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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)

(Listed Debt Securities Code: 5454)

ANNOUNCEMENT REGARDING THE COMPANY'S PROVISION FOR IMPAIRMENT OF ASSETS

This announcement is made by Red Star Macalline Group Corporation Ltd. (the “**Company**”, together with its subsidiaries, collectively referred to as the “**Group**”) pursuant to Rule 13.09(2) and Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

I. OVERVIEW OF THE PROVISION FOR IMPAIRMENT OF ASSETS

In accordance with relevant provisions of Accounting Standards for Business Enterprises (the “**ASBE**”) and the accounting policies implemented by the Company, the Group accrued impairment for provision for financial assets measured at amortized costs, provision for impairment of debt instrument investments and contract assets measured at fair value with changes recognized in other comprehensive income based on expected credit loss. For current assets and non-current assets such as fixed assets, intangible assets, inventory and long-term equity investments, the Group determines whether there is any indication of impairment on the assets at the balance sheet date. For non-current assets for which there is an indication of impairment and goodwill arising from company merger, the Company performs an impairment test at the balance sheet date to estimate the recoverable amount of the assets.

In 2023, the Group accrued provision for impairment of RMB1,933,534,875.04 on various assets, and reversed and wrote off provision for impairment of RMB168,555,146.58 on various assets, of which provision for impairment of RMB56,872,760.78 on various assets was reversed and provision for impairment of RMB111,682,385.80 on various assets was written off. The change in impairment provision items resulted in reduction of the Group's total profit in the consolidated statement for 2023 by RMB1,876,662,114.26 (which represents resulting in loss of RMB1,876,662,114.26). Details are set out below:

	<i>Unit: RMB</i>	
Items	Amount of provision accrued in of 2023	Amount of provision reversed in of 2023
Provision for impairment of accounts receivables	467,917,482.80	50,304,895.06
Provision for impairment of other receivables	72,671,658.82	–
Provision for impairment of long-term receivables	7,776,850.13	206,840.08
Provision for impairment of contract assets	463,056,778.31	–
Provision for impairment of other current assets	182,948,600.34	–
Provision for impairment of non-current assets due within one year	37,256,530.58	–
Provision for impairment of other non-current assets	437,524,949.29	–
Provision for impairment of long-term equity investments	165,881,604.23	–
Provision for impairment of inventories	98,500,420.54	6,361,025.64
Total	<u>1,933,534,875.04</u>	<u>56,872,760.78</u>

II. REASONS OF PROVISION FOR ASSETS IMPAIRMENT AND DETAILS OF PROVISION

(I) Financial Assets Measured at Amortized Cost and Provision for Impairment for Contract Assets

In accordance with the ASBE and the Company's accounting policies, the Company has carried out impairment accounting treatment on accounts receivables, other receivables, long-term receivables, contract assets, other current assets, non-current assets due within one year and financial assets measured at amortized cost in other non-current assets and recognized loss allowance based on expected credit losses in accordance with the difference between the contract cash flow which should be received according to the contract and is discounted at the original actual interest rate and the cash flow expected to be received. Based on the above analysis and impairment test, the impairment provision for accounts receivables, other receivables, long-term receivables, contract assets, other current assets, non-current assets due within one year and other non-current assets in 2023 were RMB467,917,482.80, RMB72,671,658.82, RMB7,776,850.13, RMB463,056,778.31, RMB182,948,600.34, RMB37,256,530.58 and RMB122,455,061.90, respectively. The impairment provision for accounts receivables and long-term receivables reversed in 2023 were RMB50,304,895.06 and RMB206,840.08, respectively. The impairment provision for accounts receivables, other receivables, long-term receivables and other current assets written off in 2023 were RMB73,357,737.02, RMB2,282,832.55, RMB35,793,159.92, and RMB248,656.31, respectively.

In the current year, the significant provisions for impairment include provisions for accounts receivables, provisions for contract assets, provisions for other current assets, and provisions for other non-current assets (excluding other assets impairment provisions mentioned in item II.(IV)). The provisions for accounts receivables are mainly impairment provisions made for accounts receivables related to construction and design services, as well as rent and related income, including some amounts receivables from related parties. The provisions for contract assets primarily due to impairment provisions made for contract assets associated with construction and design services, as well as pre-project brand consulting and management fee services. The provisions for other current assets mainly involve impairment provisions made for the balance of funds borrowed from project partners based on project cooperation. The provisions for other non-current assets are largely due to impairment provisions resulting from the inability to continue with the repurchase of certain home furnishing malls.

(II) Impairment Provisions for Inventories

According to the “ASBE No. 1 – Inventory”, the Company shall measure inventory at the lower of cost and net realizable value on the balance sheet date. If the cost of inventories is higher than its net realizable value, the provision for inventories impairment shall be made and recognized in the current period’s profit and loss. Net realizable value refers to the estimated selling price of inventories in daily activities, minus the estimated costs to be incurred until completion, estimated sales expenses, and related taxes. The determination of the net realizable value of inventories by an enterprise should be based on conclusive evidence obtained and take into account factors such as the purpose of holding inventories and the impact of events after the balance sheet date. In the third quarter of 2023, the Company’s management adjusted the future direction of the imported high-end furniture self-owned business. The Company intends to sell off the existing inventories in bulk. Pursuant to the inventory disposal plan, the Company has conducted an impairment test on its inventories and the provision for inventories impairment in 2023 was made in the amount of RMB98,500,420.54. In 2023, the reverse of provision for inventories impairment was RMB6,361,025.64.

(III) Provision for Impairment of Long-term Equity Investments

According to the requirements of the “ASBE No. 8 – Assets Impairment”, the Company determined whether there is any indication of impairment on the assets on the balance sheet date. If there is any indication of impairment on the assets, the Company will estimate its recoverable amount. Where the measurement results show the recoverable amount of an asset is lower than its book value, the book value of the assets shall be written down to the recoverable amount, and the amount written down shall be recognized as impairment loss of the assets included in profit or loss for that period, and provision for assets impairment shall be accrued accordingly. Based on the above analysis and impairment test, the Company accrued provision for impairment of long-term equity investments in 2023 of RMB165,881,604.23 in respect of certain long-term equity investments with unfavorable operation conditions.

(IV) Provision for impairment of other assets

According to the “ASBE No. 8 – Assets Impairment”, the Company determines whether there is any indication of impairment of assets on the balance sheet date. For those assets of which the indication of impairment exists, the Company will estimate its recoverable amount. The recoverable amount should be determined based on the higher of the net amount after deducting disposal expenses from the fair value of the asset and the current value of the expected future cash flows of the asset. Where the measurement results show the recoverable amount of an asset is lower than its book value, the book value of the assets shall be written down to the recoverable amount, and the amount written down shall be recognized as impairment loss of the assets included in profit or loss for that period, and provision for assets impairment shall be accrued accordingly. Based on the above analysis and impairment test, in 2023, the company made provisions for impairment of other non-current assets amounting to RMB315,069,887.39 for certain assets whose progress did not meet expectations. This primarily relates to the impairment provisions made after the evaluation of a land development-related benefit right that was purchased.

III. IMPACT OF PROVISION FOR IMPAIRMENT OF ASSETS ON THE COMPANY

In 2023, the accrued provision for impairment of the above-mentioned assets of total RMB1,933,534,875.04, and reversed and wrote off provision for impairment of various assets of RMB168,555,146.58, of which provision for impairment of various assets of RMB56,872,760.78 was reversed and provision for impairment of various assets of RMB111,682,385.80 was written off. The change in impairment provision items resulted in reduction of the Company’s total profit in the consolidated statement for 2023 by RMB1,876,662,114.26 (which represents resulting in loss of RMB1,876,662,114.26).

IV. EXPLANATION OF REASONABLENESS OF THE BOARD REGARDING THE PROVISION FOR IMPAIRMENT OF ASSETS OF THE COMPANY

The Board is of the view that the provision for impairment of assets of the Company is in accordance with the relevant requirements of the ASBE, and is based on the principle of prudence, which fairly reflects the assets position of the Company and is in line with the actual situation of the Company.

V. AUDIT OPINIONS OF THE SUPERVISOR COMMITTEE REGARDING THE PROVISION FOR IMPAIRMENT OF ASSETS OF THE COMPANY

The supervisor committee of the Company is of the view that the provision for impairment of assets of the Company is in line with the actual situation of the Company and the decision – making procedures of the Board in respect of the matters are in compliance with the relevant laws and regulations and the articles of association of the Company, and that the provision for impairment of above assets can make the Company’s accounting information regarding the value of the assets more truthful and reliable, which is reasonable. The supervisor committee of the Company agrees with the provision for impairment of assets.

By order of the Board
Red Star Macalline Group Corporation Ltd.
QIU Zhe
Secretary of the Board and Joint Company Secretary

Shanghai, the PRC
1 April 2024

As at the date of this announcement, the executive Directors of the Company are CHE Jianxing, SHI Yaofeng, LI Jianhong and YANG Yingwu; the non-executive Directors are ZHENG Yongda, WANG Wenhui, ZOU Shaorong, SONG Guangbin and XU Di; and the independent non-executive Directors are XUE Wei, HUANG Jianzhong, CHEN Shanang, WONG Chi Wai and CAI Qinghui.