

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**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)**

**OVERSEAS REGULATORY ANNOUNCEMENT**

This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The “Red Star Macalline Group Corporation Ltd. Announcement on Reply to the Letter of Enquiry in relation to Post-Vetting of the 2017 Annual Report” as published in Chinese on the website of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) on 21 April 2018 is enclosed hereto as overseas regulatory announcement in English and Chinese. In case of discrepancies between the English and Chinese versions, the Chinese version shall prevail.

By order of the Board  
**Red Star Macalline Group Corporation Ltd.**  
**GUO Binghe**  
*Company secretary*

Shanghai, the PRC, 22 April 2018

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

**RED STAR MACALLINE GROUP CORPORATION LTD.  
ANNOUNCEMENT ON REPLY TO THE LETTER OF ENQUIRY IN  
RELATION TO POST-VETTING OF THE 2017 ANNUAL REPORT**

The Board and all directors of the Company warrant that there are no false representations, misleading statements and material omissions in this announcement, and are severally and jointly responsible for the authenticity, accuracy and completeness of the content herein.

Red Star Macalline Group Corporation Ltd. (the “Company” or the “Listed Company”) received the Letter of Enquiry in Relation to Post-vetting of the 2017 Annual Report of Red Star Macalline Group Corporation Ltd. (Shang Zheng Gong Han [2018] No. 0318) (hereinafter referred to as “Enquiry Letter”) issued by Shanghai Stock Exchange on 16 April 2018, which requires that the Company shall reply to Shanghai Stock Exchange on relevant matters in the Enquiry Letter and make disclosure before 20 April 2018, and make corresponding revisions to the regular report.

The Company pays high attention to it, reviews and analyzes each matter in the Enquiry Letter, and hereby replies as follows:

**I. ACCORDING TO THE DISCLOSURE OF THE ANNUAL REPORT, THE BOOK VALUE OF RECEIVABLES OF THE COMPANY AT THE END OF THE REPORTING PERIOD WAS RMB1.167 BILLION, REPRESENTING A YEAR-ON-YEAR INCREASE OF 45.96% AND A HIGHER GROWTH RATE OF REVENUE COMPARED WITH 16.14% FOR THE SAME PERIOD OF 2016. THE COMPANY IS REQUESTED TO PROVIDE ADDITIONAL DISCLOSURE COMBINING WITH THE ANNUAL SITUATION IN THE PREVIOUS YEARS:**

- (1) During the Reporting Period, receivables made up 10.65% of the revenue, representing a higher percentage ratio of receivables to revenue compared with 8.48% in the same period of 2016. The Company is requested to list the changes in the book balance and net value of the receivables in the last three years in terms of lease and management income receivables, Managed Shopping Malls related income receivables and other receivables, and to supplement and explain the rationality of change trends in the receivables, combining with the industry operating characteristics and the management policies of account receivables.**

- (2) The balances of bad debt provision for account receivables in the past three years were RMB284 million, RMB620 million and RMB767 million respectively. During the Reporting Period, the provision for impairment of account receivables of the Company was RMB152 million. The Company is requested to supplement the reasons for the significant increase in the bad debt provision balance of account receivables in 2016 and whether the Company continued the consistent bad debt accrual provision policy during the Reporting Period of 2017, combining with the account receivables provision policy in 2016. Accountants are requested to express opinions on the above matters.

**Reply:**

- (1) During the Reporting Period, receivables made up 10.65% of the revenue, representing a higher ratio of receivables to revenue compared with 8.48% in the same period of 2016. The Company is requested to list the changes in the book balance and net value of the receivables in the last three years in terms of lease and management income receivables, Managed Shopping Malls related income receivables and other receivables, and to supplement and explain the rationality of change trends in the receivables, combining with the industry operating characteristics and the management policies of account receivables.

The following table sets forth the composition of the Company's account receivables by business type in the recent three years:

RMB0'000

Item	31 December 2017		31 December 2016		31 December 2015	
	Book balance	Net book value	Book balance	Net book value	Book balance	Net book value
Lease and management income receivables	2,465.66	2,342.38	1,371.06	912.23	1,773.33	1,339.86
Managed Shopping Malls related income receivables	175,292.69	99,909.62	138,781.34	77,506.38	113,707.42	85,913.65
– Revenue from the branded consulting and management service for the early stage of project	122,025.50	78,206.02	94,011.41	59,328.47	64,825.00	50,217.84
– Revenue from annual branded consulting and management service for project	17,156.92	7,390.02	17,576.73	8,071.97	19,689.22	13,354.89
– Revenue from commercial management consulting service for construction project	26,143.20	5,833.80	25,193.20	8,205.94	29,193.20	22,340.92
– Revenue from commercial consultancy fee and merchant commission	9,967.07	8,479.78	2,000.00	1,900.00	–	–
Other receivables	15,659.87	14,491.00	1,863.50	1,562.40	5,063.11	4,894.54
<b>Total</b>	<b>193,418.22</b>	<b>116,743.00</b>	<b>142,015.90</b>	<b>79,981.00</b>	<b>120,543.85</b>	<b>92,148.04</b>

The net account receivables of the Company at the end of 2016 decreased by RMB121.6704 million, or 13.20% as compared to the end of 2015. The net account receivables at the end of 2017 increased by RMB367.6200 million, or 45.96% as compared to the end of 2016. The account receivables of the Company mainly comprise income receivables relating to Managed Shopping Malls. At the end of 2017, the proportion of the book balance of income receivables relating to Managed Shopping Malls accounting for 90.63% of the accounts receivable balance of the Company, of which, the proportion of book balance of receivables from the branded consulting and management service for the early stage of project accounting for 63.09% of the accounts receivable balance of the Company.

The movements in the account receivables of the Company were mainly due to the impact from the changes in receivables from the branded consulting and management service for the early stage of project. At the end of 2017, the book balance of receivables from the branded consulting and management service for the early stage of project amounted to RMB1,220.2550 million, representing an increase of 29.80% over the end of 2016; the net book value of receivables from the branded consulting and management service for the early stage of project amounted to RMB782.0602 million, representing an increase of 31.82% over the end of 2016; the revenue from the branded consulting and management service for the early stage of project of the Company for 2017 amounted to RMB1,587.2001 million, representing a year-on-year increase of 17.03% over 2016. The growth rate of income receivables from the branded consulting and management service for the early stage of project of the Company was higher than the growth rate of revenue therefrom, which was mainly related to the model of such business and revenue recognition method of the Company and the significantly increased number of Managed Shopping Malls commencing operation fourth quarter of 2017, details are as follow:

In respect of the branded consulting and management service for the early stage of project of the Company, the Company usually designated management personnel to provide the partners with comprehensive consulting and management services, including site selection consulting for shopping malls, construction consulting, design and renovation consulting for shopping malls, tenants invitation and operation commencement, and grant permission to the managing company of the Managed Shopping Mall to utilize the intangible assets of brands of the Company before and on operation commencement; accordingly, the Company receives fees including the branded consulting and management service fee for the early stage of project in different stages according to the contract management agreements entered into with the partners.

The income recognition policies of the revenue receivables from the branded consulting and management service for the early stage of project of the Company are as follows:

- 1) Before the operation commencement of Managed Shopping Malls, the Company grants permissions to relevant Managed Shopping Malls for utilization of the intangible assets of the Company's brands during the preparation in early stages of construction pursuant to relevant contracts or agreements, and the Company would recognize the relevant amount as the initial revenue as agreed in corresponding contracts subject to fulfilment of the following conditions and absence of material uncertainties regarding the recoverability of the amount entitled to be received as agreed in the contracts:
  - i) the Company and the partners enter into framework agreements or contracts relating to contract operation and management;
  - ii) the partners have obtained the confirmation letter for land acquisition or land use right certificates.
- 2) At the time the Managed Shopping Malls commence operation, relevant Managed Shopping Malls are permitted to use the Company's brand name (intangible assets) during the commencement of operation and relevant consulting services for the early stage will be completed by the Company as agreed in relevant contracts or agreements, and the remaining revenue would be recognized by the Company according to the amount agreed in contracts upon commencement of operation of relevant Managed Shopping Malls and absence of uncertainties relating to the recoverability of the amount entitled to be received as agreed in the contracts.
- 3) The Company provides the pre-commencement tenants invitation service to the Managed Shopping Malls and would recognize the commission fees for the tenants invitation as agreed in the contracts operation commencement, at the time of subject to the fulfillment of certain tenants invitation rate as agreed in the contracts.

During the recent years, the Managed Shopping Mall business of the Company has experienced rapid development: in 2016, 18 Managed Shopping Malls by the Company commenced operation and had their second batch of branded consulting service fee for the early stage recognized, and in 2017, 49 Managed Shopping Malls by the Company commenced operation and had their second batch of branded consulting service fee for the early stage recognized, among which, in the fourth quarter of 2017, 27 Managed Shopping Malls by the Company commenced operation and had their second batch of branded consulting service fee for the early stage recognized, reaching the peak in terms of the number of Managed Shopping Malls putting into operation within one quarter since the commencement of the Managed Shopping Mall business of the Company. Among the above 27 Managed Shopping Malls which commenced operation in the fourth quarter of 2017, partners of 16 of such shopping malls failed to make full payment of the aforesaid branded consulting fee and commission for tenant invitation. As a result, the growth rate of receivables of branded consulting and management service fee for the early stage of project in relation to such shopping malls were relevantly high at the end of 2017.

In connection with the account receivables from the related revenue of the above Managed Shopping Malls, the Company has made judgments on whether there was any indication of impairment for the relevant account receivables project by project and made bad debt provisions in full amount or at high proportion for the projects at impairment risks after taking into account factors including the progress of projects, the operating profitability of shopping malls, the funding and payment capability of the partners and the risks for suspension or termination of cooperative projects. For the account receivables without indication of impairment after testing project by project, the Company also made classification based on its portfolio structure and similar credit risks characteristics and made bad debt provisions by ageing analysis method.

The finance department of headquarter of the Company communicates with the responsible person of the business department on the progress of projects on a monthly basis and maintains the revenue and receivables. Overdue account receivables would be collected by the business department via ways including telephone and email according to the terms as stipulated in the contracts; the business department would conduct analysis on the reasons for the receivables and would collect payments from the partners with the Notification on Collection in writing, which would be prepared and issued with seal affixed by the finance management center, in case of deliberate default on payment.

- (2) **The balances of bad debt provision for account receivables in the past three years were RMB284 million, RMB620 million and RMB767 million respectively. During the Reporting Period, the provision for impairment of account receivables of the Company was RMB152 million. The Company is requested to supplement the reasons for the significant increase in the bad debt provision balance of account receivables in 2016 and whether the Company continued the consistent bad debt accrual provision policy during the Reporting Period of 2017, combining with the account receivables provision policy in 2016. Accountants are requested to express opinions on the above matters.**

The significant increase in the bad debt provision balance of account receivables in 2016 was mainly due to the Company made bad debt provision in full for the unpaid initial revenue receivables with recoverable risk from the branded consulting and management service in the early stage of project which had been previously recognized but did not meet the revenue recognition requirements after the changes in accounting estimates, according to revenue recognition requirements after the change in accounting estimates, details are as follow:

In 2016, taking into consideration of the experience in the branded consulting and management service in the early stage of project in recent years, external objective environment and other factors, the Company changed the criteria for confirming absence of significant uncertainty in the recoverability of the unpaid initial revenue in relation to the partners of the Managed Shopping Malls: 1) for projects under construction, revenue is recognized in accordance with the amount of initial revenue as agreed in the contracts when the amount of payment made by the partners exceeds 50% of the initial revenue as agreed in the contracts; or 2) for projects that have not commenced construction, revenue is recognized in accordance with the paid amount by the partners but not exceeding the amount of initial revenue as agreed in the contracts when the payment made by the partners exceeds 50% of the initial revenue as agreed in the contracts.

Accordingly, after careful consideration, in 2016, the Company made bad debt provision in full for the initial revenue receivables with recoverable risks from the branded consulting and management service for the early stage of project which had been previously recognized but did not meet the revenue recognition requirements after the changes in accounting estimates, corresponding provision for bad debts amounted to RMB160.05 million, which resulted in the significant increase in the balance of bad debt provision for account receivables of the Company in 2016 as compared to that in 2015. As of the end of 2017, the recovered amount of such accounts receivable with full provision for bad debts was RMB5.00 million. The recovery rate is relatively low so it is reasonable to make full provision for bad debts for the above accounts receivable in 2016.

In 2017, the Company continued to implement the policy of bad debt provision for account receivables in consistent with that in 2016. There was no similar bad debt provision made for the unpaid initial revenue receivables with recoverable risk from the branded consulting and management service in the early stage of project which had been previously recognized but did not meet the revenue recognition requirements after the changes in accounting estimates as happened in 2016.

For opinions of auditors, please refer to “Reply of Deloitte Touche Tohmatsu Certified Public Accountants LLP on Issues in the Letter of Enquiry in Relation to Post-Vetting of the 2017 Annual Report of Red Star Macalline Group Corporation Ltd.” (德勤華永會計師事務所(特殊普通合夥)關於對紅星美凱龍家居集團股份有限公司2017年年度報告的事後審核問詢函中關注問題的回覆) disclosed on the website of Shanghai Stock Exchange on the same date.

**II. ACCORDING TO THE DISCLOSURE OF THE ANNUAL REPORT, THE BOOK VALUE OF OTHER RECEIVABLES AT THE END OF THE REPORTING PERIOD WAS RMB1.734 BILLION, REPRESENTING A YEAR-ON-YEAR INCREASE OF 77.23%. THE COMPANY IS REQUESTED TO PROVIDE ADDITIONAL DISCLOSURE:**

- (1) Among other receivables, the book value of sales proceeds collected on behalf of tenants was RMB553 million, an increase of nearly 60% from the RMB353 million of the book value at the beginning of the period. The Company is requested to supplement the disclosure of the nature of the collection of sales proceeds on behalf of tenants and specific reasons for the substantial increase in the current period, combining with the business operation model of the Company and the comparison of the same industry.**
- (2) In other receivables with significant single amounts and single provision for bad debts, there was a balance of RMB24 million in other receivables from Ningbo Longkai Home Living Shopping Company Limited. The Company made provision for bad debts in full. In the summary table of the non-operating funds occupation and other related fund transactions, Ningbo Longkai Home Living Shopping Company Limited, as disclosed by the Company, is a company where the family members of final actual controllers served in. The nature of the abovementioned other receivables is shareholder’s loan. The Company is requested to verify and disclose the capital structure of the borrower and the business transactions with the Listed Company, and additionally disclose the time when the loan occurred, the reasons, the period during which the provision for impairment was withdrawn, and whether the relevant decision-making procedures were fulfilled.**

- (3) **Among other receivables, there was a closing balance of borrowing of RMB105 million in other receivable from Shanghai Mingyi Enterprise Development Company Limited, with the account age of four to five years, and the Company made RMB5.27 million for the provision for impairment. In the fund borrowings table of related parties, the Company disclosed that it had added RMB7.8 million of fund borrowings from Shanghai Mingyi Enterprise Development Company Limited in the current period, and there was no interest expense for the aforementioned loans. The Company is requested to disclose the capital structure of Shanghai Mingyi Enterprise Development Company Limited and its related party transactions with the Listed Company, and additionally disclose the time when the above borrowings occurred, the reasons, the follow-up payment arrangements of the borrower and its prudent and reasonable amount of provision for impairment. Accountants are requested to express opinions on the above matters.**

**Reply:**

- (1) **Among other receivables, the book value of sales proceeds collected on behalf of tenants was RMB553 million, an increase of nearly 60% from the RMB353 million of the book value at the beginning of the period. The Company is requested to supplement the disclosure of the nature of the collection of sales proceeds on behalf of tenants and specific reasons for the substantial increase in the current period, combining with the business operation model of the Company and the comparison of the same industry.**

As a business operator of home furnishing and furniture shopping malls, the Company collects sales proceeds from customers on behalf of tenants by way of unified collection and settles with tenants on a regular basis. Among which, certain customers make payment with credit cards through the unified cash register system of the Company's shopping malls. Due to the difference in the settlement time of the UnionPay settlement system, the payment settled by the UnionPay has not been received by the shopping malls. Such payment settled by UnionPay that has not been received was recognized as "Other Receivables – Sales proceeds collected on behalf of the tenants" of the Company. The shopping malls of the Company usually settles the closing balance of the collection payment with UnionPay within the settlement period, and settles the payment with tenants within a certain period. While the balances that has not been paid to the tenants due to the difference in the settlement time between the Company and the tenants was recognized as

other payables of the Company – sales proceeds collected on behalf of the tenants. At the end of 2017, the increase in other payables of the Company – sales proceeds collected on behalf of the tenants was mainly due to the following:

1. The UnionPay amount cannot be settled in time due to holidays: Usually, the payment made by credit cards through the unified cash register and charge from credit card will increase as compared to that in other time due to sales promotion in the shopping malls on holidays. Therefore, the changes in the balance of such payment are mainly related to the payment made by credit cards near the end of relevant period and if there is any sales promotion in the shopping malls of the Company. As the statutory holidays of New Year's Day in 2018 was from 30 December 2017 to 1 January 2018, and the statutory holiday for New Year's Day in 2017 lasted from 31 December 2016 to 2 January 2017, and the sales of the shopping malls of the Company increased at the end of 2017 and a large amount of unsettled UnionPay payment was generated in non-working days. But there were fewer working days at the end of 2016 which led to significant increase in the "Other Receivables – Sales proceeds collected on behalf of the tenants" of the Company at the end of 2017. The above UnionPay settled payment at the end of 2017 has been settled within a short period after the end of the period.
2. The number of newly opened shopping malls in 2017 increased: As of the end of 2017, the number of shopping malls of the company put into operation was 256, representing an increase of 28.00% from 200 at the end of 2016. As a result, other receivables and other payables related to the unified cash register increased accordingly.
3. The use of the unified cash register has been expanded due to the promotion of point deduction from sales: As the business manager of home decoration and home furnishing shopping malls, the Company's management quality on shopping malls and organization and promotion of sales promotion activities will have a significant impact on the sales of tenants. In order to further strengthen the incentives for the operations and management of the Company's shopping malls, as so to achieve a win-win situation between the Company and tenants, the Company has implemented a trial sales deduction system since 2016. In addition to rental and management fees collected from tenants, after negotiating with tenants, a certain percentage of the sales achieved by the tenants in the Company's shopping malls will be accrued and collected as a supplement to the Company's leasing and management income. The implementation of the sales deduction system requires

the Company to strengthen the control over the unified cash register in order to effectively monitor the sales of the tenants. The application of sales deduction system of the Company were further extended from the pilots malls in Beijing in 2016 to other major cities such as Shanghai and Nanjing in 2017. The use of the unified cash register for tenants has thus been expanded, and other receivables and other payables related to the unified cash register have increased accordingly.

**(2) In other receivables with significant single amounts and single provision for bad debts, there was a balance of RMB24 million in other receivables from Ningbo Longkai Home Living Shopping Company Limited. The Company made provision for bad debts in full. In the summary table of the non-operating funds occupation and other related fund transactions, Ningbo Longkai Home Living Shopping Company Limited, as disclosed by the Company, is a company where the family members of final actual controllers served in. The nature of the abovementioned other receivables is shareholder’s loan. The Company is requested to verify and disclose the capital structure of the borrower and the business transactions with the Listed Company, and additionally disclose the time when the loan occurred, the reasons, the period during which the provision for impairment was withdrawn, and whether the relevant decision-making procedures were fulfilled.**

**1) The share capital structure of Ningbo Longkai Home Living Shopping Company Limited (寧波隆凱家居生活購物有限公司) (hereafter referred to as “Ningbo Longkai”) and its business relationship with listed companies**

As at the end of the Reporting Period, the shareholding structure of Ningbo Longkai is as follows:

No.	Name of Shareholders	Capital contribution (RMB0'000)	Shareholding percentage
1	Ningbo Longkai Industrial Co., Ltd. (寧波隆凱實業有限公司)	6,400.00	80.00%
2	Shanghai Red Star Macalline Industrial Company Limited (上海紅星美凱龍實業有限公司)	1,600.00	20.00%
<b>Total</b>		<b>8,000.00</b>	<b>100.00%</b>

Among shareholders of Ningbo Longkai, Shanghai Red Star Macalline Industrial Company Limited (“**RSM Industrial**”) is a wholly-owned subsidiary of the Company, and Ningbo Longkai Industrial Co., Ltd. does not have any related party relationship with the Company.

CHE Guoxing, brother of actual controller of the Company CHE Jianxing, once acted as director of Ningbo Longkai. But CHE Guoxing ceased to be director since January 2017, and does not have significant influence on Ningbo Longkai.

Ningbo Longkai is the project company for Ningbo Ganglong Shopping Mall, a former management project of the Company. Ningbo Ganglong Shopping Mall was put in operation in December 2013, but the management cooperation with the Company was terminated in November 2016. Since then, Ningbo Longkai operated the shopping mall as a non-Red Star Macalline brand.

**2) Time for the loans above and their reasons, period in which provisions for impairment are provided for and performance of decision-making procedures**

In July 2009, the Company entered into a project cooperation agreement with Ningbo Longkai Industrial Co., Ltd. to jointly establish a project company to develop home furnishing shopping mall project in Ningbo, in which the Company made contribution of RMB16 million and had a shareholding of 20.00%. Pursuant to the cooperation agreement, the Company and the partner offered funds to the project company in the form of non-interest bearing shareholder’s loan based on their respective shareholding, to finance the development and construction of the project company. Such shareholders’ loan is one of the common ways for shareholders to invest in the project company, which mainly aims to meet the own funds (registered capital and capital reserve) ratio requirement for bank loans, in order to increase the flexibility of invested funds, through investing funds in the form of shareholders’ loan to the project company in the same proportion, to enable the project company repay the shareholders in the future through operating cash inflows, obtaining loans for operating properties, or otherwise, and enable shareholders to recover their investment funds. Pursuant to agreement, the Company provided Ningbo Longkai with non-interest bearing shareholder’s loan of RMB24 million in 2010. In the asset restructuring for transferring the equity interest in real estate development companies in 2011, the Company transferred its 20.00% equity interest in Ningbo Longkai to Shanghai Xingkai Zhongcheng

Enterprise Development Co., Ltd. (上海星凱眾程企業發展有限公司). After further changes in shareholding, the 20.00% equity interest in Ningbo Longkai was ultimately held by RSM Industrial, and the creditor of RMB24 million of shareholder's loan stated above was changed to RSM Industrial. The Company acquired 100.00% equity interest in RSM Industrial in December 2015, and accordingly acquired the right to the RMB24 million shareholder's loan offered to Ningbo Longkai in which RSM Industrial owned 20.00% of its equity interest. On the 22nd extraordinary meeting of the second session of the Board held in October 2015, the Company considered and approved the resolution in relation to the acquisition of 100.00% equity interest in RSM Industrial from Shanghai Red Star Macalline Enterprise Development Co., Ltd. (上海紅星美凱龍企業發展有限公司) (which, together with the Company, is controlled by Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司), and is a related party of the Company). The decision-making procedure performed by the Company is in compliance with requirements set in the Rules for Management of External Investments and the Rules for Management of Related-Party Transactions.

As the shareholder of Ningbo Longkai, Red Star had communication with Ningbo Longkai for several times to follow the operation and financial position, and asked Ningbo Longkai to provide account books and contracts related to business and operation for review. But RSM Industrial failed to have the cooperation from Ningbo Longkai. In 2017, RSM Industrial filed a lawsuit for the reason that its right to know as the shareholder has not been satisfied. To resolve RSM Industrial's dispute with Ningbo Longkai and Ningbo Longkai Industrial Co., Ltd., the Company, RSM Industrial, Shanghai Red Star Macalline Brand Management Co., Ltd. Ningbo High Tech Zone Branch (上海紅星美凱龍品牌管理有限公司寧波高新區分公司) entered into the "Agreement on Ningbo Longkai Home Living Project" (《關於寧波隆凱家居項目的協議書》) with Ningbo Longkai Industrial Co., Ltd. and Ningbo Longkai in August 2017. Pursuant to the agreement, RSM Industrial agreed to waive the shareholder's loan of RMB24 million. In 2017, the Company made provision for bad debt on the loan in full accordingly. In accordance with the Rules for Management of External Investments, the signing of the Agreement on Ningbo Longkai Home Living Project shall be approved by the general manager. CHE Jianxing, the general manager of the Company, has approved the investment above, and the Company has performed relevant decision-making procedures.

- (3) Among other receivables, there was a closing balance of borrowing of RMB105 million against Shanghai Mingyi Enterprise Development Company Limited, with the account age of four to five years, and the Company made RMB5.27 million for the provision for impairment. In the related-party borrowing and lending table, the Company disclosed that there was a newly added borrowing of RMB7.8 million to Shanghai Mingyi Enterprise Development Company Limited in the current period, and the aforementioned loans were provided without interest. The Company is requested to disclose the capital structure of Shanghai Mingyi Enterprise Development Company Limited and its related party transactions with the Listed Company, and additionally disclose the time when the above borrowings occurred, the reasons, the follow-up payment arrangements of the borrower and its prudent and reasonable amount of provision for impairment. Accountants are requested to express opinions on the above matters.

1) Shareholding structure of Shanghai Mingyi Enterprise Development Company Limited (“Shanghai Mingyi”) and the related party relationship with the Company

As at the end of the Reporting Period, the shareholding structure of Shanghai Mingyi is as follows:

No.	Name of shareholder	Capital contribution (RMB0'000)	Shareholding percentage
1	Red Star Macalline Group Corporation Ltd.	500.00	50.00%
2	Anji Minghan Business Management Co., Ltd. (安吉明瀚商業管理有限公司)	400.00	40.00%
3	Anji Wuxing Investment Co., Ltd. (安吉五星投資有限公司)	100.00	10.00%
<b>Total</b>		<b>1,000.00</b>	<b>100.00%</b>

The Company holds 50.00% equity interest in Shanghai Mingyi, and the articles of association of Shanghai Mingyi requires that significant events shall be subject to shareholders’ approval. Therefore, the Company and other shareholders have joint control over Shanghai Mingyi, and the Company treats Shanghai Mingyi as a joint venture. As such, Shanghai Mingyi and the Company has a related party relationship.

- 2) **Time of the loans above and their reasons, subsequent repayment arrangements of the borrower and the prudential rationality of provision for the loan. Auditors are engaged to express their opinions on the event above.**

Shanghai Mingyi is the management company for Wuhu Minghui Shopping Mall, a jointly invested project of the Company, and holds 80% equity interest in Wuhu Minghui Business Management Co., Ltd. (蕪湖明輝商業管理有限公司). According to the cooperation agreement between the Company and the partners, the Company and the partners offer shareholder's loan based on their respective shareholding in Shanghai Mingyi to satisfy the funding needs of cooperation projects. Such shareholder's loans represent one of the frequent manners utilized by shareholders in terms of investment in project companies aiming at increase the flexibility of the investment capital subject to satisfaction of the stipulated percentage to the self-owned fund (meaning registered capital and capital reserve) by bank borrowings, through providing shareholder's loans pro rata to their respective shareholding of the project company to make contribution, so as to enable the project company repay to the shareholders and shareholders in turn recover their investment via operating cash inflow, obtaining operating property loans or other means. As each shareholder provided the project company with non-interest-bearing shareholder's loans in proportion to their shareholdings, such loans did not harm the interests of the Listed Company. As at the end of Reporting Period, the balance of other receivables of the Company due from Shanghai Mingyi represents shareholder's loans offered to Shanghai Mingyi on a pro rata basis according to the cooperation agreement. Prior to 2014 and in 2014, 2015, 2016 and 2017, loans offered to Shanghai Mingyi amounted to RMB56.60 million, RMB23.80 million, RMB8 million, RMB9.2 million and RMB7.8 million respectively, which were utilized to supplement construction funds for the Wuhu Minghui Shopping Mall Project and daily operating expenditures incurred on Shanghai Mingyi. The above-mentioned fund borrowing of the Company has been considered and approved by the Board of the Company in accordance with the "Rules for the Management of the Related Party Transactions" of the Company and has fulfilled the corresponding decision-making procedures.

Such shareholder's loans will be repaid by cash flows generated by the jointly invested shopping mall. The Company, as the manager of Wuhu Minghui Shopping Mall, continuously monitors and follows up on the operation of the cooperative mall. Where the funds in the shopping mall are sufficient to repay such loans and the repayments do not affect the funds required for the daily operation of the shopping mall, the Company will, depending on the funding requirements of each party and the agreement of each party to recover such shareholder's loan.

The Company conducted separate impairment test on other receivables due from Shanghai Mingyi as individually significant items for which provision for bad debts is separately provided. Given that the occupancy rate of Wuhu Minghui Shopping Mall remains at a high level, and the shopping mall records asset appreciation, the Company judges that recovery of other receivables is subject to a low risk and the separate test has not indicated an impairment. In accordance with the accounting policy of the Company on provision for bad debt on receivables, the Company includes other receivables not impaired in separate test into "Other Receivables Risk Portfolio 2", with provision for bad debt made by percentage of balance at a provision rate of 5%.

Receivables above are not impaired in separate test, and are included in the financial asset portfolio with similar credit risk characteristics for impairment test, which is of prudential rationality and aligns with the accounting policy of the Company on provision for bad debt on receivables.

For opinions of auditors, please refer to "Reply of Deloitte Touche Tohmatsu Certified Public Accountants LLP on Issues in the Letter of Enquiry in Relation to Post-Vetting of the 2017 Annual Report of Red Star Macalline Group Corporation Ltd." (德勤華永會計師事務所(特殊普通合伙)關於對紅星美凱龍家居集團股份有限公司2017年年度報告的事後審核問詢函中關注問題的回覆) disclosed on the website of Shanghai Stock Exchange on the same date.

**III. AS DISCLOSED IN THE ANNUAL REPORT, THE BOOK VALUE OF LONG-TERM RECEIVABLES OF THE COMPANY AT THE END OF THE REPORTING PERIOD WAS RMB1.302 BILLION, WITH A SUBSTANTIAL INCREASE FROM RMB828 MILLION IN THE PREVIOUS PERIOD, OF WHICH THE BALANCE OF PROJECT LOANS AT THE END OF THE YEAR REACHED RMB1.047 BILLION. THE COMPANY IS REQUESTED TO SUPPLEMENT THE DISCLOSURE ACCORDING TO THE FOLLOWING REQUIREMENTS:**

- (1) The Company had long-term receivables with the nature of shareholder loan of RMB218 million and RMB147 million respectively from Hangzhou Red Star Macalline Global Home Living Company Limited, a related party of the Company, and Foshan Junda Enterprise Management Co., Ltd., a company in which the Company holds shares, with no interests. The Company is requested to disclose the capital structure of the borrower, its related party relations with the Listed Company in terms of business transactions and senior management, additionally to disclose the time when the above borrowings occurred, the commercial reasonableness of non-interest-bearing nature and the follow-up payment arrangements, and to explain whether the relevant decision-making procedures have been fulfilled and whether it will impair the interests of the Listed Company. The Board is requested to express its opinions.**
- (2) As at the end of the Reporting Period, the Company still had a project loan of RMB150 million receivable from its project partner Foshan Haoda Development Co., Ltd. The Company also had fund borrowings of RMB94 million and RMB41 million receivable from Chengdu Great Wall Industrial Group Company Limited, a minority shareholder of the subsidiary of the Company, and Liu Peng, with no interests. There were also other receivables with loan nature due from Liu Peng of RMB36.92 million, with the account age of two to three years. The Company is requested to disclose the capital structure of the borrower, its business transactions with the Listed Company and related party relations with senior management, additionally to disclose details such as the time when the above borrowings occurred, the commercial reasonableness of no interests accounting and the follow-up payment arrangements, and to explain whether it will impair the interests of the Listed Company. The Board is requested to express its opinions.**

**Reply:**

- (1) The Company had long-term receivables with the nature of shareholder loan of RMB218 million and RMB147 million respectively from Hangzhou Red Star Macalline Global Home Living Company Limited, a related party of the Company, and Foshan Junda Enterprise Management Co., Ltd., a company in which the Company holds shares, with no interests. The Company is requested to disclose the capital structure of the borrower, its related party relations with the Listed Company in terms of business transactions and senior management, additionally to disclose the time when the above borrowings occurred, the commercial reasonableness of non-interest-bearing nature and the follow-up payment arrangements, and to explain whether the relevant decision-making procedures have been fulfilled and whether it will impair the interests of the Listed Company. The Board is requested to express its opinions.

1) Hangzhou Red Star Macalline Global Home Living Company Limited (“Hangzhou Global Home Living”)

- a) Shareholding structure of the borrower, and related party relationship with business and senior management of the Company

As at the end of Reporting Period, shareholding structure of Hangzhou Global Home Living is as follows:

No.	Name of shareholder	Capital contribution (RMB0'000)	Shareholding percentage
1	Gujia Group Company Limited (顧家集團有限公司)	4,900.00	49.00%
2	Shanghai Hongjun Investment Co., Ltd. (上海弘郡投資有限公司)	3,200.00	32.00%
3	Red Star Macalline Group Corporation Ltd.	1,900.00	19.00%
<b>Total</b>		<b>10,000.00</b>	<b>100.00%</b>

As at the end of Reporting Period, the Company has 19.00% equity interest in Hangzhou Global Home Living, and has the right to appoint one director to the total of three directors on the board of Hangzhou Global Home Living. Hangzhou Global Home Living is an associate of the Company and therefore has related party relationship with the Company.

In accordance with the Letter of Intent signed between the Company and Zhejiang Provincial Tongren Group Co., Ltd. (浙江省省直同人集團有限公司), Tiancheng International (Hong Kong) Company Limited (天誠國際(香港)有限公司), Hangzhou Weiliang Electromechanical Hardware Market Co., Ltd. (杭州偉量機電五金市場有限公司) and Gujia Group Company Limited (顧家集團有限公司), Hangzhou Global Home Living is to acquire the 100% equity interest and creditor's rights of Hangzhou Weiliang Electromechanical Hardware Market Co., Ltd., which is held by Zhejiang Provincial Tongren Group Co., Ltd. and Tiancheng International (Hong Kong) Company Limited. Hangzhou Weiliang Electromechanical Hardware Market Co., Ltd. holds the land use right for constructing and operating home decoration and furniture shopping mall. Upon completion of the acquisition above, Hangzhou Global Home Living intends to build and operate home furnishings shopping mall based on the land use right acquired.

- b) Time of the loans above, the commercial reasonableness for not charging interest, subsequent repayment arrangements and statement about whether to perform decision-making procedures and whether to undermine the interest of the Company

As at the beginning of Reporting Period, the Company has RMB123.7957 million of long-term receivables due from Hangzhou Global Home Living, representing interest-free shareholder's loans provided to Hangzhou Global Home Living in 2016 based on its shareholding percentage as agreed in the "Gudun Project Cooperation Agreement" (《古墩項目合作協定》) signed with Gujia Group Company Limited and Shanghai Hongjun Investment Co., Ltd. During the Reporting Period, the Company performed its obligation under the "Gudun Project Cooperation Agreement" (《古墩項目合作協定》) signed with Gujia Group Company Limited and Shanghai Hongjun Investment Co., Ltd. to provide Hangzhou Global Home Living with additional interest-free shareholder's loan of RMB94.3486 million based on its shareholding. The above loans are provided by shareholders of Hangzhou Global Home Living pro rata to their respective shareholding by way of interest-free borrowings to facilitate the smooth development of the cooperative project. Such shareholder's loans represent one of the frequent manners utilized by shareholders in terms of investment in project

companies aiming at increase the flexibility of the investment capital subject to satisfaction of the stipulated percentage to the self-owned fund (meaning registered capital and capital reserve) by bank borrowings, through providing shareholder's loans pro rata to their respective shareholding of the project company to make contribution, so as to enable the project company repay to the shareholders and shareholders in turn recover their investment via operating cash inflow, obtaining operating property loans or other means, which is commercially reasonable for such loans to not charge any interest without prejudice to the Listed Company's interests. Such loans will be repaid by cash flows generated by the operation of the shopping mall held by Hangzhou Global Home Living. As the operating manager of the cooperative shopping mall, the Company will monitor and track the operation of the cooperative shopping mall on a continuing basis. Under the circumstance that the shopping mall has sufficient funding to repay such loans and the repayment has no influence on the required fund for daily operation of the shopping mall, the Company will collect such shareholder's loans based on the capital needs of the parties and as agreed by the parties.

According to the Rules for Management of External Investments (《對外投資管理制度》) of the Company, the Letter of Intent signed between the Company and Zhejiang Provincial Tongren Group Co., Ltd., Tiancheng International (Hong Kong) Company Limited, Hangzhou Weiliang Electromechanical Hardware Market Co., Ltd. and Gujia Group Company Limited, and the "Gudun Project Cooperation Agreement" signed between the Company and Gujia Group Company Limited, Shanghai Hongjun Investment Co., Ltd. shall be subject to approval of the general manager. CHE Jianxing, the general manager of the Company, has approved the external investments stated above, and the Company has performed relevant decision-making procedures.

Given that the shareholder's loans above were provided by each shareholder of Hangzhou Global Home Living in proportion of their shareholding in accordance with the relevant cooperation agreement, and was mainly used for the early development and construction investment of the cooperation project, such events have not undermined the interest of the Company.

Based on the statement above, the Board believes that the Company has performed relevant decision-making procedures in respect of the provision of loans to Hangzhou Global Home Living, and such event has not undermined the interest of the Company.

2) **Foshan Junda Enterprise Management Co., Ltd. (“Foshan Junda”)**

- a) Shareholding structure of the borrower, and related party relationship with business and senior management of the Company

At the end of Reporting Period, shareholding structure of Foshan Junda is as follows:

No.	Name of shareholder	Capital contribution (RMB0'000)	Shareholding percentage
1	Foshan Haoda Development Co., Ltd. (佛山市豪達發展有限公司)	8,785.10	81.00%
2	Red Star Macalline Group Corporation Ltd.	2,060.70	19.00%
<b>Total</b>		<b>10,845.80</b>	<b>100.00%</b>

Foshan Junda is Lecong Phase II Project Company jointly invested by the partner Foshan Haoda Development Co., Ltd. and the Company. The Company has 19.00% equity interest in Foshan Junda, but does not has the right to appoint any director; therefore, the Company does not have control, joint control or significant influence on Foshan Junda. Accordingly, there is no related party relationship between the Company and Foshan Junda. As agreed, Foshan Junda will engage the Company for operation and management when it holds and operates related unsold property in the future.

- b) Time of the loans above, the commercial reasonableness for not charging interest, subsequent repayment arrangements and statement about whether to perform decision-making procedures and whether to undermine the interest of the Company.

As at the end of Reporting Period, the Company has RMB146.5709 million of long-term receivables due from Foshan Junda, representing interest-free shareholder's loans provided to Foshan Junda as agreed in the "Project Cooperation Agreement" signed with the partner. According to the Project Cooperation Agreement, the partner has completed land consolidation and relevant relocation work, and has transferred the land use right certificate to the Company. The Company offers special funds to the project company for payment of land premium and related taxes, and complete the procedures for release of mortgage and transfer to commercial purpose for the project land. Such loans are pledged by the 18.66% equity interest held by the partner. These interest-free loans provided to Foshan Junda are based on actual conditions of the project and cooperation desire of both parties and achieved by negotiation for the purpose of advancing the progress of the cooperative project between the parties and facilitating the business expansion and strategic layout of the Company, and therefore are commercially reasonable. Such shareholder's loans will be repaid by cash flows generated by operation of the shopping mall held by Foshan Junda. As the operating manager of the cooperative shopping mall, the Company will monitor and track the operation of the cooperative shopping mall on a continuing basis. Under the circumstance that the shopping mall has sufficient funding to repay such loans and the repayment has no influence on the required fund for daily operation of the shopping mall, the Company will collect such shareholder's loans based on the capital needs of the parties and as agreed by the parties.

According to the Rules for Management of External Investments (《對外投資管理制度》) of the Company, the Project Cooperation Agreement signed between the Company and the partner shall be subject to approval of the general manager. CHE Jianxing, the general manager of the Company, has approved the external investment stated above, and the Company has performed relevant decision-making procedures.

Given that the above mentioned shareholder's loans was provided based on actual conditions of the project and cooperation desire of both parties and achieved by negotiation, and therefore are commercially reasonable; such event has not undermined the interest of the Listed Company.

Based on the statement above, the Board believes that relevant decision-making procedures have been fulfilled in relation to the provision of loan to Foshan Junda, and such loan has not impair the interests of the Listed Company.

- (2) **As at the end of the Reporting Period, the Company still had a project loan of RMB150 million receivable from its project partner Foshan Haoda Development Co., Ltd. The Company also had fund borrowings of RMB94 million and RMB41 million receivable from Chengdu Great Wall Industrial Group Company Limited, a minority shareholder of the subsidiary of the Company, and Liu Peng, with no interests. There were also other receivables with loan nature due from Liu Peng of RMB36.92 million, with the account age of two to three years. The Company is requested to disclose the capital structure of the borrower, its business transactions with the Listed Company and related party relations with senior management, additionally to disclose details such as the time when the above borrowings occurred, the commercial reasonableness of no interests accounting and the follow-up payment arrangements, and to explain whether it will impair the interests of the Listed Company. The Board is requested to express its opinions.**

**1) Foshan Haoda Development Co., Ltd. (“Foshan Haoda”)**

- a) Borrower’s related party relationship with business and senior management of the Company

Foshan Haoda is the Company’s partner for Foshan Lecong Shopping Mall, a Managed Shopping Mall, which was put into operation in 2009. In 2016 and 2017, revenue from annual branded consulting and management service for the project, which was received by the Company in accordance with the management service agreement with Foshan Haoda, amounted to RMB3,656,600 and RMB3,584,900 respectively. In addition, the Company and Foshan Haoda entered into the Project Cooperation Agreement in 2017 and jointly contributed to the establishment of Foshan Junda, which acts as the project company of Lecong Phase II project with joint efforts from both parties. Except for the above business connection and joint investment relationship, the Company has no other business connection or related party relationship with Foshan Haoda. Foshan Haoda has no related party relationship with the controlling shareholder of the Company, the de facto controller and other enterprises under its control.

- b) Time of the loans above, the commercial reasonableness for not charging interest, subsequent repayment arrangements and statement about whether to undermine the interest of the Company

As at the end of Reporting Period, the Company has RMB150 million of long-term receivables due from Foshan Haoda, representing interest-free loans provided to Foshan Haoda as agreed in the Loan Agreement signed by both parties in 2016. The Company intends to develop Lecong Phase II with Foshan Haoda on the land adjacent to Foshan Lecong Shopping Mall, and the Company provides special funds for procedures related to the land held by Foshan Haoda, including release of mortgage, land division, relocation work and land consolidation. Such loans are pledged and guaranteed by the 100% equity interest of all shareholders of Foshan Haoda, and shareholder WU Zhinan individually provides joint liability guarantee. These interest-free loans provided to Foshan Haoda are based on actual conditions of the proposed project and cooperation desire of both parties and achieved by negotiation for the purpose of advancing the progress of the cooperative project between the parties and facilitating the business expansion and strategic layout of the Company, and therefore are commercially reasonable. In accordance with the Loan Agreement, such loans shall be repaid by Foshan Haoda; in case Foshan Haoda fails to repay them upon maturity, the Company may require WU Zhinan to make the repayment, or collect the loans by exercising the right to dispose of the pledge, or directly withhold rentals and management fees received by the management company of Lecong Phase I Shopping Mall to settle the loans. As the operating manager of Lecong Phase I Shopping Mall, the Company monitors and tracks the operation of the cooperative shopping mall on a continuing basis. In light of the continuing orderly operation of Lecong Phase I Shopping Mall, the Company believes that there would be no material risk regarding the recovery of such payments.

The Board believes that the shareholder's loans above are based on actual conditions of the proposed project and cooperation desire of both parties and achieved by negotiation, and therefore are commercially reasonable; such events have not undermined the interest of the Listed Company.

2) **Chengdu Great Wall Industrial Group Company Limited (“Great Wall Industrial”)**

- a) Borrower’s related party relationship with business and senior management of the Company

Great Wall Industrial owns 50% equity interest (the remaining 50% equity interest is held by Chengdu Red Star Macalline Shibo Home Living Plaza Company Limited (成都红星美凯龙世博家居生活广场有限责任公司), a wholly-owned subsidiary of the Company) in Chengdu Changyi Red Star Macalline Home Furnishing Market Management Co., Ltd. (成都长益红星美凯龙家居市场经营管理有限公司) (Chengdu Wuhou Shopping Mall project company, “Chengdu Changyi”), which is a subsidiary of the Company. Except for such joint investment relationship, the Company does not have other business relationship or connected connection or related party relationship with Great Wall Industrial. Great Wall Industrial has no related party relationship with the controlling shareholder of the Company, the de facto controller and other enterprises under its control.

- b) Time of the loans above, the commercial reasonableness for not charging interest, subsequent repayment arrangements and statement about whether to undermine the interest of the Company

As at the end of Reporting Period, the Company has RMB94 million of long-term receivables due from Great Wall Industrial, representing interest-free borrowings from Chengdu Changyi to Great Wall Industrial in 2017. Given that Chengdu Wuhou Shopping Mall has a sound operation and ample cash flows, Chengdu Red Star Macalline Shibo Home Living Plaza Company Limited and Great Wall Industrial borrow interest-free funds from Chengdu Changyi on basis of their respective shareholding to finance their own operation. Therefore, the above funds are presented as lending to Great Wall Industrial in the consolidated financial statements of the Company. The lending is pledged by the 50% equity interest in Chengdu Changyi held by Chengdu Great Wall Industrial Group Company Limited and the cash flow dividends. As Chengdu Changyi offers interest-free funds to all shareholders based on their respective shareholding, it is commercially reasonable for these loans to not charge any interest. If Great Wall Industrial fails to repay the principal and the interest as agreed, the Company has the right to ask Great

Wall Industrial to pledge the entitlement to rental receivable and profit distribution from Chengdu Changyi, until it fulfils all the repayment obligations. As the operating manager of the Chengdu Wuhou Shopping Mall, the Company monitors and tracks the operation of the cooperative shopping mall on a continuing basis. In light of the continuing orderly operation of Chengdu Wuhou Shopping Mall, the Company believes that there would be no material risk regarding the recovery of such payments.

The Board believes that as the Company and Great Wall Industrial borrow funds from Chengdu Changyi on the basis of their respective shareholding to finance their own operation, it is commercially reasonable for these funds to not charge any interest, and that such event has not undermined the interest of the Company.

### 3) LIU Peng

- a) Borrower's related party relationship with business and senior management of the Company

LIU Peng owns 30% equity interest (the remaining 70% equity interest is owned by the Company) in Changchun Red Star Macalline Shibo Home Living Plaza Company Limited (長春紅星美凱龍世博家居生活廣場有限公司) (Changchun Yuanda Shopping Mall project company, "**Changchun Red Star**"), which is a holding subsidiary of the Company. Except for such joint investment relationship, the Company does not have other business connection or related party relationship with LIU Peng. LIU Peng has no related party relationship with the controlling shareholder of the Company, the de facto controller and other enterprises under its control.

- b) Time of the loans above, the commercial reasonableness for not charging interest, subsequent repayment arrangements and statement about whether to undermine the interest of the Company

As at the end of Reporting Period, the Company has RMB41 million of long-term receivables and RMB36.9238 million of other receivables due from LIU Peng. The long-term receivables of RMB41 million were offered by Changchun Red Star to LIU Peng in 2015 and 2016 as approved by the Company to relief LIU Peng from personal finance shortage. LIU Peng undertakes to repay the loans first by dividends received from Changchun Red Star.

The land use right of the land to be developed for Changchun Red Star's cooperation project was contributed by LIU Peng, given that that the project company pledged the land contributed by LIU Peng for certain project construction loan, and in consideration of LIU Peng's personal finance demand, LIU Peng made borrowing from Changchun Red Star for personal use without affecting Changchun Red Star's funding for its normal business operation as negotiated and agreed with the Company. The non-interest-bearing nature of such borrowing was based on the cooperation between both parties and was reached by negotiation, therefore, is commercially reasonable. Other receivables of RMB36.9238 million are funds LIU Peng borrowed from the Company in 2015 to finance personal capital requirements, bearing an interest rate of 12% per annum and pledged by LIU Peng's 8% equity interest in Changchun Red Star. The Company regularly delivers demand letters to LIU Peng requesting repayment of such borrowings subject that sufficient funds being available for such payment is held by him. As the operating manager of the Changchun Yuanda Shopping Mall, the Company monitors and tracks the operation of the cooperative shopping mall on a continuing basis. In light of the continuing orderly operation of Changchun Yuanda Shopping Mall, the Company believes that there would be no material risk regarding the recovery of such payments.

The Board believes that the non-interest-bearing nature of the long-term receivables due from LIU Peng are offered based on the cooperation between the Company and LIU Peng and was reached by negotiation, therefore is commercially reasonable; other receivables due from LIU Peng are funds borrowed from the Company by pledging LIU Peng's 8% equity interest in Changchun Red Star with an interest rate of 12% per annum, therefore it is commercially reasonable. Such events have not undermined the interest of the Company.

The Board of  
**Red Star Macalline Group Corporation Ltd.**  
21 April 2018

Appendix: Reply of Deloitte Touche Tohmatsu Certified Public Accountants LLP on Issues in the Letter of Enquiry in Relation to Post-Vetting of the 2017 Annual Report of Red Star Macalline Group Corporation Ltd. (德勤華永會計師事務所(特殊普通合伙)關於對紅星美凱龍家居集團股份有限公司2017年年度報告的事後審核問詢函中關注問題的回覆)