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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 2021**

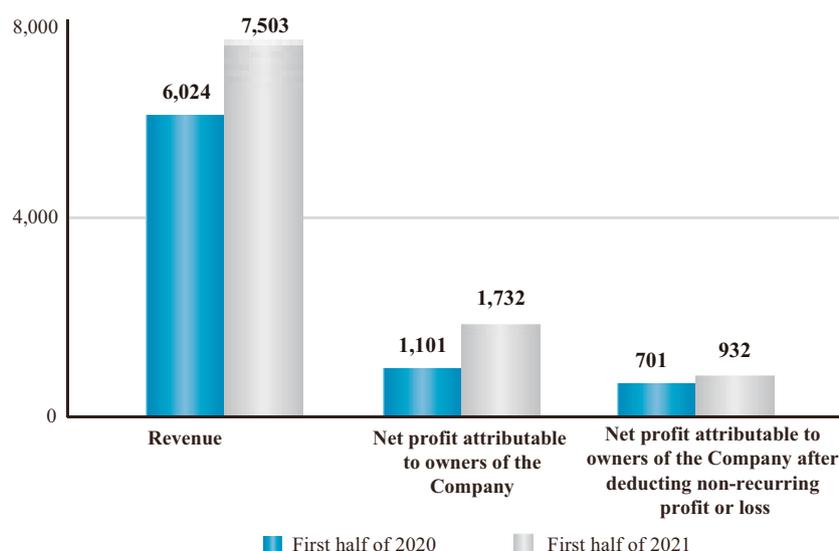
The board of directors (the “**Board**”) of Red Star Macalline Group Corporation Ltd. (the “**Company**” or “**Red Star Macalline**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**” or “**we**”) for the six months ended 30 June 2021 (the “**Reporting Period**”), together with comparative figures for the same period in 2020.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2021	2020
	<i>(RMB'000, except otherwise stated)</i>	
	(Unaudited)	(Unaudited)
Revenue	7,502,597	6,024,441
Gross profit	4,770,970	4,029,841
Gross profit margin	63.6%	66.9%
Net profit	1,867,147	1,154,254
Net profit attributable to owners of the Company	1,731,902	1,101,316
Net profit margin attributable to owners of the Company	23.1%	18.3%
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	931,940	700,784
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	12.4%	11.6%
Earnings per share	RMB0.44	RMB0.28

Key Financial Performance Indicators

RMB million



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 2021	As at 31 December 2020
Number of shopping malls	369	365
Operating area of shopping malls (sq.m.)	22,116,526	22,055,668
Number of cities covered	224	223
Number of Portfolio Shopping Malls	93	92
Operating area of Portfolio Shopping Malls (sq.m.)	8,196,608	8,034,277
Average occupancy rate of Portfolio Shopping Malls	93.0%	92.1%
Number of Managed Shopping Malls	276	273
Operating area of Managed Shopping Malls (sq.m.)	13,919,918	14,021,390
Average occupancy rate of Managed Shopping Malls	91.2%	90.7%

Note: (1) See definitions in the 2020 annual report of the Company.

CONSOLIDATED INCOME STATEMENT

Six Months Ended 30 June 2021

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

		Six months ended 30 June	
	Note	2021 (Unaudited)	2020 (Unaudited)
I. Revenue	4	7,502,596,538.58	6,024,440,866.01
Less: Cost of sales		2,731,626,145.54	1,994,600,248.22
Taxes and surcharges		208,697,351.81	171,935,988.05
Distribution and selling expenses	5	828,707,485.02	631,248,850.58
General and administrative expenses	6	882,041,452.79	744,460,616.43
Research and development expenses		26,936,173.97	10,843,802.66
Financial expenses	7	1,219,458,001.61	1,348,360,314.59
Including: Interest expenses		1,354,578,761.38	1,330,162,274.91
Interest income		118,700,167.43	79,419,260.20
Add: Other income		52,812,889.76	86,015,355.42
Investment income		778,700,121.60	142,586,655.69
Including: Investment income from associates and joint ventures		12,486,427.18	(1,684,944.69)
Gain from fair value changes		227,017,919.24	296,599,198.00
Impairment loss of credit (losses are presented with parentheses)		(151,764,612.97)	(3,496,392.01)
Impairment loss of assets (losses are presented with parentheses)		(7,662,383.27)	(36,898.61)
Gain/(loss) from disposal of assets		15,671,926.81	(21,769,125.68)
II. Operating profit		2,519,905,789.01	1,622,889,838.29
Add: Non-operating income		18,356,160.52	17,349,304.55
Less: Non-operating expenses		19,318,046.10	83,519,321.52
III. Total profit		2,518,943,903.43	1,556,719,821.32
Less: income tax expenses	8	651,797,055.21	402,466,107.25
IV. Net profit		1,867,146,848.22	1,154,253,714.07
(I) According to the classification of continuity of operation			
1. Net profit from continuing operations		1,867,146,848.22	1,154,253,714.07
2. Net profit from discontinued operations		–	–
(II) According to the classification of ownership			
1. Non-controlling interests		135,245,304.47	52,937,226.16
2. Net profit attributable to owners of the Company		1,731,901,543.75	1,101,316,487.91

		Six months ended 30 June	
		2021	2020
	<i>Note</i>	(Unaudited)	(Unaudited)
V. Other comprehensive income (after tax)		1,374,544,369.14	727,023,799.35
Other comprehensive income (after tax)			
attributable to owners of the Company		1,375,089,342.59	726,063,977.01
(I) Other comprehensive income that will not be reclassified to profit or loss		1,364,493,781.24	638,295,020.72
1. Changes in fair value of other equity instrument investments		1,364,493,781.24	638,295,020.72
(II) Other comprehensive income/(loss) that will be reclassified to profit or loss		10,595,561.35	87,768,956.29
1. Exchange differences arising upon translation of financial statements denominated in foreign currencies		(2,091,754.24)	877,342.99
2. Others		12,687,315.59	86,891,613.30
Other comprehensive income/(loss) (after tax) attributable to non-controlling interests		(544,973.45)	959,822.34
VI. Total comprehensive income		3,241,691,217.36	1,881,277,513.42
Total comprehensive income attributable to owners of the Company		3,106,990,886.34	1,827,380,464.92
Total comprehensive income attributable to non-controlling interests		134,700,331.02	53,897,048.50
VII. Earnings per share			
(I) Basic earnings per share	<i>9</i>	0.44	0.28
(II) Diluted earnings per share		N/A	N/A

CONSOLIDATED BALANCE SHEET

As at 30 June 2021

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

		As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
Current Assets			
Cash and bank balances		6,604,536,110.72	6,511,092,198.09
Financial assets held for trading		713,790,476.43	247,611,072.73
Derivative financial assets		398,953.74	2,160,732.11
Accounts receivable	11	2,231,849,762.12	1,934,826,113.43
Receivables financing		63,644,128.05	5,872,800.00
Prepayments		397,431,809.18	323,626,340.62
Other receivables	12	2,359,909,564.57	1,524,654,743.28
Inventories		354,749,826.29	328,295,668.02
Contract assets		1,566,613,006.96	1,375,364,101.48
Non-current assets due within one year		512,797,220.04	248,704,377.99
Other current assets		2,383,375,019.13	2,634,575,271.37
Total current assets		17,189,095,877.23	15,136,783,419.12
Non-current assets			
Long-term receivables		452,279,323.70	532,498,896.89
Long-term equity investments		3,762,227,557.02	3,703,895,492.49
Other equity instrument investments		5,520,220,984.75	4,206,678,046.54
Other non-current financial assets		389,174,540.60	396,924,540.60
Investment properties	13	93,539,000,000.00	93,150,000,000.00
Fixed assets		2,645,892,365.59	2,737,965,196.94
Construction in progress		93,632,210.56	80,629,155.83
Right-of-use assets		3,889,862,054.97	3,852,597,418.85
Intangible assets		348,998,279.79	343,768,582.72
Development expenditure		12,117,628.76	30,837,675.61
Goodwill		97,597,047.85	97,597,047.85
Long-term prepaid expenses		421,838,705.18	454,054,803.22
Deferred tax assets		1,567,706,455.30	1,541,067,156.39
Other non-current assets	14	4,978,397,216.66	5,282,621,202.44
Total non-current assets		117,718,944,370.73	116,411,135,216.37
Total assets		134,908,040,247.96	131,547,918,635.49

		As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
	<i>Note</i>		
Current Liabilities			
Short-term loans	15	3,481,091,963.09	3,448,371,909.45
Notes payable		13,700,000.00	–
Accounts payable	16	1,908,905,696.91	2,085,329,223.24
Advance from customers		1,380,009,999.89	960,787,153.16
Contract liabilities		2,199,591,158.56	2,287,548,874.89
Payroll payable		256,883,767.51	563,788,624.24
Taxes payable		704,795,809.85	671,338,917.19
Other payables	17	11,165,299,833.43	8,987,388,645.49
Non-current liabilities due within one year	18	13,745,453,169.18	11,897,443,643.72
Other current liabilities		250,069,520.58	736,850,395.29
Total current liabilities		<u>35,105,800,919.00</u>	<u>31,638,847,386.67</u>
Non-current liabilities			
Long-term loans	19	22,650,467,329.40	22,212,429,627.44
Bonds payable		2,924,652,113.48	4,432,634,711.35
Lease liabilities		4,064,261,034.57	4,082,933,276.21
Long-term payables		701,382,218.28	712,856,318.61
Deferred income		212,829,467.32	224,943,229.90
Deferred tax liabilities		13,042,557,439.67	12,517,571,618.93
Other non-current liabilities		1,826,832,864.72	4,627,859,670.75
Total non-current liabilities		<u>45,422,982,467.44</u>	<u>48,811,228,453.19</u>
Total liabilities		<u>80,528,783,386.44</u>	<u>80,450,075,839.86</u>
Equity			
Share capital	20	3,905,000,000.00	3,905,000,000.00
Capital reserve		3,656,175,075.26	3,648,120,125.82
Other comprehensive income		2,856,752,925.29	1,720,585,961.74
Surplus reserve		2,076,486,432.95	2,076,486,432.95
Retained earnings		38,183,850,346.15	36,213,026,423.36
Total equity attributable to owners of the Company		<u>50,678,264,779.65</u>	<u>47,563,218,943.87</u>
Non-controlling interests		3,700,992,081.87	3,534,623,851.76
Total equity		<u>54,379,256,861.52</u>	<u>51,097,842,795.63</u>
Total liabilities and equity		<u>134,908,040,247.96</u>	<u>131,547,918,635.49</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months ended 30 June 2021

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傢飾品有限公司) 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) (“**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 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 the 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.

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 paid-in capital (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 business registration in respect of such change on 20 January 2021.

The business scope of the Company includes: 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 2021, the Group’s current liabilities in aggregate exceeded its total current assets in an amount of RMB17,916.7 million. The management of the Group had assessed its ongoing operation for the 12 months starting from 1 July 2021, 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 2021, 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 2021, 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:

	Owned/leased Portfolio Shopping Malls	Managed Shopping Malls	Construction and design	Home decoration related and sales of merchandise	Other	Unallocated items	Total
Six months ended 30 June 2021 (Unaudited)							
Segment revenue							
– external transaction revenue	<u>3,917,677,242.14</u>	<u>1,676,074,613.59</u>	<u>763,101,229.34</u>	<u>573,725,462.84</u>	<u>572,017,990.67</u>	<u>-</u>	<u>7,502,596,538.58</u>
Segment operating profit (loss)	<u>2,053,981,767.61</u>	<u>510,250,907.09</u>	<u>182,725,397.12</u>	<u>(148,021,138.79)</u>	<u>252,587,170.39</u>	<u>(331,618,314.41)</u>	<u>2,519,905,789.01</u>
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>

5. DISTRIBUTION AND SELLING EXPENSES

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Advertising and promotional expenses	463,377,820.14	342,738,313.22
Energy and maintenance expenses	218,259,014.14	181,420,109.41
Salary, bonus and benefits	84,043,214.03	57,965,830.58
After-sales service expenses	12,657,121.00	15,701,566.39
Office and administrative expenses	14,619,343.25	13,762,189.03
Depreciation and amortization	16,507,489.97	8,018,842.54
Others	19,243,482.49	11,641,999.41
Total	828,707,485.02	631,248,850.58

6. GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Salary, bonus and benefits	489,784,657.82	382,198,422.77
Office and administrative expenses	167,338,815.30	154,963,392.42
Other professional services expenses	73,788,370.61	61,194,617.59
Depreciation and amortization	83,396,814.01	86,940,278.35
Network communications fees	35,340,379.99	40,086,550.78
Others	32,392,415.06	19,077,354.52
Total	882,041,452.79	744,460,616.43

7. FINANCIAL EXPENSES

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Interest expenses	1,553,402,452.97	1,494,947,836.22
Less: Capitalized interest expenses	198,823,691.59	164,785,561.32
Less: Interest income	118,700,167.43	79,419,260.20
Net interest expenses	1,235,878,593.95	1,250,743,014.70
Foreign exchange gain or loss	(44,257,319.62)	75,872,756.72
Others	27,836,727.28	21,744,543.17
Total	1,219,458,001.61	1,348,360,314.59

8. INCOME TAX EXPENSES

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Current income tax expenses	365,875,644.60	283,647,287.87
Deferred income tax expenses	285,921,410.61	118,818,819.38
Total	651,797,055.21	402,466,107.25

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 15% 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 2021 and 30 June 2020 is as follows:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Net profit attributable to owners of the Company for the period	1,731,901,543.75	1,101,316,487.91
Including: Net profit attributable to ongoing operations	1,731,901,543.75	1,101,316,487.91
Net profit attributable to terminated operations	–	–
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,905,000,000	3,905,000,000
Basic earnings per share	0.44	0.28

The Group does not have dilutive ordinary shares.

10. DIVIDENDS

The Board does not recommend payment of dividend for the six months ended 30 June 2021.

Considering the orderly progress in the non-public issuance of A shares of the Company, there may be a time conflict between the profit distribution and the non-public issuance of shares. In comprehensive consideration of the long-term development strategy and short-term operating conditions of the Company, the Company intends not to carry out the profit distribution or conversion of capital reserve into share capital or other forms of profit distribution in 2020, in order to ensure the successful implementation of the non-public issuance of A shares of the Company and meet its existing and future investment capital needs, operating working capital turnover and other material capital arrangements, as well as its liquid capital needs during the COVID-19 outbreak.

11. ACCOUNTS RECEIVABLE

Accounts receivables are disclosed by category:

Category	As at 30 June 2021 (Unaudited)				
	Book balance		Bad debt allowance		Book value
	Amount	Percentage (%)	Amount	Proportion (%)	Amount
Accounts receivable for which bad debt allowance is provided individually	802,355,062.53	22.95	797,605,062.53	99.41	4,750,000.00
Accounts receivable for which bad debt allowance is provided by portfolio of credit risk characteristics	2,693,073,133.42	77.05	465,973,371.30	17.30	2,227,099,762.12
Total	3,495,428,195.95	100.00	1,263,578,433.83	36.15	2,231,849,762.12

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	3,095,653,095.51	100.00	1,160,826,982.08	37.50	1,934,826,113.43

As at the end of the Reporting Period, the aging analysis of accounts receivable based on the contract date is as follows:

Among them, the aging analysis of accounts receivable for which bad debt allowance is provided by portfolio of credit risk characteristics is as follows:

As at 30 June 2021 (Unaudited)					
Category	Book balance		Bad debt allowance		Book value
	Amount	Percentage (%)	Amount	Proportion (%)	Amount
Within 1 year	1,535,754,403.30	57.03	109,511,924.74	7.13	1,426,242,478.56
1 to 2 years	416,205,788.26	15.45	65,156,802.42	15.65	351,048,985.84
2 to 3 years	259,302,976.00	9.63	66,501,394.09	25.65	192,801,581.91
3 to 4 years	260,364,446.18	9.67	84,347,883.41	32.40	176,016,562.77
4 to 5 years	109,295,519.68	4.06	47,902,416.64	43.83	61,393,103.04
5 to 6 years	60,400,000.00	2.24	40,802,950.00	67.55	19,597,050.00
Over 6 years	51,750,000.00	1.92	51,750,000.00	100.00	–
Total	2,693,073,133.42	100.00	465,973,371.30	17.30	2,227,099,762.12

As at 31 December 2020 (Audited)					
Category	Book balance		Bad debt allowance		Book value
	Amount	Percentage (%)	Amount	Proportion (%)	Amount
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

12. OTHER RECEIVABLES

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
Interest receivable	67,213,650.83	44,648,521.46
Dividends receivable	31,000,000.00	31,000,000.00
Other receivables	<u>2,261,695,913.74</u>	<u>1,449,006,221.82</u>
Total	<u><u>2,359,909,564.57</u></u>	<u><u>1,524,654,743.28</u></u>

Other receivables categorized by nature are presented as below:

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
Loan and advances	1,570,198,243.37	871,981,239.12
Sales proceeds collected and paid on behalf of the tenants	470,513,912.19	395,455,585.15
Deposits	114,304,157.50	107,860,274.61
Others	<u>106,679,600.68</u>	<u>73,709,122.94</u>
Total	<u><u>2,261,695,913.74</u></u>	<u><u>1,449,006,221.82</u></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 2021	118,845,867.20	-	169,678,471.03	288,524,338.23
Provision during the period	21,321,400.11	-	-	21,321,400.11
Internal reclassification during the period	(24,260,000.00)	-	24,260,000.00	-
Write-off during the period	(65,137.21)	-	(11,536,505.15)	(11,601,642.36)
Balance of bad debt allowance on 30 June 2021	<u>115,842,130.10</u>	<u>-</u>	<u>182,401,965.88</u>	<u>298,244,095.98</u>

13. INVESTMENT PROPERTIES

	Completed properties	Properties under construction	Total
As at 31 December 2020 (Audited)	81,482,000,000.00	11,668,000,000.00	93,150,000,000.00
Additions during the period	643,216,325.36	816,562,264.67	1,459,778,590.03
Transfer from fixed assets to completed properties	66,998,925.26	-	66,998,925.26
Assets acquisition	584,491,857.29	-	584,491,857.29
Assets disposal	1,479,000,000.00	461,000,000.00	1,940,000,000.00
Changes in fair value	1,129,292,892.09	(911,562,264.67)	217,730,627.42
As at 30 June 2021 (Unaudited)	<u>82,427,000,000.00</u>	<u>11,112,000,000.00</u>	<u>93,539,000,000.00</u>

14. OTHER NON-CURRENT ASSETS

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
Prepayments for construction and advance payments for land compensation	1,249,533,461.58	1,326,576,727.23
Earning right related to land consolidation	1,835,867,940.18	1,835,867,940.18
Prepayments for purchasing properties	229,127,213.28	401,627,213.28
Entrusted loans and borrowings	855,718,798.19	1,002,358,840.38
Prepayments for equity transfer	545,400,000.00	318,600,000.00
Prepayments for repurchase	247,705,000.00	247,705,000.00
Prepayments for land	–	132,664,000.00
Deposits	15,044,803.43	17,221,481.37
Total	<u><u>4,978,397,216.66</u></u>	<u><u>5,282,621,202.44</u></u>

15. SHORT-TERM LOANS

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
Mortgage loans	1,254,304,247.99	2,948,438,306.13
Pledge loans	1,872,513,560.26	153,978,641.66
Credit loans	250,907,805.55	250,563,239.75
Guaranteed loans	58,583,397.28	30,000,000.00
Pledge and guaranteed loans	44,782,952.01	65,391,721.91
Total	<u><u>3,481,091,963.09</u></u>	<u><u>3,448,371,909.45</u></u>

16. ACCOUNTS PAYABLE

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
Amounts payable for advertisements and purchase of goods	440,230,859.06	519,667,754.29
Amounts payable for construction	1,468,674,837.85	1,565,661,468.95
Total	<u><u>1,908,905,696.91</u></u>	<u><u>2,085,329,223.24</u></u>

As at 30 June 2021, the Group had no significant accounts payable aged over one year.

17. OTHER PAYABLES

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
Dividends payable	156,566.15	11,079,608.27
Other payables	<u>11,165,143,267.28</u>	<u>8,976,309,037.22</u>
Total	<u><u>11,165,299,833.43</u></u>	<u><u>8,987,388,645.49</u></u>

Other payables categorized by nature are presented as below:

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
Amounts due to partners	5,060,063,097.99	2,633,408,701.43
Deposits from tenants	2,427,370,645.17	2,394,737,162.29
Proceeds collected on behalf of the tenants	1,100,192,567.05	1,176,979,759.01
Rental deposits from tenants	687,751,525.37	580,980,073.12
Amounts payable to construction contractors	657,632,780.65	839,211,748.32
Amounts payable for property purchase	335,026,745.87	371,429,592.85
Accrued expenses	318,804,111.43	346,424,787.39
Amounts payable to equity transfer	36,850,242.45	142,937,133.94
Amounts payable to prepaid cards	24,528,159.67	14,705,587.76
Others	<u>516,923,391.63</u>	<u>475,494,491.11</u>
Total	<u><u>11,165,143,267.28</u></u>	<u><u>8,976,309,037.22</u></u>

18. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
Long-term loans due within one year-principal	3,198,240,467.41	4,258,554,857.19
Long-term loans due within one year-interest	70,147,925.49	51,864,659.11
Bonds payable due within one year-principal	3,543,052,370.58	4,033,264,470.43
Bonds payable due within one year-interest	169,305,757.29	213,894,153.03
Lease liabilities due within one year	758,213,615.58	696,027,069.47
Commercial mortgage backed securities due within one year-principal	5,721,771,646.98	2,451,753,879.27
Long-term payables due within one year	284,721,385.85	192,084,555.22
	<hr/>	<hr/>
Total	<u>13,745,453,169.18</u>	<u>11,897,443,643.72</u>

19. LONG-TERM LOANS

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
Mortgage loans	7,941,250,017.85	8,654,687,256.72
Mortgage and guaranteed loans	5,899,747,624.05	5,592,041,776.44
Mortgage and pledge loans	5,913,799,687.50	5,757,725,594.28
Mortgage and pledge and guaranteed loans	2,895,670,000.00	2,110,975,000.00
Credit loans	-	97,000,000.00
	<hr/>	<hr/>
Total	<u>22,650,467,329.40</u>	<u>22,212,429,627.44</u>

20. SHARE CAPITAL

Share capital	Changes during the period				Closing amount
	Opening amount	Issue of new shares	Others	Sub-total	
For the half year ended 30 June 2021 (Unaudited):					
I. Restricted shares					
1. State-owned shares	-	-	-	-	-
2. Shares held by state-owned entities	-	-	-	-	-
3. Shares held by other domestic entities	2,728,347,349	-	(2,728,347,349)	(2,728,347,349)	-
Include: Shares held by domestic non-state-owned entities	2,728,347,349	-	(2,728,347,349)	(2,728,347,349)	-
Shares held by domestic natural persons	-	-	-	-	-
Total restricted shares	<u>2,728,347,349</u>	<u>-</u>	<u>(2,728,347,349)</u>	<u>(2,728,347,349)</u>	<u>-</u>
II. Unrestricted shares					
1. RMB-denominated ordinary shares	435,367,017	-	2,728,347,349	2,728,347,349	3,163,714,366
2. Overseas listed foreign shares	<u>741,285,634</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>741,285,634</u>
Total unrestricted shares	<u>1,176,652,651</u>	<u>-</u>	<u>2,728,347,349</u>	<u>2,728,347,349</u>	<u>3,905,000,000</u>
Total number of shares	<u><u>3,905,000,000</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>3,905,000,000</u></u>

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 operation strategy of “one-stop design and home improvement, online and offline integration”, focusing on the development of new business formats such as Localized Online Retail (“**Tongcheng Station**”), home decoration, Shejiyun, digital marketing, 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 “Tongcheng Station”.

Meanwhile, in terms of business model, the Company continued to implement the business model of “asset-light and operation-heavy”, 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.

As of the end of the Reporting Period, the Group operated 93 Portfolio Shopping Malls, 276 Managed Shopping Malls, and operated 12 home furnishing shopping malls through strategic cooperation⁽¹⁾. In addition, the Group opened 67 franchised home improvement material projects⁽²⁾ by way of franchising, which included a total of 483 home improvement material stores/industry streets⁽³⁾. The Portfolio Shopping Malls and Managed Shopping Malls that we operated cover 224 cities in 30 provinces, municipalities and autonomous regions, with a total shopping mall operating area of 22,116,526 sq.m. In terms of business operation, in order to centralize the related digitalization resources and capabilities of the Group, accelerate development of digitalization economy domain and empower corporate industrial chains, the Group established Macalline Digital Technology Co., Ltd (美凱龍數字科技有限公司) during the Reporting Period, with an aim to promote the internal synergetic development and create and increase our value as a listed company. At the same time, the Company 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 the long-term 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 RMB7,502.6 million, representing an increase of 24.5% from RMB6,024.4 million for the same period in 2020. Gross profit margin slightly decreased to 63.6% from 66.9% 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 RMB931.9 million, representing an increase of 33.0% from RMB700.8 million for the same period in 2020. As of the end of the Reporting Period, the Group’s cash and bank balances amounted to RMB6,604.5 million, representing an increase of 1.4% from RMB6,511.1 million as at the end of 2020. As of the end of the Reporting Period, the net gearing ratio⁽⁴⁾ of the Group decreased from 76.9% as at the end of 2020 to 67.6%.

- 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 2021, Shandong Inzone Green Home Co., Ltd. and its controlling subsidiaries operated 12 home furnishing shopping malls in total in the PRC. Shopping malls through strategic cooperation refer to the home furnishing shopping malls which, based on strategic objectives considered by the Company, were jointly invested, held and co-operated by the Group and its cooperation partners.
- (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 commencement of the 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 property under operation 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 RMB7,502.6 million, representing an increase of 24.5% from RMB6,024.4 million for the same period in 2020. The increase in revenue was primarily due to the impact of the COVID-19 pandemic on the Company last year. During the Reporting Period, the rental and related income of our Owned/Leased Portfolio Shopping Malls increased by 29.4%, which was mainly due to the decline in the occupancy rate of the Portfolio Shopping Malls of the Group in areas affected by the COVID-19 pandemic and the implementation of the rent-free policy by the Group in the corresponding period of last year. During the Reporting Period, revenue from our Managed Shopping Malls has decreased by 8.4%, mainly due to the decrease in the number of projects for the revenue recognition of construction project and business consultation services for the year. During the Reporting Period, the Company was committed to providing one-stop and individualized high-quality home decoration services, and revenue from home decoration related and sales of merchandise increased by 214.7% year on year. There was an increase in revenue from construction and design and other revenue as compared with the same period of 2020.

The following table sets forth our revenue by business segments:

	Six months ended 30 June			
	2021 (Unaudited)		2020 (Unaudited)	
	Amount	%	Amount	%
Owned/Leased Portfolio Shopping Malls	3,917,677,242.14	52.3	3,027,912,524.15	50.3
Managed Shopping Malls	1,676,074,613.59	22.3	1,828,941,707.49	30.4
Construction and design	763,101,229.34	10.2	640,753,919.60	10.6
Home decoration related and sales of merchandise	573,725,462.84	7.6	182,300,235.25	3.0
Others	572,017,990.67	7.6	344,532,479.52	5.7
Total	<u>7,502,596,538.58</u>	<u>100.0</u>	<u>6,024,440,866.01</u>	<u>100.0</u>

3. Gross profit and gross profit margin

During the Reporting Period, the Group's gross profit was RMB4,771.0 million, representing an increase of 18.4% from RMB4,029.8 million for the same period in 2020; the comprehensive gross profit margin was 63.6%, representing a decrease of 3.3 percentage points from 66.9% for the same period in 2020.

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

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Owned/Leased Portfolio Shopping Malls	76.0%	76.2%
Managed Shopping Malls	57.8%	67.9%
Construction and design	36.9%	24.0%
Home decoration related and sales of merchandise	15.0%	28.2%
Others	80.3%	80.2%
Total	<u>63.6%</u>	<u>66.9%</u>

4. Distribution and selling expenses and general and administrative expenses

During the Reporting Period, the Group's distribution and selling expenses amounted to RMB828.7 million (accounting for 11.0% of the revenue), representing an increase of 31.3% from RMB631.2 million (accounting for 10.5% of the revenue) for the same period in 2020, primarily due to a year-on-year increase in advertising and promotional expenses during the period as a result of the Group's implementation of targeted measures and control of the expenses of brand promotion and other activities in response to the COVID-19 pandemic last year.

During the Reporting Period, the Group's general and administrative expenses amounted to RMB882.0 million (accounting for 11.8% of the revenue), representing an increase of 18.5% from RMB744.5 million (accounting for 12.4% of the revenue) for the same period in 2020, primarily due to the Group having controlled the office business size and expenses in response to the impact of the COVID-19 outbreak in the previous year, and a year-on-year increase in relevant expenses due to the resumption of normal office business in the same period of the year.

5. Financial expenses

During the Reporting Period, the Group's financial expenses amounted to RMB1,219.5 million, representing a decrease of 9.6% from RMB1,348.4 million for the same period in 2020; among which, the total interest expense amounted to RMB1,354.6 million, which remained basically stable as compared with RMB1,330.2 million for the same period in 2020.

6. Investment income

During the Reporting Period, the Group's investment income was RMB778.7 million, representing an increase of 446.1% as compared with RMB142.6 million in the same period of 2020, mainly due to the higher gains from the disposal of subsidiaries during the Reporting Period.

7. Income tax expenses

During the Reporting Period, the income tax expenses of the Group amounted to RMB651.8 million, representing an increase of 61.9% from RMB402.5 million for the same period in 2020, which was mainly due to the increase in the profit before tax during the Reporting Period.

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 RMB1,731.9 million, representing an increase of 57.3% from RMB1,101.3 million for the same period in 2020; the net profit attributable to owners of the Company after deducting non-recurring profit or loss amounted to RMB931.9 million, representing an increase of 33.0% from RMB700.8 million for the same period in 2020.

	Six months ended 30 June		Increase/decrease
	2021	2020	
	(Unaudited)	(Unaudited)	
Net profit attributable to owners of the Company	1,731,901,543.75	1,101,316,487.91	57.3%
Net profit margin attributable to owners of the Company	23.1%	18.3%	+4.8 pts
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	931,940,142.95	700,783,934.70	33.0%
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	12.4%	11.6%	+0.8 pts

During the Reporting Period, the Group's earnings per share was RMB0.44, as compared to RMB0.28 for the same period in 2020.

9. Accounts receivable

As at the end of the Reporting Period, the book value of accounts receivable of the Group amounted to RMB2,231.8 million (including the balance of accounts receivable of RMB3,495.4 million and the bad debt allowance of RMB1,263.6 million), representing an increase of RMB297.0 million from RMB1,934.8 million as at the end of 2020, mainly due to the increase in relevant accounts receivable as a result of the increase in revenue of the Group from engineering construction and home decoration 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 RMB93,539.0 million, representing an increase of 0.4% from RMB93,150.0 million as at the end of 2020. During the Reporting Period, the Group's gains from changes in fair value of investment properties were RMB217.7 million. The change in book value was mainly due to advancement in construction progress of Owned Portfolio Shopping Malls project under construction during the Reporting Period and the disposal of certain properties in the logistics sector in the period.

11. Capital expenditure

During the Reporting Period, the Group's capital expenditure amounted to RMB1,394.0 million (the same period in 2020: RMB1,348.5 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 RMB6,604.5 million (of which, the balance of cash and cash equivalents amounted to RMB4,414.5 million), representing an increase of RMB93.4 million from RMB6,511.1 million (of which, the balance of cash and cash equivalents amounted to RMB5,901.1 million) as at the end of 2020.

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Net cash flow from operating activities	2,083,776,163.70	1,065,894,804.21
Net cash flow from investment activities	255,757,247.88	(3,734,250,078.50)
Net cash flow from financing activities	(3,825,721,734.37)	4,711,941,869.39
Impact of exchange rate changes on cash and cash equivalents	(362,631.26)	(13,494,649.41)
Net (decrease)/increase in cash and cash equivalents	<u>(1,486,550,954.05)</u>	<u>2,030,091,945.69</u>

During the Reporting Period, the Group's net cash inflow from operating activities amounted to RMB2,083.8 million, representing an increase of RMB1,017.9 million from a net cash inflow of RMB1,065.9 million for the same period in 2020, mainly due to the relief and delayed collection of rental and management fees under the impact of the COVID-19 pandemic in 2020.

During the Reporting Period, the Group's net cash inflow from investment activities amounted to RMB255.8 million, representing an increase of RMB3,990.1 million from a net cash outflow of RMB3,734.3 million for the same period in 2020. It was primarily due to recovery of investment fund, increase in dividend for investment projects and disposal of subsidiaries during the Reporting Period.

During the Reporting Period, the Group's net cash outflow from financing activities amounted to RMB3,825.7 million, representing a decrease of RMB8,537.6 million from a net cash inflow of RMB4,711.9 million for the same period in 2020, mainly due to the increase in repayment of debts during the Reporting Period as compared with the same period last year.

13. Major debt ratios

Among the total debts of the Group, the portion repayable within one year or on demand amounted to RMB16,241.0 million, the portion repayable over one year but less than two years amounted to RMB7,247.5 million, the portion repayable over two years but less than five years amounted to RMB9,084.5 million and the portion repayable over five years amounted to RMB10,775.2 million. The Group will promptly repay the above debts at the time of maturity.

The following table sets out our major debt ratios:

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
Asset-liability ratio ⁽¹⁾	59.7%	61.2%
Net gearing ratio	67.6%	76.9%

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 RMB84,083.7 million and other equity instrument investments and restricted cash and bank balances with book balance of RMB2,038.2 million in order to obtain loans, and the balance of the loans obtained amounted to RMB35,754.1 million. The Group's restricted cash balance of RMB257.9 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 RMB2,193.2 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 RMB314.1 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 Company entered into the agreement to transfer all of the equity interests it held in logistics companies, including Tibet Red Star Macalline Enterprise Management Company Limited (西藏紅星美凱龍企業管理有限公司), Red Star Macalline (Shanghai) Business Management Company Limited (紅星美凱龍(上海)企業管理有限公司), Tianjin Red Star Macalline Logistics Company Limited (天津紅星美凱龍物流有限公司), Shanghai Beibo Logistics Company Limited (上海倍博物流有限公司), Shanghai Beizheng Logistics Company Limited (上海倍正物流有限公司), Shanghai Beiyue Logistics Company Limited (上海倍躍物流有限公司), Shanghai Beimao Logistics Company Limited (上海倍茂物流有限公司) to Beijing Yuanhong Enterprise Management Consultancy Co., Ltd. (北京遠紅企業管理諮詢有限公司). The abovementioned equity transfers have been completed during the Reporting Period, the Company recognized disposal income of approximately RMB454 million, representing approximately 18.0% of the profit before tax of the Company during the first half of 2021.

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 Euro short-term borrowings 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 the operating results of the Group.

20. Significant investment held

During the Reporting Period, the Group did not have any significant investment. As at the date of this announcement, the Group does not have any plan for material investments.

21. Human resources

As at the end of the Reporting Period, the Group employed 25,361 employees (the same period in 2020: 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 paid a total of RMB1,797.5 million for salary expenditure (the same period in 2020: RMB1,425.7 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.

During the Reporting Period, the Company implemented the third phase of the Employee Stock Ownership Plan. As of the end of the Reporting Period, the Employee Stock Ownership Plan held a total of 15,780,000 A shares of the Company.

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

As of the end of the Reporting Period, the Group operated 93 Portfolio Shopping Malls, 276 Managed Shopping Malls and 12 home furnishing shopping malls through strategic cooperation. In addition, the Group authorized 67 franchised home improvement material projects to commence business by way of franchising, which includes a total of 483 home improvement material stores/industry streets. Portfolio Shopping Malls and Managed Shopping Malls of the Group cover 224 cities in 30 provinces, municipalities and autonomous regions in China, with a total operating area of 22,116,526 sq.m. Through the 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 of the end of the Reporting Period, the Group operated 93 Portfolio Shopping Malls, covering a total operating area of 8,196,608 sq.m., with an average occupancy rate of 93%. Among these Portfolio Shopping Malls, 21 Portfolio Shopping Malls, representing 22.58% 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 2,159,148 sq.m., representing 26.34% of the total operating area of the Portfolio Shopping Malls. During the Reporting Period, the Group converted one Managed Shopping Mall to Portfolio Shopping Mall. As of the end of the Reporting Period, the Group had 21 pipeline Portfolio Shopping Malls.

As of the end of the Reporting Period, the Group operated 276 Managed Shopping Malls covering a total operating area of 13,919,918 sq.m., with an average occupancy rate of 91.2%. Among these Managed Shopping Malls, 151 Managed Shopping Malls, representing 54.7% 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 8,023,226 sq.m., representing 57.6% of the total operating area of Managed Shopping Malls. During the Reporting Period, the Group opened seven new Managed Shopping Malls and closed three Managed Shopping Malls. In addition, one Managed Shopping Mall was converted into Portfolio Shopping Mall. As of the end of the Reporting Period, among the pipeline Managed Shopping Malls, the Group has obtained land use rights certificate/land parcels for 346 contracted projects. Along with steady social and economic development of the country, further progress of urbanization strategy, and stable growth in disposable income per capita, the Group will focus on increasing the rate of expansion of our Managed Shopping Malls business throughout China.

23. Robust Development in Expansionary Business: Continued Upgrade in Strategy of “One-stop Design and Home Improvement, Online and Offline Integration”

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 “one-stop design and home improvement, online and offline integration”, focusing on the development of new business formats such as Tongcheng Station, home decoration, Shejiyun, digital marketing, etc., aiming to enhance the delivery capabilities of home decoration design and conversion capabilities of online and offline traffic, thereby providing customers with a shopping experience closer to the needs of end consumers and more personalized and high-quality home decoration services 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 all-fields digital marketing platform and Tmall “Tongcheng Station”.

Meanwhile, during the Reporting Period, in order to centralize the related digitalization resources and capabilities of the Company, accelerate development of digitalization economy domain and empower corporate industrial chains, the Group established Macalline Digital Technology Co., Ltd during the Reporting Period, with an aim to promote the internal synergetic development and create and increase our value as a listed company.

23.1 One-stop Design and Home Improvement

As of the end of the Reporting Period, we had 314 home decoration stores nationwide. In addition, the Company is upgrading the home decoration platform system to a new generation, which can help the Company to upgrade its production tools with modern information technology and comprehensively improve the efficiency of home decoration, batch home decoration and industrial renovation businesses, so as to gain a higher market share.

23.2 Incorporation of Digital Technology Group, Highlighting Online and Offline Integration

23.2.1 Localized Online Retail (“Tongcheng Station”)

During the Reporting Period, the Company continued to deepen its strategic cooperation with Alibaba based on the purpose of “focusing on user needs”, 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, the Company launched businesses at the Tmall Tongcheng Station in 28 cities, covering 73 shopping malls. The digital upgrade has covered 271 shopping malls. The online and offline Localized retail model aims to carry our digital construction in all offline shopping malls of Red Star Macalline and assist all admitted brands tenants and dealers to carry out construction of online operation site, including online operation of products, marketing, services and management. As of the end of the Reporting Period, Tmall Tongcheng Station covered a total of nearly 690,000 online products, achieving 42.56 million online traffic within Tongcheng Station, including 41.11 million independent visitors leading to products.

23.2.2 3D Design Cloud (“Shejiyun”)

The Shejiyun online intelligent 3D cloud design software for home improvement takes the dual-engine technology of “full parameterization and physical rendering” as the core, combines technologies such as cloud computing, big data and AI technology, and relies on the advantages of real product models and movie-level rendering to empower partners improve the efficiency of online design, thereby building a scene-based experience and realizing a comprehensive marketing upgrade. As of the end of the Reporting Period, Shejiyun has contained 820,000 estate floor plans nationwide and 300,000 real product model, with users of more than 120,000.

23.2.3 All-channel Operation Centre

During the Reporting Period, the Company has been devoted to building an all-field digital marketing platform, including systems of SCRM user pool, CDP user data center, etc. which are constructed with the aid of digital contacts. By means of building a “customer journey” to support “marketing automation”, we could integrate the operation of users from all sources and achieve “all-field digital marketing”, and to carry out in-depth “customer value analysis and exploration” through integration of online e-commerce platform, content platform, offline entity data and self-built service platform, etc. Moreover, such platform can empower brand factories and dealers to produce contents and support one-click release of contents in all fields through the content engine SAAS products. To efficiently transform customers between the Red Star offline stores and online Tongcheng Station and empower such stores, such platform helps getting customers, connection, deep cultivation and transformation in all-field user pools.

24. The Company continuously upgraded its operation management, with a focus on user mentality, and carried out the “operation-focused” strategy

Based on the strategic layout of “asset-light and operation-heavy”, during the Reporting Period, the Company has adhered to in a proactive manner, the Company has elevated the upgrade efficiency of its group structure from inside to outside, assisted global home furnishing brands and dealers to get through economic cycles and continuously deepened the regional markets, through seven material measures of shopping mall layout upgrade, strategy upgrade, business deepening, nine major theme pavilions upgrade, 1 mall online store upgrade, marketing and operation service upgrade, Five Exhibitions in Three Cities – League of Exhibition Store. In the meantime, we continued to implement eight material regional strategies, aiming to break down regional barriers, empower business partners from various aspects and enhance efficiency.

24.1 Merchant Sourcing Management

The Company continued to optimize the layout of brands and categories by focusing on construction of nine theme pavilions. In 2021, the Company upgraded the nine theme pavilions, covering nine categories of smart electrical appliances, international imports, living room design, high-end customization, soft decoration, system doors and windows, boutique bathroom accessories, sleep and life, trend furniture, to help more home furnishing brands to broaden their market areas through Red Star Macalline platform. Meanwhile, we continued to promote the strategic launching of one model shopping mall in one province in 2021, accelerated the construction of “1 mall” nationwide, in order to set up the zenith of urban home furnishing consumption market. Furthermore, we continuously advanced the fine management of rent, used intelligent marketing platform to enhance sales volume of merchants, increase brands and categories through three marketing projects of super urban shopping, super category carnival, super sales promotion. Thus, we improved brand loyalty of merchants to Red Star Macalline, thereby contributing to rental income growth.

24.2 Operational Management

During the Reporting Period, the Company promoted upgrading of operational management with focus on on-site management, environmental publicity, service optimization, talent development. By means of upgrading intelligent customer service and operating risk control system, we updated and optimized the operational management standards, commodity quality management system and merchant credit management system, to achieve all-round improvement of customer home furnishing consumption experience and satisfaction.

24.3 Marketing Management

During the Reporting Period, we successfully held six super product category carnivals, including “Super Sofa Category Carnival”, “Super All-House Furniture Category Carnival”, “Super Cabinet Category Carnival”, “Super Floor Category Carnival” and “Borderless Sofa Category Carnival”, “Super Children’s Furniture Category Carnival”. Such activities precisely helped home furnishing brands and dealer partners, and achieve significant increase in sales volume.

Meanwhile, thanks to the IMP platform, the Company continues to deepen the brand-new home furnishing joint marketing mode subject to online interactive traffic attraction and offline experience transaction, and gradually solve the marketing pain points of difficult access to accurate traffic, high traffic cost and low traffic utilization rate. During the Reporting Period, through focusing on eight major traffic operation channels, including community marketing, DMP delivery, live broadcasting, member marketing, etc., we explored traffic operation SOP, empowered shopping mall planning marketing personnel, created shopping mall private domain traffic. Depending on the Tongcheng Shopping, Super Elected Ace and other joint marketing products, through persistent optimization of the quality case database and implementation of operational norms, and continuous improvement of sales returns from joint marketing projects to brand factories and merchants, we attracted more brand factories and merchants to participate in the joint marketing.

24.4 Brand Management

During the Reporting Period, the Company and Dunhuang Research Institute formally reached a strategic cooperation, which injected brand connotation of “Great Beauty” and “Culture” to Red Star Macalline in terms of culture and create a new imagination space for our brand. At the same time, with the help of enterprise video account, national marketing platform content operation and creation, we developed the value of we media marketing communication. Moreover, through planning and operation of a number of senior executive personal accounts, we created the wisdom and professional images of entrepreneurs and professional managers. By spreading corporate culture concepts through social media, we also optimized our enterprise communication matrix.

25. 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.

26. Continuously upgrading the information infrastructure to support the rapid development of corporate

In terms of infrastructure operations and maintenance, the Company carried out digital innovation to further solidify the underlying infrastructure platform. Through cutting-edge software-defined network technology, we implemented the integrated solutions of network digital upgrade and transformation in the shopping malls and sub-branches nationwide, replacing the original dedicated line services. The brand-new digital network makes the network with hundreds of nodes nationwide have more sensitive application and awareness to meet the needs of flexible changes, which also significantly improved our unified operation management capabilities and the efficiency of deployment and construction delivery.

27. Focusing on human resources management policies: to effectively support the sustainable development of the corporate

During the Reporting Period, adhering to the “Thirteen-Word Values” oriented by Red Star Macalline and closely in line with the main work in 2021, namely “further enhancing user mentality, focusing on operations, fighting corruption and upholding integrity, broadening sources of income and reducing expenditure”, we carried out various human resources management works to promote the all-round development of corporate business.

28. 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.

29. Outlook and prospects

The Group constantly shoulders the responsibility of “building cozy and harmonious homes and improving quality of shopping and home life” to provide consumers 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 consumers’ minds, to pursue our enterprise development goal of growing into China’s most advanced and professional “omni-channel platform service provider for home decoration and furnishing industry”.

Our future development plans are as follows:

1. We will continue to implement the business model of “asset-light and operation-heavy”, 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 2021, 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 Company since June 2007, the Board considers it beneficial to the business prospect and operational efficiency of the Group that Mr. CHE, in addition to acting as the Chairman of the Board, continues to act as the chief executive officer of the Company. While this will constitute a deviation from Code Provision A.2.1 of the Corporate Governance Code, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) decisions to be made by the Board require approval by at least a majority of our Directors and that the Board comprises five independent non-executive Directors out of the 13 Directors as of the date of this announcement, 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 2021.

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 2021.

INTERIM DIVIDENDS

The Board does not recommend payment of dividend for the six months ended 30 June 2021.

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 100% of the net proceeds in the abovementioned fund-raising investment projects.

Analysis of utilized net proceeds from the Global Offering as at 30 June 2021 is as follows:

Use/Intended use	Planned use (RMB million)	Actual use of proceeds as at 30 June 2021 (RMB million)	Unutilized net proceeds as at 30 June 2021 (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	2,436.0	—
	<u>2,436.0</u>	<u>2,436.0</u>	<u>—</u>

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 88.63% 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 2021 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	145,787	Expected to be invested by May 2023
	Xining Expo Shopping Mall Project	110,000	110,001	Fully invested
	Sub-total	<u>1,750,000</u>	<u>1,703,449⁽¹⁾</u>	
New intelligent home furnishing shopping mall	400,000	99,897		
Repayment of bank loans	400,000	400,000		
Supplement of liquidity	150,008	150,008		
Repayment of interest-bearing debts	350,000	350,000		
Total	<u><u>3,050,008</u></u>	<u><u>2,703,354</u></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. Change of Directors

On 5 August 2021, the Company received a written resignation from Mr. LIU Jin, a non-executive Director. Due to job change, Mr. LIU Jin tendered his resignation as a Director to the fourth session of the Board of the Company.

On 11 August 2021, the Company held the twenty-ninth extraordinary meeting of the fourth session of the Board, at which the Resolution on the Appointment of Mr. JIANG Xiangyu (蔣翔宇) as non-executive Director of the fourth session of the Board of the Company was considered and approved. As recommended by Aeon Life Insurance Co., Ltd., a shareholder holding over 1% of the shares in the Company, the Nomination Committee reviewed the occupation, educational background, professional titles, detailed work experience, part-time jobs and other information of Mr. JIANG Xiangyu, and believed that he met qualification requirements for non-executive Directors specified by relevant laws and regulations and the Articles of Association of the Company, and agreed to nominate Mr. JIANG Xiangyu to act as a non-executive Director of the fourth session of the Board of the Company. For details, please see the announcement of the Company dated 12 August 2021 disclosed on the designated media and the announcement of the Company dated 11 August 2021 disclosed on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

2. Adjustment and Cancellation of the Share Options under the A Share Option Incentive Scheme for 2020

On 11 August 2021, the twenty-ninth extraordinary meeting of the fourth session of the Board and the ninth extraordinary meeting of the fourth session of the Supervisory Committee reviewed and approved the Resolution in Relation to Adjustments to the Number and Exercise Price of the A Share Option Incentive Scheme of the Company for 2020, the Resolution in Relation to the Cancellation of Part of the Share Options, and the Resolution in Relation to Adjustment to Certain Performance Assessment Targets under the A Share Option Incentive Scheme of the Company for 2020, and other resolutions. Considering that the Company implemented the annual equity distribution plan 2019 on 6 July 2020, the Company changed the number of share options involved in the incentive scheme from 25.236 million to 27.7596 million, and the exercise price from RMB11.02 per share to RMB9.79 per share.

In addition, under such incentive scheme, 108 original participants resigned or voluntarily waived the exercise of their rights, and 2.1362 million share options held by the above persons which had been granted but not yet exercised were cancelled according to relevant provisions under such incentive scheme. In addition, in light of the fact that the performance assessment targets at the company level under the exercise conditions of the first tranche of the share options under the first grant of the incentive scheme have not been met, a total of 12.8117 million share options which were exercisable by all participants for the corresponding assessment year (except for the portion triggered due to the above reasons) will be cancelled. Based on the above reasons, a total of 14.9479 million share options will be cancelled.

Considering the impact of the COVID-19 outbreak in early 2020 on the Company's results in 2021, it is practically difficult to achieve the performance assessment targets for 2021 originally set in the A Share Option Incentive Scheme of the Company. In order to protect the long-term interests of the Company and its shareholders and further mobilize the enthusiasm and creativity of core employees of the Company, the performance assessment requirements at the company level under such incentive scheme are adjusted. For details, please see the announcement of the Company dated 12 August 2021 disclosed on the designated media and the announcement of the Company dated 11 August 2021 disclosed on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

REVIEW OF INTERIM RESULTS

The Company's audit committee has reviewed the interim results announcement for the six months ended 30 June 2021 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2021.

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 2021 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
25 August 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, XU Hong, JING Jie and CHEN Zhaohui; and the independent non-executive Directors are QIAN Shizheng, LEE Kwan Hung, Eddie, WANG Xiao, ZHAO Chongyi and QIN Hong.