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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 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 audited consolidated annual results of the Company and its subsidiaries (the “**Group**” or “**we**”) for the year ended 31 December 2020 (the “**Reporting Period**”), together with comparative figures for the same period of 2019. Such financial results in this announcement had been agreed by Ernst & Young Hua Ming (LLP), the external auditor of the Company.

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2020	2019
	(RMB'000, except otherwise stated)	
	(Audited)	(Audited)
Revenue	14,236,460	16,469,238
Gross profit	8,756,290	10,733,627
Gross profit margin	61.5%	65.2%
Net profit	2,064,077	4,686,242
Net profit attributable to owners of the Company	1,730,582	4,479,682
Net profit margin attributable to owners of the Company	12.2%	27.2%
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	1,162,324	2,613,622
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	8.2%	15.9%
Earnings per share	RMB0.44	RMB1.15

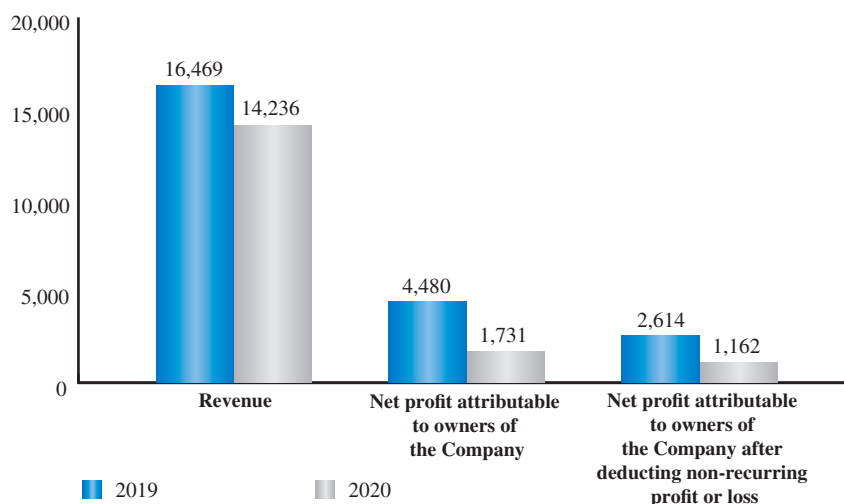
Notes: (1) In the event of any inconsistency between the Chinese version and the English version of this Announcement, the Chinese version shall prevail.

(2) The Company issued one share per 10 shares by way of conversion of capital reserve to all of its shareholders in 2020. According to the relevant requirements, the Company's earnings per share during the same period of last year was recalculated and presented based on the number of shares after the conversion.

KEY FINANCIAL PERFORMANCE INDICATORS

Key Financial Performance Indicators

RMB million



OPERATIONAL HIGHLIGHTS

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

	As at 31 December 2020	As at 31 December 2019
Number of shopping malls	365	337
Operating area of shopping malls (sq.m.)	22,055,668	20,986,950
Number of cities covered	223	212
Number of Portfolio Shopping Malls	92	87
Operating area of Portfolio Shopping Malls (sq.m.)	8,034,277	7,736,844
Average occupancy rate of Portfolio Shopping Malls	92.1%	93.4%
Number of Managed Shopping Malls	273	250
Operating area of Managed Shopping Malls (sq.m.)	14,021,390	13,250,106
Average occupancy rate of Managed Shopping Malls	90.7%	93.5%

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 2020

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

		For the year ended 31 December	
		2020	2019
		(Audited)	(Audited)
	Note		
I. Revenue	5	14,236,460,098.98	16,469,237,788.92
Less: Cost of sales		5,480,170,024.86	5,735,611,011.50
Taxes and surcharges		377,414,782.27	429,040,601.76
Sale expenses	6	1,693,772,759.64	2,290,930,826.31
Management expenses	7	1,680,856,568.05	1,751,866,715.59
Research and development expenses		36,035,643.66	38,206,412.50
Financial expenses	8	2,464,418,667.68	2,260,079,805.40
Including: Interest expenses		2,548,719,302.83	2,411,290,093.44
Interest income		194,886,018.04	195,395,541.15
Add: Other income		184,249,900.19	104,900,495.94
Investment income		222,015,867.89	786,438,650.13
Including: Investment income from			
associates and joint ventures		44,959,080.07	137,729,826.00
Gain on fair value changes		494,132,525.69	1,632,073,263.93
Impairment loss of credit (losses are			
presented with parentheses)		(126,335,204.00)	(252,135,593.72)
Impairment losses of assets (losses are			
presented with parentheses)		(333,165,778.40)	(45,726,468.34)
Gain from disposal of assets (losses are			
presented with parentheses)		1,368,758.55	8,101,725.36
II. Operating profit		2,946,057,722.74	6,197,154,489.16
Add: Non-operating income		57,938,296.96	46,074,966.28
Less: Non-operating expenses	9	189,847,568.12	40,151,435.89
III. Total profit		2,814,148,451.58	6,203,078,019.55
Less: income tax expenses	10	750,071,048.61	1,516,836,338.46
IV. Net profit		2,064,077,402.97	4,686,241,681.09
(I) According to the classification of			
continuity of operation			
1. Net profit from continuing operations		2,064,077,402.97	4,686,241,681.09
2. Net profit from discontinued operations		–	–
(II) According to the classification of ownership			
1. Non-controlling interests		333,495,611.41	206,560,028.48
2. Net profit attributable to owners of the Company		1,730,581,791.56	4,479,681,652.61

		For the year ended 31 December	
		2020	2019
		(Audited)	(Audited)
	Note		
V. Net other comprehensive income/(loss) (after tax)		1,261,871,486.11	1,004,835,312.35
Net other comprehensive income/(loss) (after tax) attributable to owners of the Company		1,253,005,655.52	940,241,172.07
(I) Other comprehensive income that will not be reclassified to profit or loss			
1. Changes in fair value of other equity instrument investments		1,081,989,482.82	964,367,163.82
(II) Other comprehensive income/(loss) that will be reclassified to profit or loss			
1. Effective part of fair value hedging		92,080,050.37	(24,125,991.75)
2. Transfer from owner-occupied properties to investment properties measured at fair value		77,663,553.12	–
3. Others		1,272,569.21	–
Net other comprehensive income/(loss) (after tax) attributable to non-controlling interests		8,865,830.59	64,594,140.28
VI. Total comprehensive income		3,325,948,889.08	5,691,076,993.44
Total comprehensive income attributable to owners of the Company		2,983,587,447.08	5,419,922,824.68
Total comprehensive income attributable to non-controlling interests		342,361,442.00	271,154,168.76
VII. Earnings per share			
(1) Basic earnings per share	11	0.44	1.15
(2) Diluted earnings per share		N/A	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2020

		As at 31 December 2020 (Audited)	As at 31 December 2019 (Audited)
	Note		
Current assets			
Cash and bank balances		6,511,092,198.09	7,229,239,369.35
Financial assets held for trading		247,611,072.73	233,385,470.05
Derivative financial assets		2,160,732.11	31,751,504.22
Accounts receivable	13	1,934,826,113.43	1,805,663,937.18
Receivables financing		5,872,800.00	41,040,000.00
Prepayments		323,626,340.62	340,717,638.07
Other receivables	14	1,524,654,743.28	710,012,095.26
Inventories		328,295,668.02	330,978,528.99
Contract assets		1,375,364,101.48	1,039,368,953.49
Non-current assets due within one year		248,704,377.99	555,066,245.64
Other current assets		2,634,575,271.37	1,637,221,709.44
Total current assets		15,136,783,419.12	13,954,445,451.69
Non-current assets			
Long-term receivables		532,498,896.89	800,494,682.51
Long-term equity investments		3,703,895,492.49	3,654,279,035.20
Other equity instrument investments		4,206,678,046.54	3,999,157,825.44
Other non-current financial assets		396,924,540.60	368,774,540.60
Investment properties	15	93,150,000,000.00	85,107,000,000.00
Fixed assets		2,737,965,196.94	897,496,154.61
Construction in progress		80,629,155.83	2,329,221,258.37
Right-of-use assets		3,852,597,418.85	3,087,184,216.82
Intangible assets		343,768,582.72	449,262,332.89
Development expenditure		30,837,675.61	34,245,602.45
Goodwill		97,597,047.85	97,597,047.85
Long-term prepaid expenses		454,054,803.22	489,797,913.40
Deferred tax assets		1,541,067,156.39	1,174,578,160.89
Other non-current assets	16	5,282,621,202.44	5,850,884,335.94
Total non-current assets		116,411,135,216.37	108,339,973,106.97
Total assets		131,547,918,635.49	122,294,418,558.66

		As at 31 December 2020 (Audited)	As at 31 December 2019 (Audited)
	Note		
Current liabilities			
Short-term loans	17	3,448,371,909.45	3,387,894,541.95
Accounts payable	18	2,085,329,223.24	1,476,370,855.07
Advance from customers		960,787,153.16	1,159,059,013.47
Contract liabilities		2,287,548,874.89	2,221,835,457.96
Payroll payable		563,788,624.24	830,362,911.55
Taxes payable		671,338,917.19	739,393,813.25
Other payables	19	8,987,388,645.49	7,799,973,358.09
Non-current liabilities due within one year	20	11,897,443,643.72	9,804,740,633.43
Other current liabilities		736,850,395.29	348,314,909.66
Total current liabilities		31,638,847,386.67	27,767,945,494.43
Non-current liabilities			
Long-term loans	21	22,212,429,627.44	15,919,626,315.76
Bonds payable		4,432,634,711.35	6,592,440,970.73
Lease liabilities		4,082,933,276.21	3,321,817,733.91
Long-term payables		712,856,318.61	634,392,235.62
Deferred income		224,943,229.90	225,902,560.47
Deferred tax liabilities		12,517,571,618.93	11,989,277,103.64
Other non-current liabilities		4,627,859,670.75	6,858,165,749.37
Total non-current liabilities		48,811,228,453.19	45,541,622,669.50
Total liabilities		80,450,075,839.86	73,309,568,163.93
Equity			
Share capital	22	3,905,000,000.00	3,550,000,000.00
Capital reserve		3,648,120,125.82	4,239,976,571.04
Other comprehensive income		1,720,585,961.74	1,483,127,041.17
Surplus reserve		2,076,486,432.95	1,954,818,567.23
Retained earnings		36,213,026,423.36	34,486,715,762.57
Total equity attributable to shareholders of the Company		47,563,218,943.87	45,714,637,942.01
Non-controlling interests		3,534,623,851.76	3,270,212,452.72
Total equity		51,097,842,795.63	48,984,850,394.73
Total liabilities and equity		131,547,918,635.49	122,294,418,558.66

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 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 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 of 17 January 2018, the Company completed the public offering of RMB-denominated ordinary shares (A shares) totaling 315,000,000 shares with a nominal value of RMB1.00 per share, and the issue price per share amounted to RMB10.23. Upon completion of the offering, the paid-in capital (share capital) of the Company amounted to RMB3,938,917,038.00, among which the amount of RMB-denominated 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.

As considered and approved at the 2019 Annual General Meeting, A Share Shareholders’ Class Meeting and H Share Shareholders’ Class Meeting, the Company issued 0.1 bonus share per 1 share by way of conversion of capital reserve to all of its shareholders, based on the total share capital of 3,550,000,000 shares prior to the implementation of the profit distribution plan for 2019, which resulted in an increase of 355,000,000 shares in total. After the distribution, the share capital of the Company amounted to RMB3,905 million, representing an increase of RMB355 million, which decreased the capital reserve by RMB355 million. The Company completed the industrial and commercial change registration on 20 January 2021.

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**”).

As of 31 December 2020, the Group’s current liabilities in aggregate exceeded its current assets in aggregate with an amount of RMB16,502.1 million. The management of the Group had assessed its ongoing operation for the 12 months starting from 1 January 2021, 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 2020, 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 of 31 December 2020 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

Accounting for COVID-19-Related Rent Concessions

In accordance with the Rules on Accounting for COVID-19-Related Rent Concessions, the simplified method can be adopted for the COVID-19-related rent concessions. As the lessee, the Group adopted the simplified method specified in the Rules for relevant rent concessions incurred from 1 January 2020. Relevant rent concessions included in the profit before tax of the year were RMB25.5 million.

Change in presentation of financial statements

According to the Questions and Answers on the Implementation of Accounting Standards for Business Enterprises published by the Ministry of Finance in December 2020, the impairment losses of contract assets originally included in the “impairment losses of credit” in the income statement have been reclassified by the Group to the “impairment losses of assets”, with the comparative data retrospectively adjusted. The change in the accounting policy has no impact on the consolidated net profits and total equity, and the net profits and total equity of the Company.

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 segments:

	Owned/ Leased Portfolio Shopping Malls	Managed Shopping Malls	Construction and design	Related home decoration and sales of merchandise	Other	Unallocated items	Total
2020 (Audited)							
Segment revenue							
– External transaction revenue	<u>6,682,413,448.77</u>	<u>3,580,465,132.95</u>	<u>1,668,238,075.14</u>	<u>1,224,005,416.99</u>	<u>1,081,338,025.13</u>	<u>–</u>	<u>14,236,460,098.98</u>
Segment operating profit (loss)	<u>3,274,876,535.08</u>	<u>1,190,385,302.06</u>	<u>405,574,683.42</u>	<u>(68,400,378.90)</u>	<u>201,809,822.50</u>	<u>(2,058,188,241.42)</u>	<u>2,946,057,722.74</u>
2019 (Audited)							
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>

6. SALE EXPENSES

	2020 (Audited)	2019 (Audited)
Advertising and promotional expenses	953,948,821.11	1,599,900,465.91
Energy and maintenance expenses	478,987,583.59	458,457,126.20
Salary, bonus and benefits	126,610,432.31	73,609,099.43
After-sales service expenses	43,557,632.21	54,116,114.43
Depreciation and amortization	17,822,601.66	38,446,684.21
Office and administrative expenses	38,205,086.49	28,284,770.57
Others	34,640,602.27	38,116,565.56
Total	<u>1,693,772,759.64</u>	<u>2,290,930,826.31</u>

7. MANAGEMENT EXPENSES

	2020 (Audited)	2019 (Audited)
Salary, bonus and benefits	854,698,037.03	990,808,570.15
Office and administrative expenses	394,343,198.11	431,822,807.54
Other professional services expenses	143,584,512.71	143,858,698.41
Depreciation and amortization	148,167,974.44	65,109,886.61
Auditing expenses	18,348,251.47	15,493,248.61
Network communications fees	95,275,353.19	63,464,453.78
Others	26,439,241.10	41,309,050.49
Total	<u>1,680,856,568.05</u>	<u>1,751,866,715.59</u>

8. FINANCIAL EXPENSES

	2020 (Audited)	2019 (Audited)
Interest expenses	2,914,464,907.10	2,677,320,391.98
Less: Interest income	194,866,018.04	195,395,541.15
Less: Capitalized interest expenses	365,745,604.27	266,030,298.54
Net interest expenses	2,353,833,284.79	2,215,894,552.29
Foreign exchange gain or loss	66,960,466.83	15,630,888.33
Others	43,624,916.06	28,554,364.78
Total	<u>2,464,418,667.68</u>	<u>2,260,079,805.40</u>

9. NON-OPERATING EXPENSES

	2020 (Audited)	2019 (Audited)
Compensation expenses	123,687,842.36	18,829,460.94
Charitable donations	32,147,040.00	5,759,200.00
Others	34,012,685.76	15,562,774.95
Total	<u>189,847,568.12</u>	<u>40,151,435.89</u>

10. INCOME TAX EXPENSES

	2020 (Audited)	2019 (Audited)
Current income tax expenses	678,648,161.51	997,629,354.82
Deferred income tax expenses	71,422,887.10	519,206,983.64
Total	<u>750,071,048.61</u>	<u>1,516,836,338.46</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 have obtained the High-tech Enterprise Certificate and enjoy the preferential tax rate of 15%. 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 as of 31 December 2020 and 2019 is as follows:

	2020 (Audited)	2019 (Audited)
Net profit attributable to owners of the Company for the current period	1,730,581,791.56	4,479,681,652.61
Including: Net profit attributable to ongoing operations	<u>1,730,581,791.56</u>	<u>4,479,681,652.61</u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>3,905,000,000</u>	<u>3,905,000,000</u>
Basic earnings per share	<u>0.44</u>	<u>1.15</u>

The Group does not have dilutive ordinary shares.

12. DIVIDENDS

During the Reporting Period, the Company has declared an ordinary final dividend of RMB0.253 per share to the owners of the Company for the year ended 31 December 2019, and 1 share for every 10 shares transferred from the capital reserve fund which have distributed 355,000,000 shares. As prescribed in the Measures for the Administration of Securities Issuance and Underwriting (《證券發行與承銷管理辦法》) issued by the China Securities Regulatory Commission, the listed companies shall only issue securities after submitting the profit distribution plan and plan for conversion of the capital reserve into share capital to the general meeting for approval and putting such plans approved at the general meeting into implementation. In view of the orderly progress of the Company's non-public issuance of A Shares, the implementation of profit distribution may conflict with the time window of this non-public issuance of Shares. Taking into account the long-term development strategy and short-term operation of the Company, in order to ensure the smooth implementation of the Company's non-public issuance of Shares and take account of the existing and future investment fund requirements, operating capital turnover and other major capital arrangements, and meet the Company's liquidity demand under the COVID-19 pandemic, the Company will not make profit distribution for 2020, nor will it convert its capital reserve funds into share capital and other forms of profit distribution. Upon the completion of the non-public issuance of Shares, the Company will consider the possibility of profit distribution.

13. ACCOUNTS RECEIVABLE

Accounts receivable are disclosed by category:

Category	As at 31 December 2020 (Audited)				
	Book balance		Bad debt allowance		Book value
	Amount	Percentage (%)	Amount	Proportion (%)	Amount
Accounts receivable for which bad debt allowance is provided individually	814,054,233.01	26.30	794,579,233.01	97.61	19,475,000.00
Accounts receivable for which bad debt allowance is provided by portfolio of credit risk characteristics	2,281,598,862.50	73.70	366,247,749.07	16.05	1,915,351,113.43
Total	<u>3,095,653,095.51</u>	<u>100.00</u>	<u>1,160,826,982.08</u>	<u>37.50</u>	<u>1,934,826,113.43</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 31 December 2020 (Audited)					
	Book balance		Bad debt allowance		Book value
	Amount	Percentage (%)	Amount	Proportion (%)	Amount
Accounts receivable					
Within 1 year	1,252,375,192.74	54.89	85,493,276.03	6.83	1,166,881,916.71
1 to 2 years	446,717,131.06	19.58	73,648,037.77	16.49	373,069,093.29
2 to 3 years	279,885,496.12	12.27	59,325,427.19	21.20	220,560,068.93
3 to 4 years	175,014,399.61	7.67	64,982,171.15	37.13	110,032,228.46
4 to 5 years	85,856,642.97	3.76	49,358,086.93	57.49	36,498,556.04
5 to 6 years	22,500,000.00	0.99	14,190,750.00	63.07	8,309,250.00
Over 6 years	19,250,000.00	0.84	19,250,000.00	100.00	–
Total	2,281,598,862.50	100.00	366,247,749.07	16.05	1,915,351,113.43
As at 31 December 2019 (Audited)					
	Book balance		Bad debt allowance		Book value
	Amount	Percentage (%)	Amount	Proportion (%)	Amount
Accounts receivable					
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

14. OTHER RECEIVABLES

	As at 31 December 2020 (Audited)	As at 31 December 2019 (Audited)
Interest receivable	44,648,521.46	31,717,766.99
Dividends receivable	31,000,000.00	31,000,000.00
Other receivables	1,449,006,221.82	647,294,328.27
	<hr/>	<hr/>
Total	1,524,654,743.28	710,012,095.26
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Other receivables are disclosed by nature:

	As at 31 December 2020 (Audited)	As at 31 December 2019 (Audited)
Loan and advances	871,981,239.12	417,486,046.46
Sales proceeds collected and paid on behalf of the tenants	395,455,585.15	93,108,529.97
Deposits	107,860,274.61	58,350,162.76
Others	73,709,122.94	78,349,589.08
	<hr/>	<hr/>
Total	1,449,006,221.82	647,294,328.27
	<hr/> <hr/>	<hr/> <hr/>

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:

2020	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 2020	101,184,008.04	–	154,888,749.02	256,072,757.06
– Transfer to stage 3	(24,260,000.00)	–	24,260,000.00	–
Provision during this year	41,976,398.51	–	1,394,490.00	43,370,888.51
Write-off during this year	(54,539.35)	–	(10,864,767.99)	(10,919,307.34)
Balance of bad debt provision on 31 December 2020	118,845,867.20	–	169,678,471.03	288,524,338.23

15. 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 this year	2,057,201,474.02	1,548,763,987.95	3,605,965,461.97
Transfer from construction in progress	821,000,000.00	–	821,000,000.00
Completion of the properties under construction	2,782,000,000.00	(2,782,000,000.00)	–
Acquisition of assets	206,227,107.71	3,020,104,494.63	3,226,331,602.34
Disposal of assets	(107,000,000.00)	–	(107,000,000.00)
Change in fair value	148,571,418.47	348,131,517.42	496,702,935.69
As at 31 December 2020 (Audited)	81,482,000,000.00	11,668,000,000.00	93,150,000,000.00

16. OTHER NON-CURRENT ASSETS

	As at 31 December 2020 (Audited)	As at 31 December 2019 (Audited)
Prepayments for construction and advance payment for land compensation	1,326,576,727.23	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	401,627,213.28	1,126,150,960.96
Entrusted loans and borrowings	1,002,358,840.38	1,221,159,903.72
Prepayments for equity transfer	318,600,000.00	230,549,000.00
Prepayments for repurchase	247,705,000.00	247,705,000.00
Prepayments for land	132,664,000.00	32,923,170.75
Deposits	17,221,481.37	38,100,000.00
	<hr/>	<hr/>
Total	5,282,621,202.44	5,850,884,335.94
	<hr/> <hr/>	<hr/> <hr/>

17. SHORT TERM LOANS

	As at 31 December 2020 (Audited)	As at 31 December 2019 (Audited)
Mortgage loans	2,948,438,306.13	2,434,380,441.26
Pledge loans	153,978,641.66	—
Credit loans	250,563,239.75	350,568,684.02
Guaranteed loans	30,000,000.00	302,428,750.00
Pledge and guaranteed loans	65,391,721.91	300,516,666.67
	<hr/>	<hr/>
Total	3,448,371,909.45	3,387,894,541.95
	<hr/> <hr/>	<hr/> <hr/>

18. ACCOUNT PAYABLES

	As at 31 December 2020 (Audited)	As at 31 December 2019 (Audited)
Amounts payable for construction	1,565,661,468.95	945,247,859.30
Amounts payable for goods for construction or advertisements	519,667,754.29	531,122,995.77
	<hr/>	<hr/>
Total	2,085,329,223.24	1,476,370,855.07
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2020, the Group had no significant accounts payable aged over one year.

19. OTHER PAYABLES

	As at 31 December 2020 (Audited)	As at 31 December 2019 (Audited)
Dividends payable	11,079,608.27	48,000,000.00
Other payables	8,976,309,037.22	7,751,973,358.09
Total	<u>8,987,388,645.49</u>	<u>7,799,973,358.09</u>

Other payables categorized by nature are presented as below:

	As at 31 December 2020 (Audited)	As at 31 December 2019 (Audited)
Amounts due to partners	2,633,408,701.43	1,907,521,251.46
Deposits from tenants	2,394,737,162.29	2,226,343,504.62
Proceeds collected on behalf of the tenants	1,176,979,759.01	703,358,452.32
Amounts payable to construction contractors	839,211,748.32	902,975,131.35
Rental deposits from tenants	580,980,073.12	681,454,337.68
Amounts payable for property purchase	371,429,592.85	—
Accrued expenses	346,424,787.39	330,712,588.52
Amounts payable to equity transfer	142,937,133.94	756,899,618.95
Amounts payable to prepaid cards	14,705,587.76	9,996,855.95
Others	475,494,491.11	232,711,617.24
	<u>8,976,309,037.22</u>	<u>7,751,973,358.09</u>

20. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	As at 31 December 2020 (Audited)	As at 31 December 2019 (Audited)
Long-term loans due within one year-principal	4,258,554,857.19	3,407,200,952.18
Long-term loans due within one year-interest	51,864,659.11	38,733,650.00
Bonds payable due within one year- principal	4,033,264,470.43	3,157,772,715.57
Bonds payable due within one year-interest	213,894,153.03	171,858,690.41
Commercial mortgage backed securities due within one year- principal	2,451,753,879.27	2,426,270,000.00
Commercial mortgage backed securities due within one year-interest	—	54,507,456.43
Financial lease payables due within one year	192,084,555.22	—
Lease liabilities due within one year	696,027,069.47	548,397,168.84
Total	<u>11,897,443,643.72</u>	<u>9,804,740,633.43</u>

21. LONG TERM LOANS

	As at 31 December 2020 (Audited)	As at 31 December 2019 (Audited)
Mortgage loans	8,654,687,256.72	7,219,210,000.03
Pledge loans	–	602,350,000.00
Mortgage and pledge loans	5,757,725,594.28	5,176,096,029.92
Mortgage and guaranteed loans	5,592,041,776.44	2,777,970,285.81
Credit loans	97,000,000.00	–
Mortgage, pledge and guaranteed loans	2,110,975,000.00	144,000,000.00
Total	<u>22,212,429,627.44</u>	<u>15,919,626,315.76</u>

22. SHARE CAPITAL

		Changes during the year			
	Opening balance	Issue of new shares	Others ^(note 1)	Sub-total	Closing balance
For the year ended 31 December 2020:					
I. Restricted shares					
1. State ownership	–	–	–	–	–
2. State-owned corporate shares	–	–	–	–	–
3. Other domestic shares	2,480,315,772	–	248,031,577	248,031,577	2,728,347,349
Include: Domestic non-stated-owned corporate shares	2,480,315,772	–	248,031,577	248,031,577	2,728,347,349
Domestic natural person shares	–	–	–	–	–
Total restricted shares	2,480,315,772	–	248,031,577	248,031,577	2,728,347,349
II. Unrestricted shares					
1. RMB-denominated ordinary shares	395,788,197	–	39,578,820	39,578,820	435,367,017
2. Overseas listed foreign shares	673,896,031	–	67,389,603	67,389,603	741,285,634
Total unrestricted shares	<u>1,069,684,228</u>	<u>–</u>	<u>106,968,423</u>	<u>106,968,423</u>	<u>1,176,652,651</u>
Total	<u>3,550,000,000</u>	<u>–</u>	<u>355,000,000</u>	<u>355,000,000</u>	<u>3,905,000,000</u>

Note 1: The Company has declared a 2019 final dividend in 2020 with one share per 10 shares by way of conversion of capital reserve.

MANAGEMENT DISCUSSION AND ANALYSIS

– INDUSTRY OVERVIEW

In 2020, the COVID-19 pandemic broke out unexpectedly and brought unprecedented impacts. The global economy experienced the most serious recession since World War II, while the national economy faced severe risks and challenges. Under the leadership of the CPC Central Committee, great efforts have been made throughout China to promote the pandemic prevention and control as well as the economic and social development. Due to the implementation of a series of policies, China's economy has been steadily recovering from the recession.

According to the statistics of the National Bureau of Statistics of the PRC, the spread of the local pandemic was basically blocked in late March 2020, and more than 90% enterprises above the designated size recovered production in mid-April 2020. Since the second quarter of 2020, the year-on-year growth of China's GDP has turned from negative to positive value. In 2020, the GDP in China grew by 2.3% on a year-on-year basis, while the national disposable income per capita increased by 4.7% over the corresponding period of last year in terms of nominal growth, with an actual increase of 2.1% after deducting price factors. During the same period, the total retail sales of social consumer goods decreased by 3.9% on a year-on-year basis, the total sales in furniture category decreased by 7.0% on a year-on-year basis, and the total sales in construction and decoration material categories decreased by 2.8% on a year-on-year basis.

In the meantime, the pandemic has accelerated the rapid development of new business formats such as big data, cloud computing and artificial intelligence, which have effectively solved some pain points and difficulties in real life, and provided a powerful support for the economic recovery. In terms of these new business formats, the Group has been implementing strategic plans since 2018, and has achieved remarkable results on corporate digitization, intelligentization, shopping mall intelligentization, smart marketing, etc. Measures such as remote office, shopping mall digital marketing, Tmall Tongcheng retail and online road show for investment promotion have effectively solved the practical difficulties faced by many companies during the pandemic period. In the long run, the continuous promotion of urbanization process and the increase of residents' income level will continue to boost the national demand for home improvement and furnishings. In addition, the home re-decoration and the consumption upgrade of home appliances will also bring room for the industry's continuous development.

– BUSINESS REVIEW

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, etc., aiming to enhance the delivery capabilities of home decoration design and conversion capabilities of online and offline traffic, 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 the 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, in terms of business model, the Company transformed from the “two-pronged business model of Portfolio Shopping Malls and Managed Shopping Malls” to the “asset-light and operation-heavy” business model, which means to rapidly develop the businesses such as Managed Shopping Malls, shopping malls operated through strategic cooperation and franchised shopping malls to reduce the proportion of Portfolio Shopping Malls, thereby greatly reducing the Company’s capital expenditure, improving the efficiency of opening shopping malls and the market share. At the same time, the Company strengthened the construction of Tmall “Home Decoration Tongcheng Station” and the new-generation home decoration platform system project, which has further enhanced the Company’s ability to provide one-stop pan-home consumption industry chain services for consumers, and thereby strengthening the Company’s market leadership in China’s home improvement and furnishings industry.

In terms of business operation, during the Reporting Period, in order to integrate the Company’s resources from all business lines in a more effective manner, the Group 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. 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, the Company 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, in order to actively cooperate with the pandemic prevention and control and support the development of commercial tenants affected by the COVID-19 pandemic, the Company took the initiative to exempt relevant eligible tenants of Portfolio Shopping Malls from the rent and management fees for one month, and offered preferential support to some Managed Shopping Malls which were seriously affected by the pandemic. Apart from exempting the one-month rent and management fees, further rent preference has been given to specific Portfolio Shopping Malls most seriously affected by the pandemic. In the meantime, the pandemic also delayed the progress of the Company's brand consulting agency management service and construction business in the early stage of the project. The revenue (total amount of rents and management fees) involved in this rent-free policy was RMB600 million, accounting for about 4.2% of the Company's total audited revenue in 2020; approximately RMB410 million of the net profit attributable to owners of the Company in 2020 was affected by the total amount of rents and management fees involved in this rent-free policy, accounting for about 23.7% of the audited net profit attributable to the parent company in 2020. In response to the pandemic, the Company have effectively solved the practical difficulties faced by many companies during the pandemic period through certain measures such as remote office, shopping mall digital marketing, Tmall Tongcheng retail and online road show for investment promotion, and the shopping malls across China gradually return to the normal operation level since the second quarter of 2020.

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

As at the end of the Reporting Period, the Group operated 92 Portfolio Shopping Malls, 273 Managed Shopping Malls and 11 home furnishing shopping malls through strategic cooperation⁽¹⁾. In addition, the Group opened 66 franchised home improvement material projects by way of franchising⁽²⁾, including a total of 476 home improvement material stores/industry streets⁽³⁾. Our Portfolio Shopping Malls and Managed Shopping Malls spread over 223 cities in 30 provinces, municipalities and autonomous regions in China, with a total operating area of 22,055,668 sq.m. Through the two-pronged business model of Portfolio Shopping Malls and Managed Shopping Malls, the Group occupied properties in prime locations of Tier I and Tier II Cities, rapidly increased the proportion of shopping malls operated through strategic cooperation and franchising, accumulated extensive experience in operating shopping malls, constantly strengthened the brand value, and set a relatively high entry barrier for other companies. As at the end of the Reporting Period, the Group operated 92 Portfolio Shopping Malls covering a total operating area of 8,034,277 sq.m., with an average occupancy rate of 92.1%⁽⁴⁾. Among them, 21 Portfolio Shopping Malls, representing 22.8% of the total number of Portfolio Shopping Malls, were located in the four municipalities of Beijing, Shanghai, Tianjin and Chongqing. The operating area of the aforesaid Portfolio Shopping Malls was 2,156,254 sq.m., representing 26.8% of the total operating area of the Portfolio Shopping Malls. The same mall growth of mature shopping malls⁽⁵⁾ during the Reporting Period was -14.9%. Such growth was mainly due to the impact of the pandemic on the Company's Portfolio Shopping Malls and the Company's rent-free policy against the pandemic.

During the Reporting Period, we opened six new Portfolio Shopping Malls. In addition, two Portfolio Shopping Malls were closed and one Managed Shopping Mall was converted into Portfolio Shopping Malls. As at the end of the Reporting Period, we had 24 pipeline Portfolio Shopping Malls. As at the end of the Reporting Period, we had 273 Managed Shopping Malls in operation covering a total operating area of 14,021,390 sq.m., with an average occupancy rate of 90.7%⁽⁶⁾. Among them, 147 Managed Shopping Malls, representing 53.9% 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 8,023,400 sq.m., representing 57.2% of the total operating area of Managed Shopping Malls. During the Reporting Period, the Group opened 31 new Managed Shopping Malls and closed 7 Managed Shopping Malls. In addition, one Managed Shopping Mall was 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 rights/land parcels for 348 contractual projects. Along with steady social and economic development of the country, further progress on urbanization strategy, and stable growth in disposable income per capita, the Group will focus on increasing the rate of expansion of our Managed Shopping Malls business throughout China.

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 31 December 2020, Shandong Inzone Green Home Co., Ltd. and its controlling subsidiaries operated 11 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) 2 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 in the Reporting Period compared with the same period in the prior year for all Portfolio Shopping Malls (including associates and joint ventures) that were in operation for at least three financial years and were still in operation as at the end of the Reporting Period.
- (6) 8 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. *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 an urgent problem 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 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, etc.

2.1 *Tongcheng Retail*

During the Reporting Period, the Company continued to deepen its strategic cooperation with Alibaba (China) Network Technology Co., Ltd. (“**Alibaba**”) based on the purpose of “focusing on user needs”, and established an online and offline integrated operation system around “Tmall Tongcheng Station”, fully empowered offline operation and promoted the new retail transformation of the home furnishing industry. As of the end of the Reporting Period, in collaboration with Alibaba, the Company launched businesses at the Tmall Tongcheng Station in 22 cities, covering 56 shopping malls. The digital upgrade has covered 241 shopping malls in 176 cities, covering 16,000 brand merchants. We launched nearly 500,000 online products, and achieved 54.75 million traffic within Tongcheng Station throughout the year, with various industry-leading indicators.

2.2 *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”. During the Reporting Period, amid the global impact of the pandemic, the home decoration business achieved trend-bucking growth. The annual contract value exceeded RMB4.5 billion, of which more than 131 orders were over RMB1 million.

2.3 *Shejiyun*

The Company developed “Shejiyun” software independently, which has truly realized “what you see is what you get”. As of 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 240,000 real product models, which has been used by over 110,000 designers. Meanwhile, the use of Shejiyun platform software to open up a complete service chain from design to goods purchase has been promoted in many cities. As of the end of the Reporting Period, the Company already established partnership with many famous medium and large-sized decoration enterprises in Shanghai, with the sales amount of goods driven by the platform in excess of several millions of RMB.

3. *Business Management: Continuously improve the operation and management level of shopping malls*

Establishing the large operation center to promote system integration and synergy and enhance efficiency.

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. In 2020, the large operation center carried out work by relying on the theme of "focusing on operation practically and being product-centered and traffic-centered". It promoted joint marketing and integration of planning teams, and advanced deep innovation and application of home digital marketing technology through IMP (Intelligent Marketing Platform); set up effective reward and punishment policies and assessment system to ensure the effective implementation of the core businesses of each production line; synergistically penetrated in the home decoration business and comprehensively promoted the integration of home furnishings; collaborated on the Tongcheng Station project, a new retail center, to promote online operation of shopping malls and integration of online and offline operations; and fully integrated the Company's global traffic operation capabilities, remote customer service communication capabilities, the offline channels and supply chain management capabilities, which has achieved remarkable results.

3.1 *Tenant sourcing management*

The Group continues to optimize the layout of brands and categories to boost the experience consumption, and continues to improve the standards of our refined rental management and leverage the Intelligent Marketing Platform to increase the sales volume of tenants, thereby achieving sustainable growth of rental income. The Group constantly strengthens 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. The Group has brought in excellent global brands, reserves tenant sourcing and business integration resources through trade shows.

3.2 *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 protect customers' satisfaction with household related consumption by improving the special operation risk control system for the pandemic and continuing to operate the product quality control system and tenant credit system

3.3 Marketing Management

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.

3.4 Property management

After the outbreak of the COVID-19 pandemic, the Group promptly carried out pandemic prevention work in shopping malls across the country to ensure normal operation; strictly managed and controlled the safety risks in our shopping malls with preventive control at the forefront, complemented by emergency plans through our staff and technology; constantly improved the environment of our shopping malls to enhance the experience of our tenants and customers

4. Continuous consolidation of the results of informatization construction in gradually pushing towards the goals of digitalization and intelligentization

During the Reporting Period, the Information Technology Center 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 human resources policies of the Company oriented by Red Star Macalline's "Thirteen-Word Corporate Values" and closely in line with the work theme of "focusing on operation practically and being product-centered and traffic-centered" in 2020, we actively carried out human resources managerial tasks to support the healthy development of home furnishing business.

As of the end of the Reporting Period, the Group had a total of 25,201 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 to broaden our consumer base and further increase our market share. Moreover, since 2016, the Company has provided commercial consultation services in the stage of development and planning written consultation reports for operational properties to operational property owners and other than Portfolio and Managed Shopping Malls. The Company may grant such property owners the authorization to use the “Xingyijia” (星藝佳) brand in the way agreed 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 the business operation course related to those shopping malls, and to authorize any third parties to use the licensed trademarks within the properties of the shopping malls.

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

– Financial Review

1. Revenue

During the Reporting Period, the Group's revenue amounted to RMB14,236.5 million, representing a decrease of 13.6% from RMB16,469.2 million in 2019. The decrease in our revenue was primarily due to the impact of the pandemic and the introduction of the rent-free policy. During the Reporting Period, the rental and related income of our Owned/Leased Portfolio Shopping Malls decreased by 14.3%, which was mainly due to the decline in the occupancy rate of the Group's Portfolio Shopping Malls in areas affected by the pandemic in the short term and the Group's launch of a rent-free policy. The related income from our Managed Shopping Malls decreased by 23.9% during the Reporting Period, mainly due to the delay in performance of contracts affected by the pandemic, which resulted in a decrease in the number of projects for the revenue recognition of consulting services as compared with 2019, and the Group has waived the management fees of some Managed Shopping Malls. In addition, the revenue from construction and design and other revenue have declined by different degrees as compared with 2019. Meanwhile, the Company has been committed to one-stop and high-quality home decoration services. Under the impact of the pandemic, revenue from home decoration related services and sales of merchandise increased by 115.1% on a year-on-year basis.

The following table sets forth our revenue by segments:

	For the year ended 31 December			
	2020 (Audited)		2019 (Audited)	
	Amount	%	Amount	%
Owned/Leased Portfolio				
Shopping Malls	6,682,413,448.77	46.9	7,798,760,658.12	47.2
Managed Shopping Malls	3,580,465,132.95	25.2	4,702,248,186.58	28.6
Construction and design	1,668,238,075.14	11.7	2,250,505,124.04	13.7
Related home decoration and sales of merchandise	1,224,005,416.99	8.6	568,999,157.09	3.5
Others	1,081,338,025.13	7.6	1,148,724,663.09	7.0
Total	<u>14,236,460,098.98</u>	<u>100.0</u>	<u>16,469,237,788.92</u>	<u>100.0</u>

2. Gross profit and gross profit margin

During the Reporting Period, the Group's gross profit was RMB8,756.3 million, representing a decrease of 18.4% from RMB10,733.6 million in 2019; the Group's integrated gross profit margin was 61.5%, representing a decrease of 3.7 percentage point from 65.2% in 2019, primarily due to the impact of the pandemic and the introduction of the rent-free policy during the Reporting Period.

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

	For the year ended	
	31 December	
	2020	2019
	(Audited)	(Audited)
Owned/Leased Portfolio Shopping Malls	76.6%	78.8%
Managed Shopping Malls	59.8%	65.4%
Construction and design	32.7%	35.1%
Related home decoration and sales of merchandise	21.9%	22.6%
Others	63.4%	51.6%
Total	61.5%	65.2%

3. Sale expenses

During the Reporting Period, the Group's sale expenses amounted to RMB1,693.8 million (accounting for 11.9% of the revenue), representing a decrease of 26.1% from RMB2,290.9 million (accounting for 13.9% of the revenue) in 2019, which was 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 pandemic.

4. *Management expenses*

During the Reporting Period, the Group's management expenses amounted to RMB1,680.9 million (accounting for 11.8% of the revenue), representing a decrease of 4.1% from RMB1,751.9 million (accounting for 10.6% of the revenue) in 2019, which was primarily due to the Group's effective responses to the pandemic and reduced non-essential expenses, leading to an apparent decrease in office and administrative expenses.

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 RMB2,260.1 million in 2019 to RMB2,464.4 million in 2020, representing an increase of 9.0%. Interest expenses were comprised of interest of bank and other borrowings, interest of financial lease and bond interests, etc. Interest expenses increased from RMB2,677.3 million in 2019 to RMB2,914.5 million in 2020, representing an increase of 8.9%, which was primarily due to the increase in the amount of interest-bearing liabilities in order to achieve sufficient liquidity and obtain enough capital under the sudden outbreak of the pandemic. However, at the same time, the Company effectively controlled investment expenditures, and the scale of interest-bearing liabilities began to fall in the third quarter of 2020, and it had dropped significantly by the end of 2020.

6. *Income tax expenses*

During the Reporting Period, the income tax expenses of the Group amounted to RMB750.1 million, representing a decrease of 50.5% from RMB1,516.8 million in 2019, which was mainly due to the decrease in the profit before tax during the Reporting Period as a result of the pandemic.

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 RMB1,730.6 million, representing a decrease of 61.4% from RMB4,479.7 million in 2019; the net profit attributable to owners of the Company after deducting nonrecurring profit or loss amounted to RMB1,162.3 million, representing a decrease of 55.5% from RMB2,613.6 million in 2019.

The above decreases were primarily due to the impact of the pandemic and the implementation of rent-free policy by the Group.

	For the year ended 31 December		
	2020	2019	Increase/ Decrease
	(Audited)	(Audited)	
Net profit attributable to owners of the Company	1,730,581,791.56	4,479,681,652.61	-61.4%
Net profit margin attributable to owners of the Company	12.2%	27.2%	a decrease of 15 percentage point
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	1,162,324,473.64	2,613,622,255.31	-55.5%
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	8.2%	15.9%	a decrease of 7.7 percentage point

During the Reporting Period, the Group's earnings per share was RMB0.44, as compared to RMB1.15 in the same period of 2019.

8. Accounts receivable

As at the end of the Reporting Period, the book value of accounts receivable of the Group amounted to RMB1,934.8 million (including the book balance of accounts receivable of RMB3,095.7 million and the bad debt allowance of RMB1,160.8 million), representing an increase of RMB129.1 million from RMB1,805.7 million as at the end of 2019, which was primarily due to the significant increase in revenue from home decoration related services and sales of merchandise 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 RMB1,524.7 million, representing an increase of RMB814.7 million from RMB710.0 million as at the end of 2019, which was mainly due to the increase in sales proceeds collected on behalf of the tenants, and the increase in amounts 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 RMB4,206.7 million, which was mainly due to the Group's investment 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 the plan 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 RMB93,150.0 million, representing an increase of 9.5% from RMB85,107.0 million as at the end of 2019. During the Reporting Period, the investment properties of the Group realized a gain on fair value changes of RMB496.7 million. It was mainly due to 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 RMB2,897.0 million (2019: RMB4,320.3 million), which mainly includes purchase expenditure of investment properties and construction development expenditure. The expenditure in 2020 decreased by 32.9% as compared with 2019, mainly because the Group has deepened its business strategy of "focusing on asset-light operation, and lowering leverage", effectively controlling capital expenditures, and will further expand its asset-light business..

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 RMB6,511.1 million (of which, the balance of cash and cash equivalents amounted to RMB5,901.1 million), representing a decrease of RMB718.1 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.

	For the year ended 31 December	
	2020	2019
	(Audited)	(Audited)
Net cash flow from operating activities	4,159,732,441.59	4,093,981,030.60
Net cash flow from investment activities	(4,851,801,126.36)	(4,082,774,044.60)
Net cash flow from financing activities	(181,898,109.56)	(849,680,902.47)
Impact of exchange rate changes on cash and cash equivalents	(1,064,656.34)	80,048.26
Net increase/(decrease) in cash and cash equivalents	<u>(875,031,450.67)</u>	<u>(838,393,868.21)</u>

During the Reporting Period, the Group's net cash inflow from operating activities amounted to RMB4,159.7 million, representing an increase of RMB65.7 million as compared with the net inflow of RMB4,094.0 million in 2019.

During the Reporting Period, the Group's net cash outflow from investment activities amounted to RMB4,851.8 million, representing an increase of RMB769.0 million as compared with the net outflow of RMB4,082.8 million in 2019. It was primarily due to the increased cash paid for various investments during the Reporting Period.

During the Reporting Period, the Group's net cash outflow from financing activities amounted to RMB181.9 million, representing a decrease of RMB667.8 million as compared with net outflow of RMB849.7 million in 2019.

14. Major debt ratios

Among the total debts of the Group, the portion repayable within one year or on demand amounted to RMB14,774.8 million, the portion repayable over one year but less than two years amounted to RMB9,482.4 million, the portion repayable over two years but less than five years amounted to RMB10,498.4 million and the portion repayable over five years amounted to RMB11,039.7 million. The Group will promptly repay the above borrowings at maturity.

The following table sets out our major debt ratios:

	As at 31 December 2020 (Audited)	As at 31 December 2019 (Audited)
Asset-liability ratio ⁽¹⁾	61.2%	59.9%
Net gearing ratio ⁽²⁾	76.9%	69.4%

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 with a total book value of RMB82,219.0 million, and other equity instrument investments and restricted cash and bank balances with a total book balance of RMB504.1 million for obtaining loans, the balance of such loans is RMB36,263.9 million; the Group holds restricted cash and bank balances with a balance of RMB263.5 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 RMB2,373.8 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 RMB606.3 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 25,201 employees (31 December 2019: 27,113 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 2020, the Group paid a total of RMB3,245.5 million for salary expenditure (2019: RMB3,651.2 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 2021 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 transform into “asset-light and operation-heavy” business model, accelerate the penetration of management and franchise mode in the sinking market, and further strengthen the market leadership through the combination of full-brand and omni-channel network;
2. The Group will deeply focus on home decoration business, make a breakthrough in full-cycle services of home furnishings consumption and strengthen the user mentality of “choosing and decoration furniture all in Red Star Macalline”;
3. The Group will implement the digital reform, deeply cultivates new retail, and is committed to become the new retail benchmark in the home decoration and furnishing industry;
4. The Group will further strengthen performance appraisal and deepen talent reserve;
5. The Group will continue to improve corporate governance of the Company, standardize our operation and implement social responsibilities.

FINAL DIVIDEND

The Board has resolved not to recommend the distribution of a final dividend for the year ended 31 December 2020.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

1、Progress of Non-Public Issuance of A Shares

Relevant matters in relation to the 2020 Non-public Issuance of A Shares of the Company were considered and approved at the eleventh extraordinary meeting of the fourth session of the Board the Company held on 3 June 2020, and at the 2019 Annual General Meeting, A Share Shareholders' Class Meeting and H Share Shareholders' Class Meeting held on 18 June 2020. For details, please refer to the announcement of the Company dated 4 June 2020 as disclosed on the designated media in China and the announcement dated 3 June 2020 as disclosed on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

To implement the spirit of improving the quality of corporate information disclosure under the Notice on Adjustment to Part of the Terms in the Question-and-Answer Section of the Review for Issuance (《關於發行審核業務問答部分條款調整事項的通知》) dated 10 June 2020 and the relevant requirements under the Answers to Certain Questions for Refinancing Business (Revised in June 2020) (《再融資業務若干問題解答(2020年6月修訂)》) issued by China Securities Regulatory Commission, the Company convened the 12th extraordinary meeting of the fourth session of the Board on 23 June 2020 at which the resolution on the 2020 Plan for the Non-public Issuance of A Shares of the Company (Revised Draft) (《關於公司2020年非公開發行A股股票預案(修訂稿)的議案》) was considered and approved. Such amendments are within the scope of authorization granted to the Board at the Company's 2019 Annual General Meeting, A Share Shareholders' Class Meeting and H Share Shareholders' Class Meeting. For details, please refer to the announcement of the Company dated 24 June 2020 as disclosed on the designated media in China and the announcement dated 23 June 2020 as disclosed on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

In early July 2020, the Company received the CSRC Notice of Acceptance of Application for Administrative Approval (No. 201708) (《中國證監會行政許可申請受理單》(受理序號: 201708)) issued by the China Securities Regulatory Commission (the "CSRC"). The CSRC accepted the application materials submitted by the Company for the approval of the non-public issuance of new shares by listed company. Upon receipt of the Notice regarding First Feedback on the Review of Administrative Permission Items from CSRC (No. 201708) (《中國證監會行政許可項目審查一次反饋意見通知書》[201708號]) on 13 July 2020, the Company submitted a reply to the feedback on 4 August 2020, and made amendments according to the feedback for four times on 28 August 2020, 24 September 2020, 7 November 2020, and 9 January 2021. For details, please refer to the announcements of the Company dated 4 August 2020, 28 August 2020, 24 September 2020, 7 November 2020, and 9 January 2021 as disclosed on the designated media in China and the announcements dated 3 August 2020, 27 August 2020, 23 September 2020, 6 November 2020 and 8 January 2021 as disclosed on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

At the beginning of February 2021, the Company received the Letter in respect of Preparing for the Meeting of the Issuance Appraisal Committee of the CSRC in relation to the Non-public Issuance of shares of Red Star Macalline Group Corporation Ltd. (《關於請做好美凱龍非公開發行股票發審委員會議準備工作的函》) (the “**Letter**”) issued by the CSRC, and made a reply to the Letter on 6 February 2021.

On 1 March 2021, the Issuance Review Committee of the CSRC reviewed the Company’s application for non-public issuance of shares. According to the results of the review, the Company’s application for non-public issuance of shares was approved. As of the date of this announcement, the Company has not received any written approval document from the CSRC.

2 、 The Third Phase of the Employee Stock Ownership Plan

The Company plans to launch the third phase employee stock ownership plan (the “**Employee Stock Ownership Plan**”). The Employee Stock Ownership Plan shall have a total size of not more than RMB300 million. The cumulative total number of shares held under the Employee Stock Ownership Plan shall not exceed 1% of the total share capital of the Company. The cumulative total number of shares corresponding to the equity interests obtained by each individual employee shall not exceed 0.1% of the total share capital of the Company. The holders of the Employee Stock Ownership Plan primarily comprise directors, supervisors, senior management of the Company and management personnel and core cadres of its subsidiaries. For further details, please refer to the announcement of the Company dated 8 February 2021 as disclosed on designated media in China and the announcement dated 7 February 2021 as disclosed on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

3 、 Listing for Trading of Some Restricted Shares under the Initial Public Offering

The Company was listed on the Shanghai Stock Exchange on 17 January 2018. An aggregate amount of 2,728,347,349 shares were subject to trading moratorium, which were held by Red Star Macalline Holding Group Company Limited, Red Star Macalline Holding Group Company Limited – Red Star Macalline Holding Group Company Limited 2019 Non-Public Offering of Exchangeable Corporate Bonds (Phase 1) Designated Shares Pledge Account, representing 69.87% of the total share capital of the Company. Upon expiration of the lock-up period on 17 January 2021, the aforementioned shares have become tradeable held by shareholders. For detailed information, please refer to the announcement of the Company dated 13 January 2021 as disclosed on designated media in China and the announcement dated 12 January 2021 as disclosed on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

4 、 Undertakings on Quasi-financial Business

The Company issued a letter of undertakings on quasi-financial businesses in February 2021. The undertakings include: (1) the Company will use the funds raised from the non-public issuance in the manner disclosed in the non-public issuance plan and its revised draft, and the raised funds will not be used directly or indirectly for quasi-financial businesses; (2) the Company undertakes that it will not increase capital investment in quasi-financial businesses before proceeds from the non-public issuance are used up or within 36 months since the proceeds raised are available for use (whichever is the later); (3) the Company undertakes that as of 7 January 2021, it will not add new contracts of financial leasing, commercial factoring and other quasi-financial businesses or renew existing quasi-financial businesses; (4) the Company undertakes to terminate the existing business operations of Shanghai Red Star Macalline Financial Leasing Company Limited and Shanghai Red Star Macalline Commercial Factoring Company Limited before 7 July 2021 and deregister them, or to transfer all of their equity to the Company's controlling shareholder RSM Holding and its subsidiaries or other third parties; (5) the Company undertakes to disclose the disposal of financial leasing, commercial factoring and other financial businesses in periodic reports.

The abovementioned quasi-financial business refer to financial activities carried out by the institutions ("**Quasi-financial institutions**") other than the licensed financial institutions approved by the People's Bank of China, China Banking and Insurance Regulatory Commission, and the CSRC, including but not limited to, financial leasing, commercial factoring and small loan business.

RSM Holding, the controlling shareholder of the Company, issued a letter of undertakings in February 2021, undertaking that it will cooperate with the Company's disposal arrangements for quasi-financial businesses, including: RSM Holding will commence and cooperate in the deregistration or transfer arrangements within 5 working days after it is informed of the detailed disposal arrangements of Shanghai Red Star Macalline Financial Leasing Company Limited and Shanghai Red Star Macalline Commercial Factoring Company Limited, including but not limited to that, it will support the deregistration or equity transfer of the abovementioned companies according to the request of the Company, and after the Company performs the corresponding decision-making procedures, it will sign an equity transfer agreement with the Company on reasonable and fair commercial terms to acquire all shares of the abovementioned companies (if necessary), to cooperate with the Company to complete the deregistration or equity transfer of Shanghai Red Star Macalline Financial Leasing Company Limited and Shanghai Red Star Macalline Commercial Factoring Company Limited by 7 July 2021.

As of the date of this announcement, the Company and its controlling shareholder RSM Holding have strictly fulfilled the aforementioned undertakings. At present, the specific disposal plan for quasi-financial businesses of the Company is still under discussion, and the relevant disposal procedures have not yet been officially initiated.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of H shares of the Company will be closed from Thursday, 13 May 2021 to Tuesday, 18 May 2021, both days inclusive, in order to determine the identity of the H Shareholders who are entitled to attend the annual general meeting on 18 May 2021. 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 Wednesday, 12 May 2021.

The Shareholders whose names appear on the register of members of the Company on Wednesday, 12 May 2021 after close of business are entitled to attend and vote at the annual general meeting.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Other than deviation from Code Provision A.2.1, 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 2020.

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 5 independent non-executive directors out of the 14 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 2020 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 of the end of the Reporting Period, the Group has utilized 99.96% 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 ("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 2020 is as follows:

Use/Intended use	Planned use (RMB million)	Actual use of proceeds for the year ended 31 December 2020 (RMB million)	Unutilized net proceeds for the year ended 31 December 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	2,433.8	2.2

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 88.12% of the net proceeds in total for fundraising investment projects and replenishing liquidity as required.

Analysis of the use of proceeds from issuance of A share as of 31 December 2020 is as follows:

<i>RMB' 000</i>				
Total amount of fund raised			3,222,450	
Issuance expense			172,442	
Net fund raised			<u>3,050,008</u>	
		Total investment planned (RMB' 000)	Accumulated Investment amount as of the end of Reporting Period (RMB' 000)	Remarks
Proposed investment projects				
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 ⁽¹⁾	669,084	666,733	Fully invested
				Expected to be invested by May 2023
	Changsha Jinxia Shopping Mall Project	190,000	138,191	
	Xining Expo Shopping Mall Project ⁽¹⁾	<u>110,000</u>	<u>107,786</u>	Fully invested
	Sub-total	<u>1,750,000</u>	<u>1,693,626⁽¹⁾</u>	
New intelligent home furnishing shopping mall project		400,000	93,979	
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>2,687,613</u>	

Note:

- (1) 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 2020.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND 2020 ANNUAL REPORT

This announcement is published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and on the website of the Company at www.chinaredstar.com. The Company's 2020 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
30 March 2021

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, JING Jie, XU Hong, LIU Jin and CHEN Zhaohui; and the independent non-executive Directors are QIAN Shizheng, LEE Kwan Hung, Eddie, WANG Xiao, ZHAO Chongyi and QIN Hong.