per 10 shares to all of its shareholders, based on the Company’s total share capital of 3,550,000,000 shares as at the 31 December 2019, and at the same time, issued one share per 10 shares by way of conversion of capital reserve to all of its shareholders. The above profit distribution plan has been implemented and completed on 18 August 2020, and the total share capital of the Company has increased from 3,550,000,000 shares to 3,905,000,000 shares.

REVIEW OF INTERIM RESULTS

The Company's audit committee has reviewed the interim results announcement for the six months ended 30 June 2020 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2020.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.chinaredstar.com). The Company's 2020 interim report containing the information as required by the Listing Rules will be dispatched to shareholders and published on the website of the Hong Kong Stock Exchange and on the website of the Company in due course.

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

Shanghai, the PRC
27 August 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.