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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 2016

The board of directors (the “**Board**”) of Red Star Macalline Group Corporation Ltd. (the “**Company**” or “**Red Star Macalline**”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the “**Group**” or “**we**”) for the year ended 31 December 2016 (the “**Reporting Period**”), together with comparative figures for the same period of 2015.

### Financial highlights

	For the year ended 31 December	
	2016	2015
	<i>(Audited)</i>	<i>(Audited)</i>
	<i>(in thousands of RMB, except otherwise stated)</i>	
Revenue	<b>9,282,393</b>	8,756,120
Gross Profit	<b>6,624,221</b>	6,514,139
Gross profit margin	<b>71.4%</b>	74.4%
Profit attributable to owners of the Company	<b>4,036,269</b>	4,098,068
Profit margin attributable to owners of the Company	<b>43.5%</b>	46.8%
Core net profit attributable to owners of the Company <sup>(1)</sup>	<b>2,554,746</b>	2,552,735
Core net profit margin attributable to owners of the Company <sup>(2)</sup>	<b>27.5%</b>	29.2%
Earnings per share (basic)	<b>RMB1.11</b>	RMB1.22
Dividend per share (tax inclusive)	<b>RMB0.42</b>	RMB0.47

#### Notes:

- (1) Core net profit attributable to owners of the Company represents the profits attributable to owners of the Company after deducting the after-tax effects of changes in fair values of investment properties, other income, other gains and losses and other expenses etc., which are not related to daily operating activities.
- (2) Core net profit margin attributable to owners of the Company represents the ratio of core net profits attributable to owners of the Company divided by revenue.

## Operational highlights

	<b>As at 31 December 2016</b>	As at 31 December 2015
Number of shopping malls	<b>200</b>	177
Operating area of shopping malls (sq. m.)	<b>12,692,393</b>	11,660,468
Number of Portfolio Shopping Malls <sup>(1)</sup>	<b>66</b>	55
Operating area of Portfolio Shopping Malls (sq. m.)	<b>5,083,326</b>	4,386,128
Average occupancy rate of Portfolio Shopping Malls	<b>96.7%</b>	94.1%
Number of Managed Shopping Malls <sup>(1)</sup>	<b>134</b>	122
Operating area of Managed Shopping Malls (sq. m.)	<b>7,609,067</b>	7,274,340
Average occupancy rate of Managed Shopping Malls	<b>96.2%</b>	92.7%

*Note:*

(1) See definition in the prospectus of the Company dated 16 June 2015 (the “**Prospectus**”).

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

		2016	2015
	<i>NOTES</i>	<b><i>RMB'000</i></b> <i>(Audited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Revenue	5	<b>9,282,393</b>	8,756,120
Cost of sales and services		<b>(2,658,172)</b>	(2,241,981)
Gross profit		<b>6,624,221</b>	6,514,139
Other income	6	<b>199,430</b>	194,302
Changes in fair value of investment properties		<b>2,652,234</b>	2,381,694
Other gains and losses	7	<b>(567,294)</b>	(206,330)
Selling and distribution expenses		<b>(1,205,698)</b>	(1,196,889)
Administrative expenses		<b>(1,149,310)</b>	(882,418)
Other expenses	8	<b>(16,103)</b>	(120,834)
Share of profit of associates		<b>83,831</b>	62,954
Share of profit of joint ventures		<b>55,087</b>	50,024
Finance costs	9	<b>(949,156)</b>	(854,285)
Profit before tax	10	<b>5,727,242</b>	5,942,357
Income tax expense	11	<b>(1,358,832)</b>	(1,572,602)
Profit and total comprehensive income for the year		<b><u>4,368,410</u></b>	<u>4,369,755</u>
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		<b>4,036,269</b>	4,098,068
Non-controlling interests		<b>332,141</b>	271,687
		<b><u>4,368,410</u></b>	<u>4,369,755</u>
EARNINGS PER SHARE	13		
— Basic (RMB)		<b><u>1.11</u></b>	<u>1.22</u>
— Diluted (RMB)		<b><u>N/A</u></b>	<u>1.22</u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

		<u>2016</u>	<u>2015</u>
	<i>NOTES</i>	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Audited)</i>
<b>NON-CURRENT ASSETS</b>			
Investment properties	14	77,090,000	70,593,000
Property, plant and equipment		353,592	333,293
Goodwill		16,592	16,592
Intangible assets		467,822	539,267
Interests in associates	15	290,176	159,207
Interests in joint ventures	16	829,421	749,334
Available-for-sale investments	17	544,401	402,930
Loan receivables	18	160,223	112,580
Deferred tax assets		577,294	347,444
Restricted bank deposits	21	70,451	71,758
Other non-current assets	19	2,642,634	2,003,413
		<u>83,042,606</u>	<u>75,328,818</u>
<b>CURRENT ASSETS</b>			
Inventories		35,707	16,173
Loan receivables	18	500,441	160,100
Other financial assets		—	61,000
Trade and other receivables	20	2,008,532	1,627,561
Tax recoverable		82,781	41,834
Restricted bank deposits	21	17,265	—
Bank balances and cash	22	6,150,150	5,954,087
		<u>8,794,876</u>	<u>7,860,755</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	23	6,598,760	5,766,274
Rental and service fee received in advance		2,066,352	1,776,581
Tax liabilities		205,472	285,375
Bank and other borrowings	24	2,787,296	2,297,382
Bonds	25	1,889,468	497,195
		<u>13,547,348</u>	<u>10,622,807</u>
NET CURRENT LIABILITIES		<u>(4,752,472)</u>	<u>(2,762,052)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>78,290,134</u>	<u>72,566,766</u>

		<u>2016</u>	<u>2015</u>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Audited)</i>	<i>(Audited)</i>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>11,634,375</b>	10,667,539
Bank and other borrowings	24	<b>8,447,537</b>	7,027,170
Bonds	25	<b>8,434,101</b>	7,335,011
Obligations under finance leases		<b>419,693</b>	349,065
Deferred income		<b>195,413</b>	194,354
Other non-current liabilities	26	<b>1,471,340</b>	1,725,423
		<u><b>30,602,459</b></u>	<u>27,298,562</u>
<b>NET ASSETS</b>		<u><b>47,687,675</b></u>	<u>45,268,204</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>3,623,917</b>	3,623,917
Share premium		<b>5,617,001</b>	5,617,001
Reserves		<b>34,229,707</b>	31,903,641
Equity attributable to owners of the Company		<b>43,470,625</b>	41,144,559
Non-controlling interests		<b>4,217,050</b>	4,123,645
<b>TOTAL EQUITY</b>		<u><b>47,687,675</b></u>	<u>45,268,204</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2016

### 1. GENERAL INFORMATION

The Company was incorporated in the People's Republic of China (the "PRC") on 6 January 2011 as a sino-foreign joint stock limited company under the PRC laws upon the conversion of 上海紅星美凱龍企業管理有限公司 Shanghai Red Star Macalline Enterprise Management Company Limited (formerly known as 上海紅星美凱龍家居家飾品有限公司 Shanghai Red Star Macalline Home Furnishing Company Limited), a company with limited liability incorporated in the PRC. The parent and ultimate holding company of the Company is 紅星美凱龍控股集團有限公司 Red Star Macalline Holding Group Limited ("RSM Holding", formerly known as 上海紅星美凱龍投資有限公司 Shanghai Red Star Macalline Investment Company Limited), a company with limited liability incorporated in the PRC. The ultimate controlling shareholder is Mr. Che Jianxing.

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 June 2015.

The registered office of the Company is at Suite F801, 6/F, No. 518, Linyu Road, Pudong New District, Shanghai PRC, and the principal place of business in Hong Kong is at 36/F, Tower 2, Time Square. The principal activities of the Company and its subsidiaries (collectively the "Group") are operating and managing home furnishing shopping malls. The Group is also involved in O2O platform business, bulk procurement, sale of pre-paid cards, internet finance, home design and decoration, as well as logistics and delivery services.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and its subsidiaries.

### 2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group's current liabilities exceed its current assets at the end of current year. Taking into account the available facilities from bank and non-bank financial institutions, the available approved limits for placement of bonds and cash flows from operations, the directors of the Company believe that the Group will continue to operate as a going concern and consequently, the consolidated financial statements have been prepared on a going concern basis.

### 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

Amendments to IFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle

The application of amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair values at the end of each reporting period.

## 5. REVENUE

The following is an analysis of the Group's revenue and results by reportable and operating segment:

	<b>Owned/leased portfolio shopping malls</b>	<b>Managed shopping malls</b>	<b>Sales of merchandise and related services</b>	<b>Other</b>	<b>Total</b>
	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Audited)</i>
<b>Year ended 31 December 2016</b>					
Revenue from external customers	<b>5,870,695</b>	<b>2,740,945</b>	<b>205,442</b>	<b>465,311</b>	<b>9,282,393</b>
Inter-segment revenue	—	—	—	—	—
Segment revenue	<b>5,870,695</b>	<b>2,740,945</b>	<b>205,442</b>	<b>465,311</b>	<b>9,282,393</b>
Segment profit	<b>2,977,807</b>	<b>1,144,786</b>	<b>(27,134)</b>	<b>206,447</b>	<b>4,301,906</b>
<b>Year ended 31 December 2015</b>					
Revenue from external customers	5,259,961	3,141,708	115,838	238,613	8,756,120
Inter-segment revenue	—	—	—	—	—
Segment revenue	5,259,961	3,141,708	115,838	238,613	8,756,120
Segment profit	2,712,363	1,779,606	(101,944)	80,121	4,470,146

### Reconciliations of segment revenues and results

	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Audited)</i>
<b>Revenue</b>		
Segment revenue and consolidated revenue	<b>9,282,393</b>	8,756,120
<b>Profit</b>		
Segment profit	<b>4,301,906</b>	4,470,146
Other income	<b>199,430</b>	194,302
Changes in fair value of investment properties	<b>2,652,234</b>	2,381,694
Other gains and losses	<b>(567,294)</b>	(206,330)
Central administrative expense	<b>(32,693)</b>	(35,314)
Other expenses	<b>(16,103)</b>	(120,834)
Share of profits of associates	<b>83,831</b>	62,954
Share of profits of joint ventures	<b>55,087</b>	50,024
Finance costs	<b>(949,156)</b>	(854,285)
Consolidated profit before tax	<b>5,727,242</b>	5,942,357

## Revenue from major products and services

The following is an analysis of the Group's revenue from external customers:

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Revenue from owned/leased portfolio shopping malls	<b>5,870,695</b>	5,259,961
Revenue from managed shopping malls:		
— Initiation and entrance fees	<b>1,401,718</b>	1,409,903
— Annual management fees	<b>1,327,764</b>	1,268,071
— Construction consultation and management fees	<b>11,463</b>	463,734
	<b>2,740,945</b>	3,141,708
Revenue from sales of merchandise and related services:		
— Sales of merchandise	<b>22,543</b>	58,292
— Provision of related services	<b>182,899</b>	57,546
	<b>205,442</b>	115,838
Others	<b>465,311</b>	238,613
	<b>9,282,393</b>	8,756,120

## **6. OTHER INCOME**

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Interest income on:		
— bank deposits	<b>87,792</b>	79,492
— other loans and receivables	<b>8,335</b>	21,344
Total interest income	<b>96,127</b>	100,836
Government grants	<b>85,928</b>	67,599
Dividends from unlisted equity investments	<b>3,060</b>	5,965
Compensation received and receivable	<b>14,315</b>	19,902
	<b>199,430</b>	194,302



## 7. OTHER GAINS AND LOSSES

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Allowance on doubtful receivables, net	(336,462)	(198,599)
Impairment loss on available-for-sale equity investment	(122,225)	—
Impairment loss on intangible assets	(100,000)	—
Loss on disposal of property, plant and equipment	(4,448)	(441)
Loss on disposal of intangible assets	(168)	(2,575)
Gain on disposal of subsidiaries, net	20	1,930
Gain on disposal of an associate	—	3,969
(Loss) gain from business combination achieved in stages	(8,402)	2,236
Gain from bargain purchases in business combinations	356	1,845
Net foreign exchange losses	(4,558)	(953)
Others	8,593	(13,742)
	<u>(567,294)</u>	<u>(206,330)</u>

## 8. OTHER EXPENSES

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Donations	5,882	2,337
Compensation paid and payable	124	73,087
Listing expense for H Share IPO	—	45,410
Listing expense for A Share IPO	10,097	—
	<u>16,103</u>	<u>120,834</u>

## 9. FINANCE COSTS

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Interest on bank and other borrowings	668,620	950,851
Interest on finance leases	27,039	23,324
Interest on bonds	513,576	276,549
	<u>1,209,235</u>	<u>1,250,724</u>
Total borrowing costs	1,209,235	1,250,724
Less: amount capitalised in the cost of qualifying assets	(260,079)	(396,439)
	<u>949,156</u>	<u>854,285</u>

## 10. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Staff costs (including directors):		
— Salary and other benefits	<b>1,986,903</b>	1,561,246
— Retirement benefits scheme contributions	<b>177,088</b>	169,065
Total staff costs	<b><u>2,163,991</u></b>	<u>1,730,311</u>
Rental income and related management fee from investment properties	<b>5,870,695</b>	5,259,961
Less: direct operating expenses	<b><u>(1,403,606)</u></b>	<u>(1,224,836)</u>
	<b><u>4,467,089</u></b>	<u>4,035,125</u>
Operating lease rentals	<b>591,560</b>	577,570
Auditors' remuneration	<b>15,648</b>	10,990
Cost of inventories recognised as an expense	<b>130,358</b>	90,003
Depreciation for property, plant and equipment	<b>97,750</b>	102,019
Amortisation of intangible assets	<b>24,204</b>	25,811
Allowance for doubtful receivables, net	<b>336,462</b>	198,599
Impairment loss on available-for-sale equity investments	<b>122,225</b>	—
Impairment loss on intangible assets	<b>100,000</b>	—

## 11. INCOME TAX EXPENSE

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Income tax expenses comprise:		
Current tax:		
PRC enterprise income tax	<b>637,295</b>	737,550
Over provision in prior year	<b><u>(8,861)</u></b>	<u>(11,471)</u>
	<b>628,434</b>	726,079
Deferred tax — current year	<b>730,398</b>	846,523
Income tax expenses	<b><u>1,358,832</u></b>	<u>1,572,602</u>

Under the Law of People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of PRC subsidiaries is 25% except for certain subsidiaries of the Group in the PRC are under the Western China Development Plan and were approved to enjoy the preferential tax rate of 15% in accordance with the EIT LAW and relevant regulations.

## 12. DIVIDENDS

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Dividends recognised as distribution during the year		
— 2015 Final (RMB0.47 per share)	<b>1,703,241</b>	—
— 2014 Final (RMB0.83 per share)	—	2,490,000
	<u><b>1,703,241</b></u>	<u>2,490,000</u>

Subsequent to the end of the Reporting Period, a final dividend in respect of the year ended 31 December 2016 of RMB0.42 per share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 13. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the year ended 31 December 2016 and 2015 is based on the following data:

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Earning for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	<u><b>4,036,269</b></u>	<u>4,098,068</u>
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share (2015: number of ordinary shares)	<u><b>3,623,917,038</b></u>	<u>3,352,560,031</u>

## 14. INVESTMENT PROPERTIES

	<u>Completed investment properties</u>	<u>Investment properties under development</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
<b>Fair Value</b>			
At 1 January 2015	56,239,000	6,727,000	62,966,000
Additions	206,865	3,004,257	3,211,122
Acquisition of subsidiaries	922,302	1,111,882	2,034,184
Transfer	2,943,000	(2,943,000)	—
Change in fair value recognised in profit or loss	<u>1,517,833</u>	<u>863,861</u>	<u>2,381,694</u>
At 31 December 2015	<u><b>61,829,000</b></u>	<u><b>8,764,000</b></u>	<u><b>70,593,000</b></u>
At 1 January 2016	<b>61,829,000</b>	<b>8,764,000</b>	<b>70,593,000</b>
Additions	<b>679,028</b>	<b>2,333,957</b>	<b>3,012,985</b>
Acquisition of subsidiaries	<b>831,781</b>	—	<b>831,781</b>
Transfer	<b>6,411,000</b>	<b>(6,411,000)</b>	—
Change in fair value recognised in profit or loss	<u><b>1,971,191</b></u>	<u><b>681,043</b></u>	<u><b>2,652,234</b></u>
At 31 December 2016	<u><b>71,722,000</b></u>	<u><b>5,368,000</b></u>	<u><b>77,090,000</b></u>

## 15. INTERESTS IN ASSOCIATES

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Cost of investments in unlisted associates	206,637	146,850
Share of post-acquisition profits and other comprehensive income, net of dividends received	<u>83,539</u>	<u>12,357</u>
	<u><u>290,176</u></u>	<u><u>159,207</u></u>

## 16. INTERESTS IN JOINT VENTURES

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Cost of investment in unlisted joint venture	286,877	261,877
Share of post-acquisition profits and other comprehensive income, net of dividends received	<u>542,544</u>	<u>487,457</u>
	<u><u>829,421</u></u>	<u><u>749,334</u></u>

## 17. AVAILABLE-FOR-SALE INVESTMENTS

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Unlisted equity investments, at cost:		
— Oppcin	157,560	157,560
— Other private entities established in the PRC	<u>386,841</u>	<u>245,370</u>
	<u><u>544,401</u></u>	<u><u>402,930</u></u>

## 18. LOAN RECEIVABLES

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Non-current		
Zhejiang Mingdu	55,000	30,000
Daqing Xusheng	40,223	46,080
Anhui Tenghui Investment	65,000	—
Ningbo Longkai Industrial	—	36,500
	<u>160,223</u>	<u>112,580</u>
Current		
Zhejiang Mingdu	45,000	70,000
Zhejiang Borui	110,000	30,100
Wuhan Zhuyeshan	60,000	60,000
Ningbo Longkai Industrial	36,500	—
Huaihua Xingqi	36,000	—
Longfang Aris	30,000	—
Microfinance loans	184,789	—
Less: allowance for doubtful debts	<u>(1,848)</u>	<u>—</u>
	<u><u>500,441</u></u>	<u><u>160,100</u></u>

## 19. OTHER NON-CURRENT ASSETS

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Prepayment for acquisition of land use rights	360,774	242,319
Prepayment for construction of investment properties	588,890	468,910
Prepayment for acquisition of investment properties	43,235	304,454
Amounts due from a third party	150,000	—
Amounts due from non-controlling shareholders of subsidiaries	106,000	121,324
Prepayment to a related party for repurchase interests in a transferred shopping mall	247,705	247,705
Amount due from related parties	287,388	42,092
Deposits paid for construction of investment properties	197,460	135,252
Deposits for acquisition of office premises	210,081	—
Deposits paid under medium term operating lease	84,288	55,278
Preliminary development cost	141,963	141,562
Equity investment with fixed return	198,400	219,400
Others	26,450	25,117
	<b>2,642,634</b>	<b>2,003,413</b>

## 20. TRADE AND OTHER RECEIVABLES

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Trade receivables		
— due from third parties	1,429,845	1,214,667
— due from related parties	30	9,711
Less: allowance for doubtful debts	(594,507)	(257,813)
	<b>835,368</b>	966,565
Bills receivable	900	2,200
	<b>836,268</b>	968,765
Prepayments to third parties	155,502	92,877
Deferred A Share IPO expense	9,340	—
Other taxes recoverable	87,842	29,978
Amounts due from third parties	313,185	258,472
Amounts due from non-controlling shareholders of subsidiaries	81,504	27,324
Amounts due from related parties	130,056	143,842
Deposits	81,689	81,890
Proceeds to be collected on behalf of the tenants	350,458	72,636
Other	27,933	23,956
Less: allowance for doubtful debts	(65,245)	(72,179)
	<b>1,172,264</b>	658,796
	<b>2,008,532</b>	<b>1,627,561</b>

The following is an analysis of trade receivables and bills receivable by ageing, net of allowance for doubtful debts, presented based on the date of recognition of revenue at the end of the Reporting Period:

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Less than 1 year	466,277	715,619
1–2 years	266,285	207,786
2–3 years	99,797	37,996
Over 3 years	3,909	7,364
	<u>836,268</u>	<u>968,765</u>

Movement in the allowance for doubtful debts

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Balance at beginning of the year	329,992	153,936
Impairment losses recognised during the year	341,274	203,599
Impairment losses reversed	(6,660)	(5,000)
Amounts written off during the year as uncollectable	(4,854)	(22,543)
	<u>659,752</u>	<u>329,992</u>

**21. RESTRICTED BANK DEPOSITS**

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Deposits pledged for banking facilities (including bank borrowings) granted to the Group	70,451	69,126
Other restricted bank deposits	17,265	2,632
	<u>87,716</u>	<u>71,758</u>
Analysed for reporting purposes as:		
— Non-current	70,451	71,758
— Current	17,265	—
	<u>87,716</u>	<u>71,758</u>

## 22. BANK BALANCES AND CASH

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Cash	45,829	14,882
Bank deposits with original maturity within three months or less	<u>5,946,596</u>	<u>5,833,582</u>
Cash and cash equivalents	<u>5,992,425</u>	<u>5,848,464</u>
Bank deposits with original maturity over three months	<u>157,725</u>	<u>105,623</u>
Bank balances and cash	<u><u>6,150,150</u></u>	<u><u>5,954,087</u></u>

## 23. TRADE AND OTHER PAYABLES

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Trade payable	353,219	279,541
Other payables: Staff costs payables	540,096	389,088
Dividends payable to a non-controlling shareholder of a subsidiary	138,500	28,850
Other tax payables	254,410	213,035
Interests payables	120,291	83,467
Amounts due to third parties	237,122	216,979
Amount due to non-controlling shareholders of subsidiaries	323,202	137,918
Amounts due to related parties	19,961	228,842
Consideration payable to a related party for acquisition of subsidiaries	30,989	175,572
Consideration payable to a third party for acquisition of a subsidiary	—	53,308
Consideration payable for acquisition of additional interests in subsidiaries	—	13,450
Construction costs payables	599,650	732,925
Proceeds collected on behalf of the tenants	1,303,285	809,945
Deposit received from the tenants	1,809,313	1,489,485
Received in advance arising from pre-paid cards	88,342	139,693
Intention deposit received	270,400	390,890
Accrued rental and other expenses	302,218	269,178
Other	<u>207,762</u>	<u>114,108</u>
	<u>6,245,541</u>	<u>5,486,733</u>
	<u><u>6,598,760</u></u>	<u><u>5,766,274</u></u>

The following is an analysis of trade payables by ageing presented based on the invoice date at the end of the Reporting Period:

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Less than 1 year	343,198	268,677
1–2 years	5,012	5,731
2–3 years	4,555	5,034
Above 3 years	<u>454</u>	<u>99</u>
	<u>353,219</u>	<u>279,541</u>

## 24. BANK AND OTHER BORROWINGS

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Bank loans		
— Secured	9,705,833	8,349,819
— Unsecured	19,000	535,000
Other loans, secured	<u>1,510,000</u>	<u>439,733</u>
	<u><u>11,234,833</u></u>	<u><u>9,324,552</u></u>
	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Fixed-rate borrowings	1,510,010	839,733
Variable-rate borrowings	<u>9,724,823</u>	<u>8,484,819</u>
	<u><u>11,234,833</u></u>	<u><u>9,324,552</u></u>
The borrowings are repayable:		
Within one year or on demand	2,787,296	2,297,382
More than one year, but not exceeding two years	3,344,038	2,192,768
More than two years, but not exceeding five years	3,444,250	3,339,116
More than five years	<u>1,659,249</u>	<u>1,495,286</u>
	<u><u>11,234,833</u></u>	<u><u>9,324,552</u></u>
Less: Amount due within one year shown under current liabilities	<u>2,787,296</u>	<u>2,297,382</u>
Amount due after one year	<u><u>8,447,537</u></u>	<u><u>7,027,170</u></u>

## 25. BONDS

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Unguaranteed medium term notes:		
— Bonds 2017	894,941	889,791
— Bonds 2018	497,031	495,449
— Bonds 2016	—	497,195
Private placement notes:		
— Private Bonds 2017	994,527	989,277
Corporate bonds:		
— Corporate Bonds 2020	4,973,683	4,960,494
— Corporate Bonds 2021	1,485,447	—
— Corporate Bonds 2023	<u>1,477,940</u>	<u>—</u>
	<u><u>10,323,569</u></u>	<u><u>7,832,206</u></u>



The movements of Bonds 2017, Bonds 2018, Bonds 2016, Private Bonds 2017, Corporate Bonds 2020, Corporate Bonds 2021 and Corporate Bonds 2023 are set out below:

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
As at 1 January	7,887,566	3,494,977
Net proceeds from Corporate Bonds 2020 issued on 11 October 2015	—	4,958,670
Net proceeds from Corporate Bonds 2021 issued on 14 July 2016	1,483,203	—
Net proceeds from Corporate Bonds 2023 issued on 14 July 2016	1,476,127	—
Redemption of Bonds 2016 on 5 December 2016	(500,000)	
Redemption of Bonds 2015 on 31 August 2015	—	(600,000)
Interests and issue cost amortized during the year	513,576	276,549
Interest paid during the year	(434,990)	(242,630)
	<u>10,425,482</u>	<u>7,887,566</u>
As at 31 December	<u>10,425,482</u>	<u>7,887,566</u>

The balance of Bonds 2017, Bonds 2018, Bonds 2016, Private Bonds 2017, Corporate Bonds 2020, Corporate Bonds 2021 and Corporate Bonds 2023 at the end of the Reporting Period represented by:

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Other payables — accrued interests	101,913	55,360
Bonds (current)	1,889,468	497,195
Bonds (non-current)	8,434,101	7,335,011
	<u>10,425,482</u>	<u>7,887,566</u>

## 26. OTHER NON-CURRENT LIABILITIES

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Initiation and entrance fees received in advance	415,321	696,821
Rental payable	336,482	330,307
Amounts due to non-controlling shareholders of subsidiaries	719,537	698,295
	<u>1,471,340</u>	<u>1,725,423</u>

## 27. PLEDGED ASSETS

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Investment properties	54,814,000	45,009,000
Restricted bank deposits	70,451	69,126
	<u>54,884,451</u>	<u>45,078,126</u>

## 28. CAPITAL COMMITMENTS

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Contracted but not provided for in the consolidated financial statements: — Capital expenditure in respect of acquisition and construction of investment properties (including through acquisition of subsidiaries)	<u><b>4,359,469</b></u>	<u>2,483,600</u>

## 29. OPERATING LEASES

### The Group as lessee

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Within one year	<b>529,273</b>	551,469
In the second to fifth years inclusive	<b>1,911,516</b>	2,114,832
Over five years	<u><b>2,658,477</b></u>	<u>3,235,381</u>
	<u><b>5,099,266</b></u>	<u>5,901,682</u>

### The Group as lessor

	<u>2016</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
Within one year	<b>3,280,715</b>	2,356,705
In the second year	<u><b>258,927</b></u>	<u>64,242</u>
	<u><b>3,539,642</b></u>	<u>2,420,947</u>

# Management discussion and analysis

## — Industry review

In 2016, facing the complex and volatile domestic and overseas economic environment, together with the effect of policies such as the structural reforms of supply side policies, the appropriate expansion of the total demands and the steady promulgation of reforms, the national economy maintained an overall stable and improving development trend, and achieved a good commencement of the Thirteenth Five-Year Plan.

According to the statistics of Frost & Sullivan, in 2016, in terms of sales, we dominated 11.8% of the chain home improvement and furnishings shopping mall sector, representing 4.5% of the shopping mall sector and the largest market share in China's home improvement and furnishings retail industry.

## — Business review

### *1. Business development and presence: stable development of shopping malls and strategic presence with a nationwide coverage*

As at the end of the Reporting Period, we operated a total of 200 shopping malls with a total operating area of 12,692,393 sq.m. in 142 cities in 28 provinces, municipalities, and autonomous regions in China. Through the two-pronged business model of Portfolio Shopping Malls and Managed Shopping Malls, we occupied properties in prime locations of Tier I and Tier II Cities, at the same time accumulated extensive experience in operating shopping malls, constantly strengthened the brand value, and set a relatively high barrier of entry for other companies.

During the Reporting Period, we continued to strategically locate our Portfolio Shopping Malls in prime locations in Tier I and Tier II Cities, especially in municipalities. As at the end of the Reporting Period, we operated 66 Portfolio Shopping Malls covering a total operating area of 5,083,326 sq.m. with an average occupancy rate of 96.7%. Among these Portfolio Shopping Malls, 18 Portfolio Shopping Malls, representing 27.3% of the total number of Portfolio Shopping Malls, were located in the four municipalities of Beijing, Shanghai, Tianjin and Chongqing. The operating area of the aforesaid Portfolio Shopping Malls was 1,511,480 sq.m., representing 29.7% of the total operating area of the Portfolio Shopping Malls. The same mall growth of mature shopping malls<sup>(1)</sup> during the Reporting Period was 5.2%.

During the Reporting Period, we opened eight new Portfolio Shopping Malls, and three Managed Shopping Mall were converted into Portfolio Shopping Malls. As at the end of the Reporting Period, we had 22 pipeline Portfolio Shopping Malls. We will continue to focus on the prime locations of Tier I and Tier II Cities to strategically expand our Portfolio Shopping Malls network in the future.

*Note:*

- (1) “Same mall growth of mature shopping malls” is the growth in average effective unit income from operation for a particular period compared with the same period in the prior year for all Portfolio Shopping Malls that were in operation for at least three financial years and were still in operation as at the end of the Reporting Period. In line with the Group's business development and to better present the performance of our business operations, we have introduced the “same mall growth of mature shopping malls” as another business operation indicator.

In addition, with a reputable brand name in the home improvement and furnishings industry and extensive experience in shopping mall development, strength in tenant sourcing and operational management, we continued to rapidly develop Managed Shopping Malls in Tier III Cities and other cities. We also established a strict internal screening and reviewing mechanism to ensure steady and rapid development of our Managed Shopping Malls. As at the end of the Reporting Period, we had 134 Managed Shopping Malls in operation covering a total operating area of 7,609,067 sq.m., with an average occupancy rate of 96.2%. Among these Managed Shopping Malls, 90 Managed Shopping Malls, representing 67.2% of the total number of Managed Shopping Malls, were located at East China and North China. The operating area of the aforesaid Managed Shopping Malls was 5,088,036 sq.m., representing 66.9% of the total operating area of Managed Shopping Malls. During the Reporting Period, we opened 20 new Managed Shopping Malls and closed five Managed Shopping Malls. In addition, three Managed Shopping Malls were converted into Portfolio Shopping Malls.

As at the end of the Reporting Period, we had 316 pipeline Managed Shopping Malls. Along with steady social and economic development of the country, further development of urbanization strategy, and stable growth in disposable income per capita, we will focus on increasing the rate of expansion of our Managed Shopping Malls business throughout China as our priority.

## ***2. Business management: Continuous improvement of shopping mall operation and management***

### ***2.1 Tenant sourcing management***

We made continuous efforts to improve the strategic layout of our shopping malls and to implement new business strategies; we enhanced the standards of our refined rental management and improved our tenant sourcing management mechanism; we also continued to strengthen the management of brand resources and enhance the value-added services provided to our key customers; at the same time, the international pavilions were taking shape as we stepped up our efforts in introducing a number of global brands; we enhanced the shopping experience of our consumers and led the consumption trend of the home furnishings industry.

### ***2.2 Operational management***

We promoted the “Word of Mouth Advertising” project comprehensively, setting high standards for and strict requirements on shopping mall operations in respect of price, quality and service, in order to improve customer satisfaction. During the Reporting Period, the “Word of Mouth Advertising” project was promoted successfully in 123 shopping malls nationwide, and we won the 2016 Retail Innovation Prize awarded by CCFA (China Chain Store & Franchise Association, 中國連鎖經營協會). We also improved operational management efficiency by means of digital space management. In addition, we continued to launch “Leading Green” campaigns to promote consumers’ green home life quality.

### ***2.3 Marketing management***

We were committed to enhancing the brand awareness, customer satisfaction and sales growth of Red Star Macalline through brand promotion, membership management, digital marketing, cross-industry interactive marketing and joint marketing. We continued to raise our level of brand communication so as to strengthen our “Home Furnishings Expert” corporate image; we have upgraded a number of marketing platforms and membership service systems to carry out socialized membership marketing. During the Reporting Period, we recruited 2.143 million new members through various channels including Wechat, shopping malls, properties for sale and online platforms. Among which, members with consumption records spent about RMB28,000 on average in the same year and the aggregate tenant sales volume amounts to RMB22.13 billion in total for our tenants. We extended the channels with different industries to carry out precision marketing. We also consolidated factory resources of premium brands to realize joint marketing and establish market influence.

### ***2.4 Property management***

We advocated energy saving and environmental protection and were committed to creating green shopping malls; we persisted in improving the shopping environment and enhancing the shopping experience of our customers; we were dedicated to offering a secure shopping environment through various measures featured by “system coming first, standardized management, strict inspection, professional training”.

## ***3. Multiple-channel business: robust development***

Our various business segments that are currently underlying the expansionary phase flourished during the Reporting Period. We officially launched the “1001” strategy, based on which we carried out upstream and downstream cross-border business extension, and built up a business life community for pan-home improvement and furnishings industry with the orientation on the “omni-channel platform service provider for the pan home improvement and furnishings industry” and by upholding the core concept of “home”. During the Reporting Period, our internet platform was officially launched, which provided consumers with industry chain services for pan-home improvement and furnishings consumption ranging from home purchase to home renovation and purchase of household-related products. Our household financing services were further extended, with a view to retain and expand our customer and tenant base. We also provided full-range and all-dimensional logistics services to satisfy multiple needs of users on both ends of the platform so as to realize resources sharing.

### ***3.1 Establishment of internet-based platform: providing consumers with pan-home consumer chain services***

#### **Internet-based Home Improvement**

The home decoration business is an upstream extension in the home improvement and furnishings retail industrial chain. Due to a high level of overlap between home furnishings consumers and home decoration consumers, we leverage on the home furnishings shopping malls as a platform and join forces with our strong brand impact, to effectively reduce the cost of customer acquisition and marketing for the development of our home decoration business. We integrated the upstream and downstream industrial chain in the home decoration industry and provided full services by integrating home furnishings design proposals, sale of materials and furniture and construction service for consumers, in order to improve the shopping experiences of our consumers and to drive sales in our shopping malls. As at the end of the Reporting Period, we have 30 online and offline home decoration outlets across the country in our shopping malls located in cities such as Beijing, Tianjin, Shanghai, Nanjing, Shenyang and Chengdu.

#### **Internet Retail**

During the Reporting Period, the Company established an online retail platform. The platform is designed to cover a series of convenient services including products display, consultancy, membership marketing, online transaction, guidance for offline stores in shopping mall and booking experience. Online and offline interaction helps expand our communication channels with our consumers, enhances their satisfaction and loyalty, and drives the overall consumption demand. The online retail platform is mainly materialized through mobile APP user portal, and it covers a complete set of household-related products, including furniture, construction material, electrical appliance, furnishing and textile. While integrating certain merchant resources of the offline shopping malls of Red Star Macalline, the Company proactively explored the brands and stores which conduct online business only, thus providing abundant and more diversified choices for consumers.

As at the end of the Reporting Period, the Company has attracted 1,782 brands and 3,615 tenants to sign-up for its internet-based retail platform. Based on the self-developed O2O system, 13 offline shopping malls of Red Star Macalline succeeded in connecting with the products and services from the online platform, covering cities such as Shanghai, Nanjing, Suzhou and Changsha.

### ***3.2 Improved home furnishings financial services: retaining and expanding our consumer and tenant base***

We use HomeFax as an Internet financial information service platform to provide relevant service of financing for our shopping mall partners, home furnishings factories and tenants. Such platform provides information service and conducts strict risk appraisal through professional risk control system, credit information of third parties, central bank credit reference system and the “Star Cloud System”, to satisfy the financing demands of our shopping mall partners, home furnishings factories and tenants.



We provided petty loan services to partners of the Group and financial support for its development by giving full play to the company's ability to control risk and to conduct a comprehensive evaluation of the risk profile of the partners. As of the end of the Reporting Period, we accumulatively granted petty loans in the amount of RMB189.8 million.

During the Reporting Period, we further expanded our business of prepaid card services and customer financial services to satisfy household related fundraising needs or demands of our customers. During the Reporting Period, we issued prepaid cards with aggregate denomination amounted to RMB1,393 million with the relevant income from commission amounted to RMB17.6 million. We provided customers with RMB492 million consumption loans through cooperation with banks and recorded relevant operating income in the amount of RMB13.6 million.

### ***3.3 Comprehensive logistic service: to satisfy multiple needs on both ends of the platform and achieving resources sharing***

During the Reporting Period, we continued to expand the terminal service ecosystem of the home furnishings and furniture industry and provide professional distribution and installation services to our tenants and customers to facilitate the "Last Mile" offering of distribution, installation and after-sales services, and to improve customer satisfaction and loyalty to the brands of our tenants as well as the brand of Red Star Macalline. As at the end of the Reporting Period, we have set up logistics trial centers in Nanjing, Wuxi, Shijiazhuang, Changsha and Shenyang to provide one-stop professional services for customers from purchase to professional product distribution and installation; more than 330 brands have commenced operations with our logistics service business, with a storage area of approximately 30,000 sq.m. in total.

## ***4. Upgrade and restructure the information technology infrastructure and support the development of internet-based platform***

During the Reporting Period, in line with the development of the internet-based business, we further upgraded and restructured our information technology infrastructures. We have accumulatively uploaded information of 163 shopping malls on the "Star Cloud" System, which is the leading comprehensive enterprise resource planning system in the home improvement and furnishings industry. With regard to the development of our information system, we have increased the investment in and the proportion of self-construction. We have effectively enhanced the working efficiency of our staff and the management efficiency by improving the information system for internal management of the Group. Meanwhile, we proactively build our "Smart Shopping Mall" IT project. At present, the infrastructure of WIFI and positioning system for four shopping malls has been completed.

## 5. *Highly efficient human resources management policies: to support the efficient business growth*

During the Reporting Period, our human resources policies were strictly in line with our strategies and achieved success in a number of aspects such as system optimization, evaluation of overall performance, employee incentivization, talent development, talent support, as well as industry talent training. We had a total of 19,060 employees as at the end of the Reporting Period.

### — Financial Review

#### 1. *Revenue*

During the Reporting Period, the Group's revenue was RMB9,282.4 million, representing an increase of 6.0% from RMB8,756.1 million in 2015. The stable growth in our revenue was primarily due to an increase in revenue from our Owned/Leased Portfolio Shopping Malls. During the Reporting Period, revenue from our Owned/Leased Portfolio Shopping Malls increased, due to an increase in the operation area of our shopping malls, average rent and management fee; revenue from Managed Shopping Malls decreased mainly due to the decreased revenue from services of construction consultation and management fees, as a result of reduction in newly commenced projects requiring such services.

The following table sets forth our revenue by business segments:

	<b>For the year ended 31 December</b>			
	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>
	<i>(RMB'000)</i>	<i>%</i>	<i>(RMB'000)</i>	<i>%</i>
	<i>(Audited)</i>		<i>(Audited)</i>	
Owned/Leased Portfolio				
Shopping Malls	<b>5,870,695</b>	<b>63.2</b>	5,259,961	60.1
Managed Shopping Malls	<b>2,740,945</b>	<b>29.5</b>	3,141,708	35.9
Sales of merchandise and related services	<b>205,442</b>	<b>2.2</b>	115,838	1.3
Others	<b>465,311</b>	<b>5.1</b>	238,613	2.7
Total	<b>9,282,393</b>	<b>100.0</b>	<b>8,756,120</b>	<b>100.0</b>



## 2. *Gross profit and gross profit margin*

During the Reporting Period, the Group's gross profit was RMB6,624.2 million, representing an increase of 1.7% from RMB6,514.1 million in 2015. In 2016, the Group's integrated gross profit margin was 71.4%, representing a decrease of 3.0 percentage points from 74.4% in 2015, which was mainly due to the decrease in revenue of construction consultation and management fees with a higher gross profit margin and the decrease in gross profit margin of annual management fees.

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

	For the year ended	
	31 December	
	2016	2015
Owned/Leased Portfolio Shopping Malls	76.1%	76.7%
Managed Shopping Malls	65.7%	73.8%
Sales of merchandise and related services	34.3%	22.3%
Others	61.3%	56.4%
Integrated gross profit	71.4%	74.4%

## 3. *Sales and distribution expenses and administrative expenses*

During the Reporting Period, the sales and distribution expenses increased from RMB1,196.9 million (representing 13.7% of the revenue of the Group) in 2015 to RMB1,205.7 million (representing 13.0% of the revenue of the Group), representing an increase of 0.7%, keeping a stable level.

During the Reporting Period, administrative expenses were increased from RMB882.4 million (representing 10.1% of the revenue of the Group) in 2015 to RMB1,149.3 million (representing 12.4% of the revenue of the Group) with an increase of 30.2%, which was mainly because the Group expanded its operation scale and developed new businesses which resulted in the increase of employee compensation and office expenses.

## 4. *Finance costs*

During the Reporting Period, finance costs were increased from RMB854.3 million in 2015 to RMB949.2 million with an increase of 11.1%. The total borrowing costs decreased from RMB1,250.7 million in 2015 to RMB1,209.2 million, representing a drop of 3.3%, which was mainly due to the overall decrease of market interest rate during the Reporting Period. At the same time, the Group raised our capital utilisation efficiency, improved our debt incurrence structure, issued domestic corporate bonds with low interest rates therefore reduced our average financing cost.

## 5. *Income tax expense*

During the Reporting Period, the income tax expenses of the Group were RMB1,358.8 million, representing a drop of 13.6% compared with RMB1,572.6 million in 2015. Through effective tax planning, the rate of the effective income tax decreased from 26.5% in 2015 to 23.7% in 2016.

## 6. *Profit, core net profit attributable to owners of the Company and earnings per share*

During the Reporting Period, profit attributable to owners of the Company amounted to RMB4,036.3 million, representing a decrease of 1.5% from RMB4,098.1 million in 2015; core net profit attributable to owners of the Company amounted to RMB2,554.7 million, remaining relatively flat compared with 2015. The above was a result of the decrease in proportion of our higher gross profit margin business.

	<b>For the year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>Variation</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	
	<i>(Audited)</i>	<i>(Audited)</i>	
Profit attributable to owners of the Company	<b>4,036,269</b>	4,098,068	-1.5%
Profit margin attributable to owners of the Company	<b>43.5%</b>	46.8%	-3.3 ppts
Core net profit attributable to owners of the Company	<b>2,554,746</b>	2,552,735	0.1%
Core net profit margin attributable to owners of the Company	<b>27.5%</b>	29.2%	-1.7 ppts

During the Reporting Period, the Group's earnings per share was RMB1.11, comparing with RMB1.22 in 2015.

## 7. *Trade and other receivables*

As at the end of the Reporting Period, the trade and other receivables of the Group were RMB2,008.5 million, of which the trade receivables and bills receivable were RMB836.3 million, which decreased by RMB132.5 million as compared with that at the end of 2015, mainly because the Group increased the efforts in the collection of trade receivables during the Reporting Period and the allowance for doubtful debts of outstanding amounts in the previous years has been reasonably accrued.

## 8. *Investment properties*

As at the end of the Reporting Period, the Group's book value of investment properties amounted to RMB77,090.0 million, representing an increase of 9.2% from RMB70,593.0 million as at the end of 2015, mainly due to the increase in rent and management fees of the Owned Portfolio Shopping Malls and progress made in the development of investment properties during the Reporting Period.

## 9. *Capital expenditures*

During the Reporting Period, the Group's capital expenditures amounted to RMB3,189.9 million (in 2015, the Group's capital expenditures amounted to RMB3,288.1 million), primarily due to the progress made in the development of investment properties during the Reporting Period.

## 10. *Bank balances and cash and cash flow*

As at the end of the Reporting Period, the Group's bank balances and cash were RMB6,150.2 million, of which cash and cash equivalents amounted to RMB5,992.4 million, representing an increase of RMB143.9 million from RMB5,848.5 million as at the end of 2015.

During the Reporting Period, the Group's net cash inflow from operational activities was RMB3,893.7 million, net cash outflow from investment activities was RMB5,016.7 million and net cash inflow from financing activities was RMB1,266.9 million. Increase in the net cash outflow from investment activities was primarily due to the increase in payment of various construction projects and investment of the Group during the Reporting Period.

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
	<b>(RMB'000)</b>	<b>(RMB'000)</b>
	<b>(Audited)</b>	<b>(Audited)</b>
Net cash generated from operating activities	<b>3,893,741</b>	3,309,333
Net cash used in investment activities	<b>(5,016,660)</b>	(3,912,985)
Net cash generated from financing activities	<b>1,266,880</b>	2,859,712
Net increase in cash and cash equivalents	<b>143,961</b>	2,256,060

## 11. Major debt ratios

The following table sets out our major debt ratios:

	<b>As at 31 December 2016</b>	<b>As at 31 December 2015</b>
Asset-liability ratio <sup>(1)</sup>	<b>48.1%</b>	45.6%
Net gearing ratio <sup>(2)</sup>	<b>33.2%</b>	25.5%

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 the total interest-bearing bank and other borrowings, bonds and obligations under finance leases net of bank balances and cash as a percentage of total equity at the end of each period.

## 12. Pledge of assets of the Group

As at the end of the Reporting Period, the Group had pledged investment properties with book value of RMB54,814.0 million and restricted bank deposits of RMB70.5 million for obtaining loans and providing guarantees.

## 13. Contingent liabilities

As at the end of the Reporting Period, the Group issued financial guarantees with its partners to a bank in respect of a loan in the amount up to RMB400 million granted to a joint venture, of which RMB98 million (as of 31 December 2015: RMB178 million) have been utilised by the joint venture as at 31 December 2016.

As at the end of 2016 and 2015, the Group and its partner provided financial guarantees to a financial institution in respect of a loan in the amount up to RMB1,500 million granted to an associate, of which the Group provided guarantee according to its equity proportion of 25%, which is RMB375 million, to secure the above facility.

- (1) the Group pledged its shares in the associate to secure 15% of this loan, which is up to RMB225 million; and
- (2) the Group issued financial guarantee to 10% of this loan, which is up to RMB150 million.

During the Reporting Period, the Group and its partner provided financial guarantees to a financial institution in respect of a new loan in the amount up to RMB2,500 million granted to this associate, of which the Group provided guarantee according to its equity proportion of 25%, which is RMB625 million, to secure the above facility.

As at the end of the Reporting Period, RMB500 million and RMB500 million (as of 31 December 2015: RMB1,000 million and N/A) of the two facilities have been utilised by the associate, respectively.

The Group believes that the amount of the above financial guarantees provided by the Group is not significant and the guaranteed joint ventures and associates are in good financial positions.

#### ***14. Material acquisitions and disposals***

During the Reporting Period, the Group had no material acquisitions and disposals in relation to our subsidiaries or associates/joint ventures.

#### ***15. Capital Commitment***

As at the end of the Reporting Period, the amount of which the Group has contracted for but not provided in the financial statements was RMB4,359.5 million.

#### ***16. Foreign exchange risk***

The Group operates in China. All income and almost all expenditure of the Group are in RMB. The Group owns a small amount of bank deposit in Hong Kong dollars, and the dividend for the H Shareholders will be paid in Hong Kong and US dollars. The directors of the Company believe that the Group's foreign exchange risk is relatively low, and the Group currently does not implement any foreign currency hedging policy. The Group manages foreign exchange risks by regularly checking foreign currency exchange rates. The Group will consider hedging policies to deal with material foreign exchange risks where necessary.

#### ***17. Human Resources***

As at the end of the Reporting Period, the Group has employed 19,060 employees (as at the end of 2015: 17,086 employees). The Group enters into labor contract with employees according to the Labor Law of the PRC and the relevant provisions of the employee's locality. The Group will determine the employee's basic wage and bonus level according to the employee's performance, work experience and the market wage standard, and shall pay social insurance and housing provident fund for the employees. During the Reporting Period, the Group has paid a total of RMB2,164.0 million for salary expenditures (2015: RMB1,730.3 million). Meanwhile, the Group also continued to invest resources in providing various education and training opportunities for the staff, aiming to standardize the management work and improving the operation performance, and continuously improved the knowledge and technology level as well as professional competence of the employees.

## — Outlook

We have persistently adhered to our mission of “building a warm and harmonious homeland, enhancing consumption and living taste”. In 2017 and going forward, we will continue to follow the operation and management model of “market-oriented management and shopping mall management”, provide better and more professional services to consumers, consolidate our market leadership and enhance the Red Star Macalline brand status as the expert of home living expert in the minds of consumers, so as to realise the enterprise development goal of building China’s most advance and professional all-channel platform provider of “home improvement and furnishings industry”.

Our future development plans are as follows:

1. Continue the implementation of two-pronged business model of Portfolio Shopping Malls and Managed Shopping Malls; consolidate the market leadership through strategic expansion of shopping mall network and brand portfolio.
2. Strive to become new retail benchmark in home decoration and furniture industry.
3. Enhance the long-term competitiveness of the enterprise through digital strategies.
4. Active innovations and value capital market and financial instruments.
5. Continuously improve corporate governance, standardize the operation, and fulfill social responsibility.

## Final dividend

The Board recommended the payment of a final dividend of RMB0.42 per share for the year ended 31 December 2016. The final dividend is subject to the approval of the shareholders of the Company (the “**Shareholders**”) at the forthcoming annual general meeting of the Company to be held on 8 June 2017 (the “**AGM**”). The expected payment date is on or around 31 July 2017.

## Important Events after the Reporting Period

At the board meeting held on 28 February 2017, the Board resolved to submit to the extraordinary general meeting, the domestic shareholders’ class meeting and the H shareholders’ class meeting respectively for consideration and approval by the shareholders by way of special resolution a proposal for extension of the validity period of the shareholders’ approval for the proposed A share offering for a future period of 12 months commencing from the date of passing the relevant special resolutions. For further details, please refer to the announcement and the circular of the Company dated 28 February 2017 and 3 March 2017, respectively.

The Company received the “Notice of Acceptance of Registration” (Zhong Shi Xie Zhu [2016] SCP No. 400) (the “**Notice**”) from the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) (the “**Association**”), according to which the Company can issue a super short-term commercial papers in tranches with a registered amount of RMB3 billion in Shanghai Pudong Development Bank. For further details, please refer to the Company’s announcement dated 19 January 2017.



## Use of proceeds from listing

Net proceeds from the global offering amounting to RMB5,573.3 million were intended to be used in the development of nine Portfolio Shopping Malls, investment in or acquisition of other retailers or market participants in home improvement and furnishings industry, refinancing of existing debts and development of E-commerce and information technology systems, working capital and other general group purposes. To raise the utilization rate and effectiveness of the use of proceeds from the global offering, the Board passed a resolution on 31 July 2015 to change the use of proceeds of approximately HKD1,437.7 million from the global offering to the refinancing of existing debts of the Company, including, as of the date of this announcement, six loan facilities with outstanding principal amounts of approximately RMB89.7 million from Ping An Bank, RMB60.0 million from Ping An Bank, RMB400.0 million from Bank of Communications, RMB250.0 million from China Minsheng Bank, RMB250.0 million from China CITIC Bank and RMB1,400.0 million from China Minsheng Bank, respectively, and with maturities in December 2015, March 2016, June 2016, June 2016, March 2017 and December 2017, respectively, and the effective interest rates of 7.0%, 6.6875%, 6.0%, 6.9756%, 6.90% and 6.8750%, respectively.

As at the end of the Reporting Period, the Company cumulatively used 76% of the proceeds from the global offering in the abovementioned fund raising investment projects.

## Closure of the register of members

The register of members of the Company will be closed from Tuesday, 9 May 2017 to Thursday, 8 June 2017, both days inclusive, in order to determine the identity of the H Shareholders who are entitled to attend the AGM on 8 June 2017, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 8 May 2017.

The Shareholders whose names appear on the register of members of the Company on Monday, 8 May 2017 after close of business are entitled to attend and vote at the AGM.

## Compliance with Corporate Governance Code

Other than deviation from code provision A.2.1 of the Corporate Governance Code, our 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 Listing Rules during the year ended 31 December 2016.

## Deviation from code provision A.2.1 of the Corporate Governance Code

Mr. CHE Jianxing (“**Mr. CHE**”) is our Chairman and chief executive officer. In view of Mr. CHE's experience, personal profile and his roles in our Group and that Mr. CHE has assumed the role

of chief executive officer and the general manager of our Company since June 2007, the Board considers it beneficial to the business prospect and operational efficiency of our Group that Mr. CHE, in addition to acting as the Chairman of the Board, continues to act as the chief executive officer of our Company. While this will constitute a deviation from Code Provision A.2.1 of the Corporate Governance Code, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) any decision to be made by our Board requires approval by at least a majority of our directors and that our Board has four independent non-executive directors out of the 12 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 2016 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.

## **Audit Committee**

The audit committee of the Company reviewed the annual results announcement and the audited consolidated annual financial statements of the Group for the year ended 31 December 2016.



## **Publication of the annual results announcement and 2016 annual report**

This announcement is published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of the Company at [www.chinaredstar.com](http://www.chinaredstar.com). The Company's annual report 2016 containing all the information as required by the Listing Rules will be dispatched to Shareholders and published on the website of the 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*

Hong Kong, 20 March 2017

*As at the date of this announcement, the executive Directors of the Company are CHE Jianxing, ZHANG Qi, CHE Jianfang and JIANG Xiaozhong; the non-executive Directors are CHEN Shuhong, XU Guofeng, Joseph Raymond GAGNON, ZHANG Qiqi; and the independent non-executive Directors are LI Zhenning, DING Yuan, LEE Kwan Hung and QIAN Shizheng.*