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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 2021

The board of directors (the “**Board**”) of Red Star Macalline Group Corporation Ltd. (the “**Company**”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2021 (the “**Reporting Period**”), together with comparative figures for the same period of 2020. Such financial results in this announcement had been agreed by Ernst & Young Hua Ming (LLP), the external auditor of the Company.

FINANCIAL HIGHLIGHTS

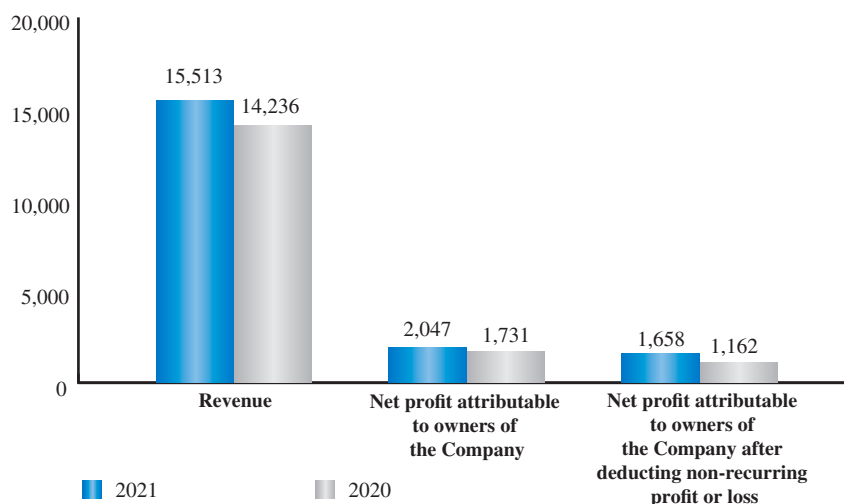
	For the year ended 31 December	
	2021	2020
	<i>(RMB'000, except otherwise stated)</i>	
	(Audited)	(Audited)
Revenue	15,512,792	14,236,460
Gross profit	9,566,316	8,756,290
Gross profit margin	61.7%	61.5%
Net profit	2,189,000	2,064,077
Net profit attributable to owners of the Company	2,047,402	1,730,582
Net profit margin attributable to owners of the Company	13.2%	12.2%
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	1,657,758	1,162,324
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	10.7%	8.2%
Earnings per share	RMB0.51	RMB0.44

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

KEY FINANCIAL PERFORMANCE INDICATORS

Key Financial Performance Indicators

RMB million



OPERATIONAL HIGHLIGHTS

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

	As at 31 December 2021	As at 31 December 2020
Number of shopping malls	373	365
Operating area of shopping malls (sq.m.)	22,303,548	22,055,668
Number of cities covered	224	223
Number of Portfolio Shopping Malls	95	92
Operating area of Portfolio Shopping Malls (sq.m.)	8,455,486	8,034,277
Average occupancy rate of Portfolio Shopping Malls	94.1%	92.1%
Number of Managed Shopping Malls	278	273
Operating area of Managed Shopping Malls (sq.m.)	13,848,062	14,021,390
Average occupancy rate of Managed Shopping Malls	91.4%	90.7%

Note:

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

CONSOLIDATED INCOME STATEMENT

For the Year Ended 31 December 2021

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

		For the year ended 31 December	
		2021	2020
		(Audited)	(Audited)
	Note		
I. Revenue	4	15,512,792,215.84	14,236,460,098.98
Less: Cost of sales		5,946,476,374.29	5,480,170,024.86
Taxes and surcharges		444,213,449.40	377,414,782.27
Sale expenses	5	2,063,508,529.45	1,693,772,759.64
Management expenses	6	2,004,068,303.50	1,680,856,568.05
Research and development expenses		60,662,404.01	36,035,643.66
Financial expenses	7	2,461,030,413.09	2,464,418,667.68
Including: Interest expenses		2,694,541,165.59	2,548,719,302.83
Interest income		227,196,077.05	194,886,018.04
Add: Other income		157,986,045.42	184,249,900.19
Investment income		539,056,113.92	222,015,867.89
Including: Investment income from			
associates and joint ventures		45,193,914.37	44,959,080.07
Gain on fair value changes		371,721,560.94	494,132,525.69
Impairment loss of credit (losses are			
presented with parentheses)		(482,324,412.32)	(126,335,204.00)
Impairment losses of assets (losses are			
presented with parentheses)		(270,517,522.20)	(333,165,778.40)
Gain from disposal of assets (losses are			
presented with parentheses)		13,583,009.15	1,368,758.55
II. Operating profit		2,862,337,537.01	2,946,057,722.74
Add: Non-operating income		43,461,098.33	57,938,296.96
Less: Non-operating expenses	8	103,823,054.44	189,847,568.12
III. Total profit		2,801,975,580.90	2,814,148,451.58
Less: income tax expenses	9	612,975,607.73	750,071,048.61
IV. Net profit		2,188,999,973.17	2,064,077,402.97
(I) According to the classification of			
continuity of operation			
1. Net profit from continuing operations		2,188,999,973.17	2,064,077,402.97
2. Net profit from discontinued operations		—	—
(II) According to the classification of ownership			
1. Non-controlling interests		141,598,066.19	333,495,611.41
2. Net profit attributable to owners of the Company		2,047,401,906.98	1,730,581,791.56

		For the year ended 31 December	
		2021	2020
		(Audited)	(Audited)
	Note		
V. Net other comprehensive income (after tax)		688,050,541.49	1,261,871,486.11
Net other comprehensive income (after tax)			
attributable to owners of the Company		689,070,931.36	1,253,005,655.52
(I) Other comprehensive income that will not			
be reclassified to profit or loss			
1. Changes in fair value of other equity			
instrument investments		671,394,288.08	1,081,989,482.82
(II) Other comprehensive income/(loss) that will			
be reclassified to profit or loss			
1. Effective part of fair value hedging		18,917,420.31	92,080,050.37
2. Transfer from owner-occupied properties to			
investment properties measured at fair value		3,734,825.31	77,663,553.12
3. Others		(4,975,602.34)	1,272,569.21
Net other comprehensive income/(loss) (after tax)			
attributable to non-controlling interests		(1,020,389.87)	8,865,830.59
VI. Total comprehensive income		2,877,050,514.66	3,325,948,889.08
Total comprehensive income attributable to			
owners of the Company		2,736,472,838.34	2,983,587,447.08
Total comprehensive income attributable to			
non-controlling interests		140,577,676.32	342,361,442.00
VII. Earnings per share			
(1) Basic earnings per share	10	0.51	0.44
(2) Diluted earnings per share		N/A	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2021

		As at 31 December 2021 (Audited)	As at 31 December 2020 (Audited)
	Note		
Current assets			
Cash and bank balances		6,903,715,249.53	6,511,092,198.09
Financial assets held for trading		1,018,692,853.25	247,611,072.73
Derivative financial assets		–	2,160,732.11
Notes receivable		86,554,182.13	–
Accounts receivable	12	1,957,650,342.07	1,934,826,113.43
Receivables financing		–	5,872,800.00
Prepayments		305,043,459.08	323,626,340.62
Other receivables	13	935,666,616.98	1,524,654,743.28
Inventories		329,087,511.33	328,295,668.02
Contract assets		1,705,475,178.70	1,375,364,101.48
Non-current assets due within one year		140,144,400.00	248,704,377.99
Other current assets		2,270,860,332.29	2,634,575,271.37
Total current assets		15,652,890,125.36	15,136,783,419.12
Non-current assets			
Long-term receivables		433,325,229.21	532,498,896.89
Long-term equity investments		3,929,090,179.77	3,703,895,492.49
Other equity instrument investments		4,169,970,944.17	4,206,678,046.54
Other non-current financial assets		370,774,540.60	396,924,540.60
Investment properties	14	95,575,000,000.00	93,150,000,000.00
Fixed assets		2,655,001,955.04	2,737,965,196.94
Construction in progress		88,911,088.97	80,629,155.83
Right-of-use assets		3,899,861,973.84	3,852,597,418.85
Intangible assets		125,191,951.03	343,768,582.72
Development expenditure		12,238,146.01	30,837,675.61
Goodwill		97,597,047.85	97,597,047.85
Long-term prepaid expenses		504,900,607.96	454,054,803.22
Deferred tax assets		2,670,232,754.70	1,541,067,156.39
Other non-current assets	15	5,002,555,455.51	5,282,621,202.44
Total non-current assets		119,534,651,874.66	116,411,135,216.37
Total assets		135,187,542,000.02	131,547,918,635.49

		As at 31 December 2021 (Audited)	As at 31 December 2020 (Audited)
	Note		
Current liabilities			
Short-term loans	16	2,957,088,415.02	3,448,371,909.45
Derivative financial liabilities		18,167,670.06	–
Notes payable		9,000,000.00	–
Accounts payable	17	2,400,880,410.78	2,085,329,223.24
Advance from customers		1,692,678,416.28	960,787,153.16
Contract liabilities		1,925,076,587.06	2,287,548,874.89
Payroll payable		609,186,211.11	563,788,624.24
Taxes payable		828,853,545.05	671,338,917.19
Other payables	18	9,770,693,294.55	8,987,388,645.49
Non-current liabilities due within one year	19	11,699,289,233.98	11,897,443,643.72
Other current liabilities		220,624,831.48	736,850,395.29
Total current liabilities		32,131,538,615.37	31,638,847,386.67
Non-current liabilities			
Long-term loans	20	21,606,316,908.01	22,212,429,627.44
Bonds payable		532,619,987.37	4,432,634,711.35
Lease liabilities		3,957,786,655.49	4,082,933,276.21
Long-term payables		730,548,821.82	712,856,318.61
Deferred income		213,857,300.87	224,943,229.90
Deferred tax liabilities		13,401,316,273.63	12,517,571,618.93
Other non-current liabilities		5,082,339,292.35	4,627,859,670.75
Total non-current liabilities		45,524,785,239.54	48,811,228,453.19
Total liabilities		77,656,323,854.91	80,450,075,839.86
Equity			
Share capital	21	4,354,732,673.00	3,905,000,000.00
Capital reserve		6,880,495,088.02	3,648,120,125.82
Other comprehensive income		1,877,732,755.94	1,720,585,961.74
Surplus reserve		2,206,429,308.76	2,076,486,432.95
Retained earnings		38,662,409,591.69	36,213,026,423.36
Total equity attributable to shareholders of the Company		53,981,799,417.41	47,563,218,943.87
Non-controlling interests		3,549,418,727.70	3,534,623,851.76
Total equity		57,531,218,145.11	51,097,842,795.63
Total liabilities and equity		135,187,542,000.02	131,547,918,635.49

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 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) (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 this 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.

At the 2019 Annual General Meeting, the A Share Shareholders’ Class Meeting and H Share Shareholders’ Class Meeting held by the Company in 2020, resolutions in relation to non-public issuance including the Resolution on the Fulfilment of Conditions for the Non-public Issuance of A Shares by the Company, the Resolution on the 2020 Non-public Issuance of A Shares of the Company, and the Resolution on the 2020 Plan for the Non-public Issuance of A Shares of the Company, were considered and approved. On 19 April 2021, the Company received the Reply as to Approval for Non-Public Issuance of Shares by Red Star Macalline Group Corporation Ltd. (ZJXK [2021] No.1361) issued by the CSRC. In October 2021, the actual number of shares issued by the Company at an issue price of RMB8.23 per share was 449,732,673, and as verified by the Capital Verification Report for Red Star Macalline Group Corporation Ltd. (Ernst & Young Hua Ming (2021) YZ No.60954737_B01) issued by Ernst & Young Hua Ming (LLP), the total subscription payment of subscribers for the non-public issuance of shares was RMB3,701,299,898.79. The net proceeds after deduction of the issuance expense (exclusive of tax) were RMB3,678,363,799.29, which increased the share capital by RMB449,732,673.00 and the capital reserve by RMB3,228,631,126.29. The Company completed the industrial and commercial change registration on 2 December 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 (collectively the “**Accounting Standards for Business Enterprises**”).

As of 31 December 2021, the Group’s current liabilities in aggregate exceeded its current assets in aggregate with an amount of RMB16,478.6 million. The management of the Group had assessed its ongoing operation for the 12 months starting from 1 January 2022, and after taking into account unutilized bank facilities held by the Group and the Group’s expected operating cash inflows and financing arrangements as of 31 December 2021, 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 2021 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. 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 measured on the historical cost basis. In case of any impairment of any assets, 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	Related home decoration and sales of merchandise	Other	Unallocated items	Total
2021 (Audited)							
Segment revenue							
– External transaction revenue	<u>8,094,818,286.35</u>	<u>3,256,244,786.68</u>	<u>1,498,607,716.09</u>	<u>1,395,546,601.53</u>	<u>1,267,574,825.19</u>	<u>–</u>	<u>15,512,792,215.84</u>
Segment operating profit (loss)	<u>3,829,883,803.53</u>	<u>740,699,929.31</u>	<u>249,936,468.69</u>	<u>(158,788,051.81)</u>	<u>392,793,409.48</u>	<u>(2,192,188,022.19)</u>	<u>2,862,337,537.01</u>
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>

5. SALE EXPENSES

	2021 (Audited)	2020 (Audited)
Advertising and promotional expenses	1,204,955,693.93	953,948,821.11
Energy and maintenance expenses	544,679,944.15	478,987,583.59
Salary, bonus and benefits	166,659,698.54	126,610,432.31
After-sales service expenses	43,758,593.82	43,557,632.21
Depreciation and amortization	30,307,714.65	17,822,601.66
Office and administrative expenses	30,228,101.90	38,205,086.49
Others	42,918,782.46	34,640,602.27
Total	<u>2,063,508,529.45</u>	<u>1,693,772,759.64</u>

6. MANAGEMENT EXPENSES

	2021 (Audited)	2020 (Audited)
Salary, bonus and benefits	1,056,932,015.49	854,698,037.03
Office and administrative expenses	499,465,886.28	394,343,198.11
Other professional services expenses	167,772,990.25	143,584,512.71
Depreciation and amortization	160,486,879.04	148,167,974.44
Auditing expenses	17,661,367.55	18,348,251.47
Network communications fees	68,174,343.66	95,275,353.19
Others	33,574,821.23	26,439,241.10
Total	<u>2,004,068,303.50</u>	<u>1,680,856,568.05</u>

7. FINANCIAL EXPENSES

	2021 (Audited)	2020 (Audited)
Interest expenses	3,076,834,271.11	2,914,464,907.10
Less: Interest income	227,196,077.05	194,866,018.04
Less: Capitalized interest expenses	382,293,105.52	365,745,604.27
Net interest expenses	2,467,345,088.54	2,353,833,284.79
Foreign exchange gain or loss	(47,305,649.44)	66,960,466.83
Others	40,990,973.99	43,624,916.06
Total	<u>2,461,030,413.09</u>	<u>2,464,418,667.68</u>

8. NON-OPERATING EXPENSES

	2021 (Audited)	2020 (Audited)
Compensation expenses	11,372,205.84	123,687,842.36
Charitable donations	31,042,689.38	32,147,040.00
Others	61,408,159.22	34,012,685.76
Total	<u>103,823,054.44</u>	<u>189,847,568.12</u>

9. INCOME TAX EXPENSES

	2021 (Audited)	2020 (Audited)
Current income tax expenses	749,038,535.89	678,648,161.51
Deferred income tax expenses	(136,062,928.16)	71,422,887.10
Total	<u>612,975,607.73</u>	<u>750,071,048.61</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.

10. EARNINGS PER SHARE

Calculation of the basic earnings per share as of 31 December 2021 and 2020 is as follows:

	2021 (Audited)	2020 (Audited)
Net profit attributable to owners of the Company for the current period	2,047,401,906.98	1,730,581,791.56
Including: Net profit attributable to ongoing operations	2,047,401,906.98	1,730,581,791.56
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,004,940,594	3,905,000,000
Basic earnings per share	0.51	0.44

The Group does not have dilutive ordinary shares.

11. DIVIDENDS

According to the requirements of the Administrative Measures on Issue and Underwriting of Securities (《證券發行與承銷管理辦法》) promulgated by the CSRC, where a listed company with a plan for issuance of securities has any plan for profit distribution or conversion of capital reserve into share capital which has not yet been submitted to its shareholders' general meeting for voting, or it has been approved by the shareholders' general meeting but has not been implemented yet, the issuance of securities shall be proceeded after such plan has been implemented. As the Company's application for non-public issuance of A shares was approved by the Issuance Examination Committee of CSRC on 1 March 2021, the Company did not 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 smooth implementation of the Company's non-public issuance of shares, after consideration at the fifth meeting of the fourth session of the Board of the Company and with the consent of the 2020 Annual General Meeting.

The Board has proposed the distribution of an ordinary final dividend of RMB0.1 per share for the year ended 31 December 2021. The distribution of dividend is subject to approval by the shareholders (the "Shareholder") of the Company at the annual general meeting (the "AGM") to be held on 20 May 2022. The dividend is expected to be distributed on or around 20 July 2022.

12. ACCOUNTS RECEIVABLE

Accounts receivable are disclosed by category:

Category	As at 31 December 2021 (Audited)				
	Book balance		Bad debt allowance		Book value
	Amount	Percentage (%)	Amount	Proportion (%)	Amount
Accounts receivable for which bad debt allowance is provided individually	852,768,282.65	25.32	835,725,727.04	98.00	17,042,555.61
Accounts receivable for which bad debt allowance is provided by portfolio of credit risk characteristics	2,514,635,068.35	74.68	574,027,281.89	22.83	1,940,607,786.46
Total	3,367,403,351.00	100.00	1,409,753,008.93	41.86	1,957,650,342.07

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

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

	As at 31 December 2021 (Audited)				
	Book balance		Bad debt allowance		Book value
	Amount	Percentage (%)	Amount	Proportion (%)	Amount
Accounts receivable					
Within 1 year	1,182,585,398.96	47.03	92,308,435.84	7.81	1,090,276,963.12
1 to 2 years	458,665,807.52	18.24	95,716,276.77	20.87	362,949,530.75
2 to 3 years	357,702,779.16	14.22	110,940,514.31	31.01	246,762,264.85
3 to 4 years	251,027,186.27	9.98	94,578,970.40	37.68	156,448,215.87
4 to 5 years	149,148,147.89	5.93	89,552,081.72	60.04	59,596,066.17
5 to 6 years	73,755,748.55	2.93	49,181,002.85	66.68	24,574,745.70
Over 6 years	41,750,000.00	1.66	41,750,000.00	100.00	–
Total	2,514,635,068.35	100.00	574,027,281.89	22.83	1,940,607,786.46

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	<u>2,281,598,862.50</u>	<u>100.00</u>	<u>366,247,749.07</u>	<u>16.05</u>	<u>1,915,351,113.43</u>

13. OTHER RECEIVABLES

	As at 31 December 2021 (Audited)	As at 31 December 2020 (Audited)
Interest receivable	10,680,396.48	44,648,521.46
Dividends receivable	31,000,000.00	31,000,000.00
Other receivables	<u>893,986,220.50</u>	<u>1,449,006,221.82</u>
Total	<u>935,666,616.98</u>	<u>1,524,654,743.28</u>

Other receivables are disclosed by nature:

	As at 31 December 2021 (Audited)	As at 31 December 2020 (Audited)
Loan and advances	408,880,022.33	871,981,239.12
Sales proceeds collected and paid on behalf of the tenants	303,122,173.95	395,455,585.15
Deposits	134,813,513.39	107,860,274.61
Others	<u>47,170,510.83</u>	<u>73,709,122.94</u>
Total	<u>893,986,220.50</u>	<u>1,449,006,221.82</u>

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

2021	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 2021	118,845,867.20	–	169,678,471.03	288,524,338.23
Provision during this year	73,546,778.32	–	18,000,000.00	91,546,778.32
Reversal during this year	(5,022,544.61)	–	–	(5,022,544.61)
Write-off during this year	(4,016,434.82)	–	–	(4,016,434.82)
Balance of bad debt provision on 31 December 2021	183,353,666.09	–	187,678,471.03	371,032,137.12

14. 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	2,297,051,276.85	1,016,632,177.65	3,313,683,454.50
Transfer from construction in progress/fixed assets	92,434,440.72	–	92,434,440.72
Completion of the properties under construction	4,745,000,000.00	(4,745,000,000.00)	–
Acquisition of assets	584,491,857.29	–	584,491,857.29
Disposal of assets	(1,479,000,000.00)	(461,000,000.00)	(1,940,000,000.00)
Change in fair value	615,022,425.14	(240,632,177.65)	374,390,247.49
As at 31 December 2021 (Audited)	88,337,000,000.00	7,238,000,000.00	95,575,000,000.00

15. OTHER NON-CURRENT ASSETS

	As at 31 December 2021 (Audited)	As at 31 December 2020 (Audited)
Prepayments for construction and advance payment for land compensation	1,288,435,475.70	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	372,705,127.77	401,627,213.28
Entrusted loans and borrowings	1,040,139,405.08	1,002,358,840.38
Prepayments for equity transfer	191,400,000.00	318,600,000.00
Prepayments for repurchase	247,705,000.00	247,705,000.00
Prepayments for land	–	132,664,000.00
Deposits	26,302,506.78	17,221,481.37
Total	5,002,555,455.51	5,282,621,202.44

16. SHORT TERM LOANS

	As at 31 December 2021 (Audited)	As at 31 December 2020 (Audited)
Mortgage loans	2,037,694,511.95	2,948,438,306.13
Pledge loans	213,041,171.15	153,978,641.66
Credit loans	568,969,591.62	250,563,239.75
Guaranteed loans	80,061,000.00	30,000,000.00
Pledge and guaranteed loans	–	65,391,721.91
Mortgage and pledge loans	57,322,140.30	–
Total	2,957,088,415.02	3,448,371,909.45

17. ACCOUNT PAYABLES

	As at 31 December 2021 (Audited)	As at 31 December 2020 (Audited)
Amounts payable for construction	1,830,593,397.18	1,565,661,468.95
Amounts payable for goods for construction or advertisements	<u>570,287,013.60</u>	<u>519,667,754.29</u>
Total	<u><u>2,400,880,410.78</u></u>	<u><u>2,085,329,223.24</u></u>

As at 31 December 2021, the Group had no significant accounts payable aged over one year.

18. OTHER PAYABLES

	As at 31 December 2021 (Audited)	As at 31 December 2020 (Audited)
Dividends payable	–	11,079,608.27
Other payables	<u>9,770,693,294.55</u>	<u>8,976,309,037.22</u>
Total	<u><u>9,770,693,294.55</u></u>	<u><u>8,987,388,645.49</u></u>

Other payables categorized by nature are presented as below:

	As at 31 December 2021 (Audited)	As at 31 December 2020 (Audited)
Amounts due to partners	3,041,579,942.58	2,633,408,701.43
Deposits from tenants	2,579,297,828.41	2,394,737,162.29
Proceeds collected on behalf of the tenants	1,418,021,404.41	1,176,979,759.01
Amounts payable to construction contractors	562,641,968.36	839,211,748.32
Rental deposits from tenants	500,514,879.68	580,980,073.12
Amounts payable for property purchase	1,056,332,095.49	371,429,592.85
Accrued expenses	241,680,959.90	346,424,787.39
Amounts payable to equity transfer	40,067,427.31	142,937,133.94
Amounts payable to prepaid cards	35,395,541.57	14,705,587.76
Others	<u>295,161,246.84</u>	<u>475,494,491.11</u>
	<u><u>9,770,693,294.55</u></u>	<u><u>8,976,309,037.22</u></u>

19. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	As at 31 December 2021 (Audited)	As at 31 December 2020 (Audited)
Long-term loans due within one year	4,174,414,497.59	4,258,554,857.19
Long-term loans due within one year-interest	73,399,378.88	51,864,659.11
Bonds payable due within one year	3,903,697,116.05	4,033,264,470.43
Bonds payable due within one year-interest	110,002,413.84	213,894,153.03
Commercial mortgage backed securities due within one year	2,151,307,811.16	2,451,753,879.27
Commercial mortgage backed securities due within one year-interest	19,944,444.45	—
Discount charged for early purchase of 20-year property services due within one year (Note)	74,021,164.22	—
Financial lease payables due within one year	337,732,502.20	192,084,555.22
Lease liabilities due within one year	854,769,905.59	696,027,069.47
Total	<u>11,699,289,233.98</u>	<u>11,897,443,643.72</u>

Note: The Group entered into the agreement with Xuhui Yongsheng (Hainan) Investment Company Limited* (旭輝永升(海南)投資有限公司) (hereinafter referred to as “Xuhui Yongsheng”) this year to agree that the property services of the Group’s 71 Portfolio Shopping Malls in the next 20 years will be provided by Shanghai Macalline Property Management Service Co., Ltd. (上海美凱龍物業管理服務有限公司), a subsidiary of Xuhui Yongsheng, and a discount will be charged. The discount shall be apportioned during the subsequent period of receiving property services to offset the cost of property services.

20. LONG TERM LOANS

	As at 31 December 2021 (Audited)	As at 31 December 2020 (Audited)
Mortgage loans	7,647,993,688.73	8,654,687,256.72
Mortgage and pledge loans	5,236,837,451.15	5,757,725,594.28
Mortgage and guaranteed loans	6,267,604,471.30	5,592,041,776.44
Credit loans	—	97,000,000.00
Mortgage, pledge and guaranteed loans	2,453,881,296.83	2,110,975,000.00
Total	<u>21,606,316,908.01</u>	<u>22,212,429,627.44</u>

21. SHARE CAPITAL

	Opening balance	Issue of new shares	Changes during the year Others	Sub-total	Closing balance
For the year ended 31 December 2021:					
I. Restricted shares					
1. State-owned shares	–	–	–	–	–
2. Shares held by state-owned entities	–	38,882,138	–	38,882,138	38,882,138
3. Shares held by other domestic entities	2,728,347,349	396,269,734	(2,728,347,349)	(2,332,077,615)	396,269,734
Include: Shares held by domestic non-state-owned entities	2,728,347,349	384,119,066	(2,728,347,349)	(2,344,228,283)	384,119,066
Shares held by domestic natural persons	–	12,150,668	–	12,150,668	12,150,668
4. Foreign invested shares	–	14,580,801	–	14,580,801	14,580,801
Including: Shares held by overseas entities	–	14,580,801	–	14,580,801	14,580,801
Shares held by overseas natural persons	–	–	–	–	–
Total restricted shares	2,728,347,349	449,732,673	(2,728,347,349)	(2,278,614,676)	449,732,673
II. Unrestricted shares					
1. RMB-denominated ordinary shares	435,367,017	–	2,728,347,349	2,728,347,349	3,163,714,366
2. Domestically listed foreign shares	–	–	–	–	–
3. Overseas listed foreign shares	741,285,634	–	–	–	741,285,634
Total unrestricted shares	1,176,652,651	–	2,728,347,349	2,728,347,349	3,905,000,000
Total number of shares	3,905,000,000	449,732,673	–	449,732,673	4,354,732,673

MANAGEMENT DISCUSSION AND ANALYSIS

– INDUSTRY OVERVIEW

In 2021, faced with control under the tight real estate policy followed by a stable one in China, the spread of the outbreak, and pressure on spending, under the strong leadership of the CPC, the whole country coordinated efforts to advance both the epidemic prevention and control and the economic and social development in a scientific manner. The national economy sustained steady recovery. As its economic development and epidemic prevention maintained a leading position in the world, China got off to a good start in implementing the 14th Five-Year Plan.

According to relevant data from the National Bureau of Statistics of China, in 2021, China's GDP increased by 8.1% year on year, and the per capita disposable income of all residents recorded a nominal increase of 9.1% over the same period of the previous year. After deducting price factors, the actual increase was 8.1%. In 2021, the per capita consumption expenditure of all residents increased by 13.6% in nominal terms from the low base of the previous year, and 12.6% in real terms after deducting price factors. The residents' income growth was basically synchronized with the economic growth. As the residents' income continued to recover, the consumption demand of residents was gradually released, and the consumption expenditure maintained the recovery momentum.

In 2021, the total retail sales of social consumer goods recorded an increase of 12.5% over the previous year. After deducting price factors, the actual increase was 10.7%. Among the total retail sales, the retail sales of goods increased by 11.8% year on year, with furniture up by 14.5% year on year, and building and decoration materials up by 20.4% year on year. As the consumer goods market expanded steadily, and market sales continued to recover.

The total population increased in 2021, and the urbanization rate continued increase. The urban population accounted for 64.7% of the national population (urbanization rate), an increase of 0.83 percentage point from the end of the previous year.

In the long run, as efforts are made to persist in “housing is for people to live in, not for speculation” and deleveraging under the national real estate policy, the development of the real estate industry will tend to be healthy and steady. The growth in the residents' income level, the continuous progress in urbanization, the continuous increase in the demand for renovation of existing houses, the upgrading of consumption of household products and other factors will contribute to the sustained and steady development of the home improvement and furnishing industry. The Company will give full play to the advantages as a leading enterprise and actively seize the development opportunities in the industry.

– 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, aiming to enhance the delivery capabilities of home decoration design and offline traffic conversion capabilities through online consumer reach, thereby providing customers with more personalized and high-quality home decoration services throughout the whole decoration period and a shopping experience closer to the needs of end consumers by using the original home furnishing shopping malls channel network, strong supply chain integration capabilities and home furnishing industry operational management experience accumulated over the years and leveraging its own home decoration business management platform and IMP intelligent marketing platform.

1. Business Development and Arrangements: Continuous Expansion of Presence in Third and Lower-Tier Cities, and Establishment of a Nationwide Omni-Channel Commercial Network

While maintaining the healthy growth of its Portfolio Shopping Malls, the Group continuously consolidates its core advantages, and improves its operation and management capabilities for platform refinement, and makes a shift from capital leveraging to management enablement. The Group continuously implements the business decision of “shift of focus from assets to operation”. By increasing the number of Managed Shopping Malls and franchised shopping malls, the Group steadily increases its market share while controlling the capital investment in the Group’s self-built shopping malls.

During the Reporting Period, the Group formulated a multi-store parallel plan, and selected 100 Malls that represent the strategic arrangements of the Group for hierarchical and targeted management of merchandise and consumers: 32 No.1 Stores, 9 Grand Malls and 59 Benchmarking Shopping Malls. Meanwhile, the Group continuously implemented the strategy of “expansion of categories and focus on operation”, optimized the brand structure, and accelerated the construction of category theme pavilions, so as to quickly gain traction with consumers in the mid-and high-end markets. We have completed the construction of more than 300 theme pavilions.

As of the end of the Reporting Period, the Group operated 95 Portfolio Shopping Malls, 278 Managed Shopping Malls and 10 shopping malls through strategic cooperation⁽¹⁾, 69 franchised home improvement material projects by way of franchising⁽²⁾, including a total of 485 home improvement material stores/industry streets⁽³⁾, covering 224 cities in 30 provinces, municipalities and autonomous regions in China, with a total operating area of 22,303,547.50 sq.m.

As of the end of the Reporting Period, the Group operated 95 Portfolio Shopping Malls covering a total operating area of 8,455,485.57 sq.m., with an average occupancy rate of 94.1%. The operating area of Portfolio Shopping Malls in first-and second-tier cities accounted for more than 80%, thus building a strong moat, with the advantages of first-mover and site selection. During the Reporting Period, the same mall growth of mature shopping malls⁽⁴⁾ was 16.8%. The steady increase in the occupancy rate and rental income of the Portfolio Shopping Malls fully reflects the professional level and management ability of the Company as the leading home improvement and furnishings shopping mall operator, and plays a positive exemplary role in continuously attracting potential high-quality brand merchants, expanding and strengthening the cooperative relationship with partners of Managed Shopping Malls.

During the Reporting Period, we opened three new Portfolio Shopping Malls. In addition, one Portfolio Shopping Mall were closed and one Managed Shopping Mall was converted into Portfolio Shopping Malls. As of the end of the Reporting Period, we had 19 pipeline Portfolio Shopping Malls.

As of the end of the Reporting Period, we had 278 Managed Shopping Malls in operation covering a total operating area of 13,848,061.93 sq.m., with an average occupancy rate of 91.4%. Among them, the operating area of Managed Shopping Malls in third and lower-tier cities accounted for approximately 70%. Managed Shopping Malls help the Company realize the regional coverage and rapid penetration of the third and lower-tier cities under the asset-light model. During the Reporting Period, the Group opened 20 new Managed Shopping Malls and closed 14 Managed Shopping Malls. In addition, one Managed Shopping Mall was converted into Portfolio Shopping Malls. As of the end of the Reporting Period, among the pipeline Managed Shopping Malls, the Group has obtained land use rights/land parcels for 327 contractual projects. Among them, the number of pipeline Managed Shopping Malls in third and lower-tier cities accounted for over 70%. 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 2021, Shandong Inzone Green Home Co., Ltd. and its controlling subsidiaries operated 10 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) “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 of the end of the Reporting Period.

1.2 Home improvement and home furnishings integration

As of the end of the Reporting Period, there were a total of 253 home decoration stores covering more than 200 cities in 25 provinces, municipalities directly under the central government and autonomous regions in China, with the network of offline shopping malls of the Company.

The Company has enhanced the construction of a new-generation home decoration platform system project. It has completed the development and construction of a traffic management platform (placement and aggregation, marketing website, CRM, and distribution), a business operation management platform (home decoration and public decoration), and a supply chain management platform (purchase management, bidding and tendering platform, etc.), and has established a professional digital marketing capability covering placement, acquisition and redistribution of traffic.

1.3 Online and offline integration

The Company has actively explored a city-wide new retail model, which has begun to show results. The effective arrangements for digital upgrading and online sources of traffic based on shopping malls start to bear fruit. During the Reporting Period, the Company’s core shopping malls were digitally upgraded. In addition to the digital upgrading of shopping malls, the Company successively upgraded and innovated online product selection, content supply, digital operation, traffic acceptance and marketing models. The Company will continuously promote the development of its digital infrastructure capability and realize the digital upgrade of merchandise and consumers, thus creating an internet operation platform integrating consumers, goods and markets.

2. Continuous Upgrading of Operation Management, and Implementation of the Strategy of “Shift of focus from assets to Operation”, with a focus on User Mentality

2.1 Tenant sourcing management

In the face of changes of the consumption trend and market competition trend, based on regional positioning, customer group classification, quality category selection and other more specific factors, the Company has successively constructed a high-end traffic ecosystem covering building materials, furniture and home appliances, in the 100 super Malls and nine major category theme shopping malls in China. In terms of upgrading of the store form in shopping malls, in 2021, the Company promoted the implementation of the strategy of the one model shopping mall in one province. The Company developed the city-wide differentiated positioning plan for multi-store shopping malls, and selected 100 malls that represent the strategic arrangements of the Group: 32 No.1 Stores, 9 Grand Malls and 59 Benchmarking Shopping Malls. The Company accelerated the construction.

We continuously select mainstream categories and brands that meet the needs of consumers, optimize arrangements for categories in shopping malls and promote experiential and immersive consumption by creating shopping malls of home life experience. In 2021, the Company upgraded the strategy of nine major theme pavilions, covering 9 major categories, namely smart electrical appliances, international imports, living room design, high-end customization, soft decoration and furnishings, system doors and windows, boutique bathroom accessories, sleep and life, trend furniture. More and more categories were sold on the platform of Red Star Macalline, which enriched the shopping mall ecosystem and helped more home furnishing brands expand their presence in cross-regional markets. The three major store forms and nine major theme pavilions gather platform-wide traffic. Based on the digital and comprehensive analysis of merchandise and consumers, the Company subdivides categories and brands, and redistributes consumer traffic to stores of brand merchants precisely, thus realizing the connection and linkage between public and private traffic, achieving the acceptance, repeated use and deep operation of traffic in the shopping malls.

In terms of specific category placement, the theme pavilions in shopping malls are located on high floors to encourage the sales of trend categories or categories with high gross margin, thus unlocking the rent value of high floors, further reducing the differential rent; through standardized sorting of categories and placement of secondary categories in the same floor and other specific measures, the Company carries out targeted operation of store traffic so as to support the continuous increase in the rental income, while increasing the area-effectiveness.

2.2 Operational management

During the Reporting Period, the Company promoted the upgrading of operational management with a 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, merchandise quality management system and merchant credit management system, to achieve all-round improvement of customer home furnishing consumption experience and satisfaction.

In terms of environmental protection, the Company cooperates with China Quality Certification Center to conducted production inspections and product sampling inspections of factories. Meanwhile, completion of green exhibition upgrading of terminal booths for nation-wide core shopping malls helps promote brands and educate consumers about how to select greener and environmentally friendly household products.

With regard to the customer service system, we promote the service upgrade with home-based services as the core. While upgrading the service capability of the shopping malls and improving the service standard of the alliance member merchants, we create the theme month/season activities in full consideration of the category festival. Up to now, the segment of home-based services has incorporated nine theme pavilions including sleep and life pavilion, soft decoration and furnishings pavilion and smart electrical appliances pavilion, to provide customers with professional and high-quality home-based services, including mattress mite removal, sofa maintenance, household appliance cleaning and curtain cleaning. Taking soft decoration category as an example, we have successively cooperated with 15 major soft decoration brands in creating the “soft decoration renewal service season” activity. We achieve comprehensive traffic driving by providing maintenance services, soft decoration design solutions, etc. During the Reporting Period, “Home-based Services” served a total of 420,000 households for the year, with a customer satisfaction rate of 100%.

2.3 Marketing management

The home furnishing industry has gradually entered the era of delicacy operation. With the completion of the theme pavilion, “Super Category Festival” has been created and has become an influential category marketing activity both inside and outside the industry. Based on the orderly completion of the nine category pavilions in China, the “Super Category Festival” activity normalizes category marketing. Intensive and deep engagement in various vertical categories contributes to supplementing daily traffic operation other than promotion activities of shopping malls, and further enhances consumers’ stickiness to the brand of Red Star Macalline. Meanwhile, the Company integrates and strengthens industry resources, further focuses on precision marketing of categories, and expands marketing differentiation. A total of five nation-wide promotion activities, namely Super Home Decoration Festival, 51HOME Party Festival, 618 Ideal Life Carnival Season, October Global Home Decoration Carnival Season and Tmall double 11 Global Carnival Season were created during the year, to gain attention, with a total of 3 billion impressions for marketing activities during the year.

During the Reporting Period, by focusing on 8 traffic operation channels, including community-based marketing, digital precision marketing, live streaming, membership marketing and property marketing, we explored traffic operation SOP, so as to enable planning and marketing personnel of shopping malls in marketing and create private traffic pools of shopping malls. Meanwhile, with online operation capabilities, the Company built an online and offline integrated service close-loop with the shortest chain to accelerate and promote the marketing efficiency of brand merchants in the process covering online marketing, offline acceptance and conversion.

The joint marketing model is a new attempt of the Company for joint construction of a win-win ecosystem in the industry, based on the targeted placement platform built by the Company, with the aim of cooperating with stakeholders in the household industry chain to create value for the ecosystem partners, with an open and inclusive attitude. Based on enablement by the IMP platform, the Company is continuously deepening the new joint marketing model of working with brand factories and distributors in online interactive traffic driving and offline experience and transaction in the home decoration industry, so as to enable the fast construction of digital, full-domain, scenario, chain and cycle user management consortium in the industry, thus gradually and fundamentally addressing pain points in marketing, including difficulties in gaining targeted traffic, high traffic costs, and low utilization rate of traffic. During the Reporting Period, the Company fully integrated the marketing resources of brand factories and merchants. Based on the city-wide marketing scenario for brands with the nationwide promotion, the “Super Category Festival”, “Super Elected Ace” and “Super City-wide Shopping” as the core, the Company further improved the traffic operation ability, realized the cross-category and cross-brand combined and repeated purchase, and efficiently and quickly integrated the resources of the home decoration industry, thus achieving resource sharing and reducing marketing costs.

3 *Steady Development of Scalable Business: Continuous Upgrading of the “Home Improvement and home Furnishings Integration, Online and Offline Integration” Strategy*

3.1 Home improvement and home furnishings integration

3.1.1 Diversified channel arrangements for promoting business growth

The Company has developed models including the opening of direct-operated stores in home decoration shopping malls, implementation of a partnership system to expand franchise stores, whole-house decoration, and cooperation with real estate developers in batch refined decoration business, which helps drive traffic and secure orders for brand factories and distributors, thus forming a synergy, and effectively reducing the overall customer acquisition cost for home decoration business and home furnishings of shopping malls.

3.1.2 Full coverage of brands for supporting arrangements for differentiated markets

With regard to the differentiated arrangements for home decoration brands, with the full-category operation capability, supply chain integration capability, and the nationwide network of physical shopping malls, we have created home decoration brands oriented towards different terminal consumer markets, including “Betterhome”, “Better Home” and “Zhenyang.” “Betterhome” is positioned as a mid-and high-end home decoration brand offering full customization. Its stores are located in core areas of shopping malls, which enables it to acquire and identify customers early, while all main and auxiliary materials specified in home decoration contracts can be purchased in the shopping malls, thus effectively driving traffic and securing orders for merchants in the shopping malls and contributing to incremental sales. “Better Home” is oriented towards the mid-end overall decoration market. Under the supply chain model, it achieves direct purchase from the source, thus reducing the intermediate processes of circulation of products and purchase costs, and benefiting consumers. “Zhenyang” serves high-end consumers including luxury property buyers, and provides one-stop high-end customized solutions.

3.1.3 Establishment of a technical middle platform to improve operation efficiency

In terms of digital construction, the Company has independently developed a full-chain ERP system of full-house decoration, digital marketing tools and a CRM system, and has developed the digital capability of the home decoration business. During the Reporting Period, the Company completed the development of a traffic management platform, a business operation management platform and a supply chain management platform, and the professional digital marketing capabilities covering advertising placement, obtaining of consumer leads and redistribution of traffic. In terms of construction of the home decoration system platform, through the core business flow management system of home decoration, the customer mini program and the supplier order management system, the Company establishes online processes of the core business of home decoration, supporting mobile management of construction site, thus improving the business management efficiency.

3.2 *Online and offline integration*

3.2.1 City-wide retail

During the Reporting Period, the Company always attached importance to the construction of the city-wide station operation capacity, and successively upgraded and innovated the product selection, merchandise operation, traffic acceptance, content supply forms and marketing models. In terms of product selection, the Company implemented the “271” merchandise hierarchy strategy, namely, 20% for traffic driving, 70% for hot sales and 10% for image building. The Company formulated a supply strategy covering 30 core secondary categories to improve the details of merchandise operation. In terms of traffic acceptance, the Company established a mechanism for repeated use of traffic and customer resources. Through the optimization of the recommendation algorithm of the merchandise details page and the incentive mechanism for shopping guides to secure orders, the purchase of a category may result in the purchase of other categories, thus improving the traffic driving and customer resource efficiency. In terms of innovation of content supply form, the Company launched panoramic videos and completed the pilot projects in 5 cities. For each merchandise (or each explanation point for a piece of merchandise), users can enjoy a 720-degree view and make anchor points in the video. Users can not only watch the objects explained in the video at a panoramic view, but also re-enter panoramic videos to listen to the explanation of the shopping guide by clicking on the spatial anchor points, thus forming a closed-loop experience of “looking for merchandise, visiting stores, requesting an explanation by the shopping guide, making an appointment and providing contact information, and arriving at stores”, and the presentation form of the merchandise will also significantly improve the click-through rate of the merchandise. In terms of marketing model innovation, the Company created the “Tmall Group New Home (天貓團新家)” operation model. Under the model, the Company provided high-quality online and offline integrated marketing tools, and the marketing activities can reach consumers on Tmall and WeChat, in consideration of spending characteristics in the home decoration industry, through attracting customers online from Monday to Friday and carrying out offline targeted activities at weekends. After users provide contact information in the private domain, the service account will automatically send invitations to them for joining a group purchase group. Meanwhile, the model supports the connection with WeChat groups of enterprises and enables the targeted marketing and long-term management of users in the group, thus achieving the interconnection between the public domain and private domain.

3.2.2 Online targeted traffic driving for enablement of merchants

With online operation capabilities, the Company has built an online and offline integrated service close-loop of new retail with the shortest chain to accelerate and improve the marketing efficiency of brand merchants in the process covering online marketing, recommendation, offline acceptance and conversion.

During the Reporting Period, the Company optimized its online traffic purchase arrangements by optimizing the placement matrix of multiple platforms including WeChat, Tik Tok and Xiaohongshu, and tracked the post-click data through a unified customer resource distribution system. Meanwhile, Red Star Macalline systematically standardized the traffic acceptance method. Red Star Macalline re-distributed the traffic to merchants for accurate matching through marketing tools such as customer information sorting and hidden number call, thus enabling merchants to carry out more standardized traffic acceptance and conversion.

In terms of the underlying marketing tools, with the underlying capabilities such as full-parameterization and physically-based real-time rendering, RTX real-time ray tracing, and growth animation built by 3D cloud design, the Company has developed the “Yinghuo Engine (螢火引擎)”, a content marketing solution tool for terminal merchants and shopping guides. Through the tool, users can select one or more models in the content library, which automatically generate contents in three forms, namely video/scenario pictures/white-background pictures. Meanwhile, users can quickly convert satisfactory contents into model details pages, and complete one-click distribution to major short video or community platforms. At present, the Yinghuo Engine supports 6 functional spaces and more than 10 categories of multi-style designs, reducing the threshold of use of the original 3D cloud design software and saving the cost of production of high-quality contents; meanwhile, it provides value-added services of short video marketing and is connected to major mainstream platform engines, thus solving the problem of how to reach more consumers after generating high-quality contents; subsequently, it directs product research and development, production and launch through the generation of visual data analysis, and supports and optimizes ROI of video marketing.

– Financial Review

1. Revenue

During the Reporting Period, the Group's revenue amounted to RMB15,512.8 million, representing an increase of 9.0% from RMB14,236.5 million in 2020. The increase in our revenue was primarily due to the increase in the occupancy rate of Portfolio Shopping Malls in 2021 resulting in the increase of revenue from Owned/Leased Portfolio Shopping Malls. During the Reporting Period, the rental and related income of our Owned/Leased Portfolio Shopping Malls increased by 21.1%, mainly due to the rent-free policy implemented by the Group in 2020 and the increase in the rental income and occupancy rate as a result of category adjustment with the orientation towards the strategy of focus on operation during the Reporting Period. The related income from our Managed Shopping Malls decreased by 9.1% during the Reporting Period, mainly due to the decrease in the number of projects for the revenue recognition of construction project and business consultation services for the year. The revenue from construction and design decreased by 10.2% as compared with 2020. Meanwhile, the revenue from home decoration related services and sales of merchandise and other revenue have increased by different degrees as compared with 2020.

The following table sets forth our revenue by segments:

	For the year ended 31 December			
	2021 (Audited)		2020 (Audited)	
	Amount	%	Amount	%
Owned/Leased Portfolio				
Shopping Malls	8,094,818,286.35	52.1	6,682,413,448.77	46.9
Managed Shopping Malls	3,256,244,786.68	21.0	3,580,465,132.95	25.2
Construction and design	1,498,607,716.09	9.7	1,668,238,075.14	11.7
Related home decoration and				
sales of merchandise	1,395,546,601.53	9.0	1,224,005,416.99	8.6
Others	1,267,574,825.19	8.2	1,081,338,025.13	7.6
Total	<u>15,512,792,215.84</u>	<u>100.00</u>	<u>14,236,460,098.98</u>	<u>100.0</u>

2. Gross profit and gross profit margin

During the Reporting Period, the Group's gross profit was RMB9,566.3 million, representing an increase of 9.3% from RMB8,756.3 million in 2020; the Group's integrated gross profit margin was 61.7%, which remained basically stable as compared with 61.5% in 2020.

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

	For the year ended	
	31 December	
	2021	2020
	(Audited)	(Audited)
Owned/Leased Portfolio Shopping Malls	77.1	76.6%
Managed Shopping Malls	52.4	59.8%
Construction and design	27.3	32.7%
Related home decoration and sales of merchandise	20.5	21.9%
Others	72.9	63.4%
Total	61.7	61.5%

3. Sale expenses

During the Reporting Period, the Group's sale expenses amounted to RMB2,063.5 million (accounting for 13.3% of the revenue), representing an increase of 21.8% from RMB1,693.8 million (accounting for 11.9% of the revenue) in 2020, which was primarily due to the year-on-year increase in advertising expenses and promotional expenses as a result of the Group's control of brand promotion in response to the epidemic in 2020 and the resumption of normal promotional activities during the Reporting Period.

4. Management expenses

During the Reporting Period, the Group's management expenses amounted to RMB2,004.1 million (accounting for 12.9% of the revenue), representing an increase of 19.2% from RMB1,680.9 million (accounting for 11.8% of the revenue) in 2020, which was primarily due to the Group's reduction of various expenses such as office and administrative expenses in 2020 in response to the impact of the epidemic and the resumption of normal office and business activities in the Reporting Period, which led to the year-on-year increase.

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 decreased to RMB2,461.0 million in 2021, which was almost the same as those of RMB2,464.4 million in 2020. Interest expenses were mainly comprised of interest of bank and other borrowings, interest of financial lease and bond interests, etc.

6. *Income tax expenses*

During the Reporting Period, the income tax expenses of the Group amounted to RMB613.0 million, representing a decrease of 18.3% from RMB750.1 million in 2020, which was mainly due to the reasonable planning during the Reporting Period.

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 RMB2,047.4 million, representing an increase of 18.3% from RMB1,730.6 million in 2020; the net profit attributable to owners of the Company after deducting non-recurring profit or loss amounted to RMB1,657.8 million, representing an increase of 42.6% from RMB1,162.3 million in 2020.

	For the year ended 31 December		
	2021 (Audited)	2020 (Audited)	Increase/ Decrease
Net profit attributable to owners of the Company	2,047,401,906.98	1,730,581,791.56	18.3% an increase of
Net profit margin attributable to owners of the Company	13.2%	12.2%	1.0 percentage point
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	1,657,757,700.21	1,162,324,473.64	42.6%
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	10.7%	8.2%	an increase of 2.5 percentage point

During the Reporting Period, the Group's earnings per share was RMB0.51, as compared to RMB0.44 in the same period of 2020.

8. *Accounts receivable*

As of the end of the Reporting Period, the book value of accounts receivable of the Group amounted to RMB1,957.7 million (including the book balance of accounts receivable of RMB3,367.4 million and the bad debt allowance of RMB1,409.8 million), representing an increase of RMB22.9 million from RMB1,934.8 million as at the end of 2020.

9. *Other receivables*

As of the end of the Reporting Period, the book value of other receivables of the Group was RMB935.7 million, representing a decrease of RMB589.0 million from RMB1,524.7 million as at the end of 2020, which was mainly due to the decrease in sales proceeds collected on behalf of the tenants and amounts during the Reporting Period.

10. Other equity instrument investments

As of the end of the Reporting Period, the book value of other equity instruments investments of the Group was RMB4,170.0 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 of the end of the Reporting Period, the book value of the Group's investment properties amounted to RMB95,575.0 million, representing an increase of 2.6% from RMB93,150.0 million as at the end of 2020. During the Reporting Period, the investment properties of the Group realized a gain on fair value changes of RMB374.4 million. It 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.

12. Capital expenditure

During the Reporting Period, the Group's capital expenditure amounted to RMB2,388.2 million (2020: RMB2,897.0 million), which mainly includes purchase expenditure of investment properties and construction development expenditure. The expenditure in 2021 decreased by 17.6% as compared with 2020, 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 of the end of the Reporting Period, the cash and bank balances of the Group amounted to RMB6,903.7 million (of which, the balance of cash and cash equivalents amounted to RMB6,160.6 million), representing an increase of RMB392.6 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.

	For the year ended 31 December	
	2021	2020
	(Audited)	(Audited)
Net cash flow from operating activities	5,380,669,282.08	4,159,732,441.59
Net cash flow from investment activities	(126,813,546.19)	(4,851,801,126.36)
Net cash flow from financing activities	(5,053,632,975.99)	(181,898,109.56)
Impact of exchange rate changes on cash and cash equivalents	(3,297,946.51)	(1,064,656.34)
Net increase/(decrease) in cash and cash equivalents	196,924,813.39	(875,031,450.67)

During the Reporting Period, the Group's net cash inflow from operating activities amounted to RMB5,380.7 million, representing an increase of RMB1,221.0 million from a net cash inflow of RMB4,159.7 million 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 outflow from investment activities amounted to RMB126.8 million, representing a decrease in outflow of RMB4,725.0 million from a net cash outflow of RMB4,851.8 million 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 RMB5,053.6 million, representing an increase in outflow of RMB4,871.7 million from a net cash outflow of RMB181.9 million in 2020, mainly due to the increase in repayment of debts during the Reporting Period as compared with the same period last year.

14. Major debt ratios

Among the total debts of the Group, the portion repayable within one year or on demand amounted to RMB13,538.5 million, the portion repayable over one year but less than two years amounted to RMB4,821.9 million, the portion repayable over two years but less than five years amounted to RMB11,816.9 million and the portion repayable over five years amounted to RMB9,374.3 million. The Group will promptly repay the above borrowings at maturity.

The following table sets out our major debt ratios:

	As at 31 December 2021 (Audited)	As at 31 December 2020 (Audited)
Asset-liability ratio ⁽¹⁾	57.4%	61.2%
Net gearing ratio ⁽²⁾	56.7%	76.9%

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 RMB87,626.0 million, and other equity instrument investments and restricted cash and bank balances with a total book balance of RMB403.6 million for obtaining loans, the balance of such loans is RMB33,856.8 million; the Group holds restricted cash and bank balances with a balance of RMB517.0 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

During the Reporting Period, the Company entered into agreements to transfer to Beijing Yuanhong Enterprise Management Consultancy Co., Ltd., all equity interests held by it in logistics companies including Tibet Red Star Macalline Business Management Company Limited, Red Star Macalline (Shanghai) Business Management Company Limited, Tianjin Red Star Macalline Logistics Company Limited, Shanghai Beibo Logistics Company Limited, Shanghai Beizheng Logistics Company Limited, Shanghai Beiyue Logistics Company Limited, Shanghai Beimao Logistics Company Limited. The above equity transfer was completed during the Reporting Period, with the proceeds of approximately RMB448 million, accounting for approximately 16.0% of pre-tax profit of the Group for 2021.

19. Capital commitment

As of 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 RMB1,479.2 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 RMB348.2 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. Significant investment

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

22. Human resources

As of the end of the Reporting Period, the Group had 21,514 employees (31 December 2020: 25,201 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 2021, the Group paid a total of RMB3,792.9 million for salary expenditure (2020: RMB3,245.5 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 2022 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, so as to 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”.

The Group’s future development plans are as follows:

1. The Group will continue to transform into “asset-light and operation-heavy” business model, and further strengthen the market leadership;
2. The Group will carry out home decoration business, make a breakthrough in full-cycle services of home furnishings consumption;
3. The Group will implement the digital reform, and deeply cultivates new retail;
4. The Group will optimize the capital structure and continue to implement the leverage reduction strategy;
5. The Group will continue to improve corporate governance of the Company, standardize our operation and implement social responsibilities.

FINAL DIVIDEND

The Board has proposed the distribution of an ordinary final dividend of RMB0.1 per share for the year ended 31 December 2021. Based on the total share capital of 4,354,732,673 shares as of 31 December 2021, a total of RMB435,473,267.30 of final dividend will be paid, of which the cash dividend of RMB361,344,703.90 will be paid to holders of A Shares and the cash dividend of RMB74,128,563.40 will be paid to holders of H Shares respectively, which are subject to approval at the AGM. The dividend is expected to be distributed on or around 20 July 2022.

SUBSEQUENT EVENTS

Change of Non-executive Directors

On 19 January 2022, the Company received a written resignation from Mr. XU Hong (徐宏), a non-executive Director. Due to personal work adjustment, Mr. XU Hong proposed to the fourth session of the Board of the Company to resign as a non-executive Director as well as a member of the strategy and investment committee of the Board and ceased to hold any other positions in the Company. Considering the above, the Company is required to appoint one non-executive Director to fill up the vacancy in accordance with the Company Law of the People's Republic of China and the Articles of Association. As the recommendation of Taobao China Holding Limited, a shareholder of the Company, and reviewed and nominated by the nomination committee, the relevant resolution has been considered and approved at the 38th meeting of the fourth session of the Board held by the Company on 15 February 2022 on appointment of Ms. HU Xiao (胡曉) as a non-executive Director of the fourth Session of the Board, and agreed Ms. HU Xiao would serve as a member of the strategy and investment committee of the Board upon her appointment as a non-executive Director.

On 9 March 2022, the Company received a written resignation from Mr. JING Jie (靖捷), a non-executive Director. Due to personal work adjustment, Mr. JING Jie proposed to the fourth session of the Board of the Company to resign as a non-executive Director and ceased to hold any other positions in the Company. Considering the above, the Company is required to appoint 1 non-executive Director to fill up the vacancy in accordance with the Company Law of the People's Republic of China and the Articles of Association. As the recommendation of Taobao China Holding Limited, a shareholder of the Company, and reviewed and nominated by the nomination committee, the relevant resolution has been considered and approved at the 40th extraordinary meeting of the fourth session of the Board held by the Company on 10 March 2022 on appointment of Mr. YANG Guang as a non-executive Director of the fourth Session of the Board.

The appointments of Ms. HU Xiao and Mr. YANG Guang were considered and approved by the 1st extraordinary general meeting of the Company for 2022.

For details, please refer to the announcements of the Company dated 16 February, 11 March and 31 March 2022 which were published on the designated media in China and the announcements of the Company dated 15 February, 10 March and 30 March 2022 which were published on the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>).

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of H shares of the Company will be closed from Tuesday, 17 May 2022 to Friday, 20 May 2022, both days inclusive, in order to determine the identity of the H Shareholders who are entitled to attend the annual general meeting on 20 May 2022. 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 Monday, 16 May 2022.

The Shareholders whose names appear on the register of members of the Company on Tuesday, 17 May 2022 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 C.2.1 (previous 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 Reporting Period.

DEVIATION FROM CODE PROVISION C.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 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 C.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 2021 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 amounted to approximately RMB5,573.3 million. As disclosed in the interim report of the Company dated 28 September 2021, as of 30 June 2021, the Group has used all the abovementioned proceeds for the purposes agreed in the Prospectus and the announcement on the change of use of proceeds dated 31 July 2015 and 16 January 2018.

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

Use/Intended use	Planned use (RMB million)	Actual use of proceeds as of 30 June 2021 (RMB million)	Unutilized net proceeds as of 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	—

PUBLIC 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 89% 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 2021 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>

Proposed investment projects		Total investment planned (RMB'000)	Accumulated Investment amount as of the end of Reporting Period (RMB'000)	Remarks
Home furnishing shopping mall construction project	Tianjin Beichen Shopping Mall Project	245,137	245,137	Fully invested
	Hohhot Yuquan Shopping Mall Project	76,825	76,825	Fully invested
	Dongguan Wanjiang Shopping Mall Project	164,145	164,145	Fully invested
	Harbin Songbei Shopping Mall Project	294,809	294,809	Fully invested
	Urumqi Convention and Exhibition Mall Project ⁽¹⁾	669,084	666,733	Fully invested
				Expected to be invested by May 2023
	Changsha Jinxia Shopping Mall Project	190,000	146,231	
	Xining Expo Shopping Mall Project	<u>110,000</u>	<u>110,013</u>	Fully invested
	Sub-total	<u>1,750,000</u>	<u>1,703,893⁽¹⁾</u>	
New intelligent home furnishing shopping mall project		400,000	109,307	
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><u>3,050,008</u></u>	<u><u>2,713,209</u></u>	

Note:

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

NON-PUBLIC ISSUANCE OF A SHARES AND USE OF PROCEEDS

In September 2021, the Company issued 449,732,673 shares to specific investors in the non-public issuance, at an issue price of RMB8.23 per share, with the total proceeds of RMB3,701,299,898.79. After deducting issuance expenses (exclusive of tax) of RMB22,936,099.50, the actual net proceeds were RMB3,678,363,799.29. For details, please refer to the announcements of the Company dated 3 May 2020, 3 June 2020, 23 June 2020, 19 April 2021, 18 May 2021 and 21 October 2021 and the circulars of the Company dated 3 June 2020 and 26 April 2021. As of the end of the Reporting Period, the Company invested into the above proceeds-funded projects, a total of approximately 50% of the proceeds from the non-public issuance of shares in 2021.

An analysis of the use of the proceeds from the non-public issuance of A shares as of 31 December 2021 is set out below:

				<i>Unit: RMB'000</i>
Total Proceeds				3,701,299.9
Issuance expenses				22,936.1
Net proceeds				<u>3,678,363.8</u>
Proposed Investment Project		Total Planned Investment	Total Investment as of the end of the Reporting Period	Explanation
Tmall “Home Decoration Tongcheng Station” Project		220,000.0	–	
3D Shejiyun Platform Construction Project		283,944.7	4,303.9	
Construction Project for New Generation Home Improvement Platform System		350,000.0	1,529.6	–
Home Furnishing Mall Construction Project	Foshan Lecong Shopping Mall Project	1,000,000.0	200,000.0	It is expected to be completed and put into operation by December 2023
	Nanning Dingqiu Shopping Mall Project	560,000.0	360,348.6	It is expected to be completed and put into operation by December 2022
	Nanchang Chaoyang Xincheng Shopping Mall Project	160,910.0	160,910.0	It was completely put into operation
Sub-total		<u>1,720,910.0</u>	<u>721,258.6</u>	–
Repayment of Interest-bearing Debts of the Company		<u>1,103,509.1</u>	<u>1,103,509.1</u>	–
Total		<u>3,678,363.8</u>	<u>1,830,601.2</u>	–

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 2021.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND 2021 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 2021 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 2022

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, CHEN Zhaohui, JIANG Xiangyu, Hu Xiao and Yang Guang; and the independent non-executive Directors are QIAN Shizheng, LEE Kwan Hung, Eddie, WANG Xiao, ZHAO Chongyi and QIN Hong.