
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents of this supplemental circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in Red Star Macalline Group Corporation Ltd., you should at once hand this supplemental circular together with the supplemental proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

**SUPPLEMENTAL CIRCULAR OF THE 2019 AGM AND
THE H SHAREHOLDER'S CLASS MEETING
PROPOSED NON-PUBLIC ISSUANCE OF A SHARES AND RELATED MATTERS
SUPPLEMENTAL NOTICE OF THE 2019 AGM
AND
SUPPLEMENTAL NOTICE OF THE H SHAREHOLDER'S CLASS MEETING**

This supplemental circular (the “**Supplemental Circular**”) should be read in conjunction with the circular of Red Star Macalline Group Corporation Ltd. (the “**Company**”) dated 19 May 2020 (the “**First Circular**”).

The supplemental notice of the 2019 AGM is set out on pages 147 to 149 of this Supplemental Circular. The 2019 AGM will be held at 2:00 p.m. on Thursday, 18 June 2020 at Conference Center, 3/F, South Building, Block B, Red Star Macalline Headquarters, Lane 1466, Shenchang Road, Minhang District, Shanghai, the PRC as originally scheduled.

The supplemental notice of the H Shareholder's Class Meeting is set out on pages 150 to 152 of this Supplemental Circular. The H Shareholder's Class Meeting will be held at 4:00 p.m. (or immediately after the conclusion of the A Shareholder's Class Meeting) on Thursday, 18 June 2020 at Conference Center, 3/F, South Building, Block B, Red Star Macalline Headquarters, Lane 1466, Shenchang Road, Minhang District, Shanghai, the PRC as originally scheduled.

If you intend to appoint a proxy to attend the 2019 AGM, you are required to complete and return the supplemental proxy form in accordance with the instructions printed thereon, not less than 24 hours before the time appointed for the holding of the 2019 AGM or any adjournment thereof (as the case may be) (which is 2:00 p.m. on Wednesday, 17 June 2020 (or other date in the event of any adjournment thereof)). Completion and return of the supplemental proxy form will not preclude you from attending and voting in person at the 2019 AGM or any adjournment thereof should you so wish.

If you intend to appoint a proxy to attend the H Shareholder's Class Meeting, you are required to complete and return the supplemental proxy form in accordance with the instructions printed thereon, not less than 24 hours before the time appointed for the holding of the H Shareholder's Class Meeting or any adjournment thereof (as the case may be) (which is 4:00 p.m. on Wednesday, 17 June 2020 (or other date in the event of any adjournment thereof)). Completion and return of the supplemental proxy form will not preclude you from attending and voting in person at the H Shareholder's Class Meeting or any adjournment thereof should you so wish.

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Note: In the event of any discrepancy between the English and Chinese versions of this supplemental circular, the Chinese version shall prevail.

DEFINITIONS

In this supplemental circular, unless the context otherwise requires, the following terms shall have the following meanings:

“A Share(s)”	the ordinary share(s) issued by the Company, with a nominal value of RMB1.0 each, which is/are listed on the SSE and traded in RMB
“A Share Shareholder(s)”	the holder(s) of the A Share(s)
“A Shareholder’s Class Meeting”	the A shareholder’s class meeting to be convened and held on 18 June 2020
“Administrative Measures for Issuance”	the Administrative Measures for the Issuance of Securities by Listed Companies (《上市公司證券發行管理辦法》)
“AGM” or “Annual General Meeting”	the 2019 annual general meeting to be convened and held on 18 June 2020
“Articles of Association”	the articles of association of the Company
“Board”	the board of directors of the Company
“Class Meetings”	the A Shareholder’s Class Meeting and the H Shareholder’s Class Meeting
“Company”	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 PRC with limited liability, whose H Shares are listed on the main board of The Stock Exchange of Hong Kong Limited (stock code: 1528)
“Company Law”	the Company Law of the People’s Republic of China
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“H Share(s)”	overseas-listed foreign invested ordinary share(s) with a nominal value of RMB1.0 each in the share capital of the Company, which is/are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars

DEFINITIONS

“H Share Shareholder(s)”	the holder(s) of the H Share(s)
“H Shareholder’s Class Meeting”	the H shareholder’s class meeting to be convened and held on 18 June 2020
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Director(s)” or “Independent Non-executive Director(s)”	the independent non-executive Director(s) of the Company
“independent third party(ies)”	persons who, to the best of the Directors’ knowledge and having made all reasonable enquiries, are not connected persons of the Company
“Latest Practicable Date”	1 June 2020, being the latest practicable date of ascertaining certain information contained in this supplemental circular before its publication
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Implementation Rules”	the Implementation Rules for the Non-public Issuance of Stocks by Listed Companies (《上市公司非公開發行股票實施細則》)
“Non-public Issuance” or “Issuance”	the proposed non-public issuance of not more than 912,887,622 A Shares by the Company
“PRC”	the People’s Republic of China, which, for the purpose of this supplemental circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Regulatory Questions and Answers”	Issuance Regulation Questions and Answers – Regulatory Requirements regarding Guiding and Regulating Financing Activities of Listed Companies (Revision) (《發行監管問答-關於引導規範上市公司融資行為的監管要求(修訂版)》)
“RMB”	Renminbi, the lawful currency of the PRC
“Securities Law”	the Securities Law of the People’s Republic of China

DEFINITIONS

“Share(s)”	A Share(s) and H Share(s)
“Shareholder(s)”	the A Share Shareholder(s) and the H Share Shareholder(s) of the Company
“SSE”	the Shanghai Stock Exchange
“SSE Listing Rules”	the Shanghai Stock Exchange Listing Rules
“%”	percent

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. CHE Jianxing
Mr. GUO Binghe
Ms. CHE Jianfang
Mr. JIANG Xiaozhong

Registered office in the PRC:

Suite F801, 6/F
No. 518, Linyu Road
Pudong New District
Shanghai
PRC

Non-executive Directors:

Ms. CHEN Shuhong
Mr. XU Guofeng
Mr. JING Jie
Mr. XU Hong

Principal place of business in Hong Kong:

31/F, Tower 2
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

Independent non-executive Directors:

Mr. QIAN Shizheng
Mr. LEE Kwan Hung, Eddie
Mr. WANG Xiao
Ms. ZHAO Chongyi

4 June 2020

To the Shareholders

Dear Sir or Madam,

**SUPPLEMENTAL CIRCULAR OF THE 2019 AGM AND
THE H SHAREHOLDER'S CLASS MEETING
PROPOSED NON-PUBLIC ISSUANCE OF A SHARES AND RELATED
MATTERS
SUPPLEMENTAL NOTICE OF THE 2019 AGM
AND
SUPPLEMENTAL NOTICE OF THE H SHAREHOLDER'S CLASS MEETING**

1. INTRODUCTION

This supplemental circular (the “**Supplemental Circular**”) should be read in conjunction with the circular of the Company dated 19 May 2020 (the “**First Circular**”). Unless otherwise specified, capitalized terms used herein shall have the same meanings as those defined in the First Circular.

LETTER FROM THE BOARD

Reference is made to the announcement of the Company dated 3 June 2020 in relation to the proposed Non-public Issuance of A Shares.

At the Board meeting held on 3 June 2020, the resolutions in respect of the proposed Non-public Issuance of A Shares have been passed by the Board of the Company.

The purpose of this Supplemental Circular is to provide you with supplemental notice of the AGM and the Class Meetings and certain information on additional resolutions to be proposed at the AGM and the Class Meetings, in order to enable you to make an informed decision on whether to vote for or against the resolutions at the AGM and the Class Meetings, respectively.

2. ADDITIONAL MATTERS TO BE CONSIDERED AT THE AGM AND THE CLASS MEETINGS

Additional resolutions will be proposed at the AGM to approve: (1) the fulfilment of conditions of the Non-public Issuance of A Shares by the Company; (2) the proposed 2020 Non-public Issuance of A Shares of the Company; (3) the 2020 Plan for the Non-public Issuance of A Shares of the Company; (4) the Report on the Use of Proceeds Previously Raised; (5) the Feasibility Analysis Report on the Use of Proceeds from the Non-public Issuance of A Shares of the Company; (6) the Shareholder's Return Plan of the Company for the Next Three Years (from 2020 to 2022); (7) the remedial measures for the dilution of current returns by the Non-public Issuance of A Shares of the Company; and (8) the authorization to the Board to deal with relevant matters in relation to the 2020 Non-public Issuance of A Shares of the Company with full discretion.

Resolutions (2), (3), (5) and (8) above are subject to the approval by the Shareholders at the AGM by way of special resolutions, and resolutions (1), (4), (6) and (7) above are subject to the approval by the Shareholders at the AGM by way of ordinary resolutions.

The above resolutions (2), (3), (5) and (8) are also respectively subject to approval by the A Share Shareholders at the A Shareholder's Class Meeting by way of special resolutions, and by the H Share Shareholders at the H Shareholder's Class Meeting by way of special resolutions. The above resolutions (4), (6) and (7) are respectively subject to approval by the A Share Shareholders at the A Shareholder's Class Meeting by way of ordinary resolutions, and by the H Share Shareholders at the H Shareholder's Class Meeting by way of ordinary resolutions.

LETTER FROM THE BOARD

3. PROPOSED NON-PUBLIC ISSUANCE OF A SHARES AND RELATED MATTERS

A. Fulfilment of Conditions for the Non-public Issuance of A Shares by the Company

Pursuant to the provisions under the Company Law, Securities Law, Administrative Measures for Issuance, Implementation Rules, the Regulatory Questions and Answers and other relevant laws, regulations and normative documents, after conducting self-examination item by item, the Company has complied with various requirements for the Non-public Issuance of A Shares.

B. Proposed Non-public Issuance of A Shares

In order to further expand the business deployment of the Company, optimize the financial structure and provide capital support for sustainable development of the Company, the Board has resolved to approve the proposed Non-public Issuance of the A Shares of the Company on 3 June 2020. Pursuant to the provisions under the Company Law, Securities Law, Administrative Measures for Issuance, Implementation Rules, the Regulatory Questions and Answers and other relevant laws, regulations and normative documents, the detailed plan of the Non-public Issuance of A Shares is as follows:

(1) Class and Nominal Value of Shares to be Issued

The shares to be issued are RMB ordinary shares (A shares), with the nominal value of RMB1.00 each.

(2) Method and Time of Issuance

All A shares for the Issuance will be issued through private placement to specific subscribers at an appropriate time during the validity period of the CSRC approval.

(3) Target Subscribers and Subscription Method

The number of target subscribers for the Non-public Issuance of shares shall not exceed 35 persons. The target subscribers shall be legal persons, natural persons or other legal investment organizations fulfilling the conditions specified by CSRC. A securities investment fund management company, securities company, qualified foreign institutional investor or RMB qualified foreign institutional investor subscribing through more than two products managed by it will be deemed to be a target subscriber. A trust company which is a target subscriber shall only use its self-owned funds for subscription.

LETTER FROM THE BOARD

After an approval is granted by CSRC for the application for the Issuance, the final target subscribers will be selected through negotiation between the Board and the sponsor (i.e., the lead underwriter) based on the prices quoted by the target subscribers for the subscription. The number of target subscribers shall comply with relevant laws and regulations.

The target subscribers for the Issuance shall subscribe for the shares under the Non-public Issuance in cash.

Since no target subscribers have been selected for the Issuance, the relationships between target subscribers and the Company cannot be confirmed. The relationships between target subscribers and the Company will be disclosed by the Company in the issuance report published after the completion of the Issuance. If any of the subscribers is the connected person of the Company, the Company will follow the relevant requirements under Chapter 14A of the Listing Rules.

(4) Pricing Reference Date, Issue Price and Pricing Principles

The pricing reference date for the Issuance will be the first day of the issue period of the Non-public Issuance of shares. The price of the Issuance will be not less than 80% of the average trading price of A Shares over the 20 trading days prior to the pricing reference date.

The average trading price of A Shares over the 20 trading days prior to the pricing reference date = the total value of A Shares traded over the 20 trading days prior to the pricing reference date/the total volume of A Shares traded over the 20 trading days prior to the pricing reference date. In the event of dividend distribution, bonus issue, conversion of capital reserve into share capital and other ex-right and ex-dividend matters in relation to the shares of the Company between the pricing reference date and the issue date, the minimum issue price will be adjusted as follows:

Dividend distribution: $P_1 = P_0 - D$

Bonus issue or conversion of capital reserve into share capital: $P_1 = P_0 \div (1 + N)$

Dividend distribution and bonus issue or conversion of capital reserve into share capital: $P_1 = (P_0 - D) \div (1 + N)$

where: the minimum issue price prior to the adjustment is P_0 , the number of bonus shares per share or the number of shares converted from capital reserve is N , the dividend paid per share is D , and the minimum issue price upon the adjustment is P_1 .

LETTER FROM THE BOARD

After an approval of CSRC in relation to the Issuance is obtained by the Company, the final issue price of the Non-public Issuance will be confirmed in accordance with relevant laws and regulations and requirements of regulatory authorities, through negotiation between the Board (according to the authorization of the AGM and the Class Meetings) and the sponsor (the lead underwriter) of the Issuance according to enquiries in the market.

The Company will make further announcement(s) in respect of the issue price and the underwriting/placing arrangement once they have been determined in accordance with relevant laws and regulations and requirements of regulatory authorities.

(5) *Number of shares to be Issued*

The number of the shares for the Non-public Issuance is calculated as the total proceeds divided by the issue price, up to 30% of 3,550,000,000 Shares of the total issued share capital of the Company prior to the Issuance; meanwhile, in order to fulfil the undertakings made by the Company upon the initial public offering of H Shares as to maintaining the number of H Shares held in the public hands to be above 15.10%, the number of shares for the Non-public Issuance by the Company will be up to 912,887,622 Shares (accounting for 25.72% of the total issued share capital of the Company prior to the Issuance). The number of Shares to be issued shall be as indicated in the approval of CSRC in relation to the Issuance. The Board will be authorized by the AGM and the Class Meetings to negotiate with the sponsor (i.e., the lead underwriter) to confirm the final number to be issued, within the above limit, based on the relevant rules of CSRC and the actual subscription.

In the event of bonus issue, conversion of capital reserve into share capital and other ex-right matters of the Company between the pricing reference date and the issue date of the Non-public Issuance, the maximum number of shares for the Issuance will be adjusted as follows:

$$Q_1 = Q_0 \times (1+n)$$

where: Q_0 is the maximum number of shares for the Issuance prior to the adjustment; n is the proportion of bonus shares per share or shares converted from capital reserve (namely the number of additional shares arising from bonus issue or the conversion); Q_1 is the maximum number of shares for the Issuance upon the adjustment.

If the total number of shares for the Non-public Issuance is adjusted due to a change in regulatory policies or in accordance with an issuance approval, the number of shares for the Non-public Issuance will be adjusted accordingly.

LETTER FROM THE BOARD

(6) Amount and Use of Proceeds

The total proceeds from the Non-public Issuance will be up to RMB4,000 million (inclusive). The proceeds from the Non-public Issuance after deduction of issue expenses will be used for the following projects:

Unit: RMB ten thousand

S/N	Project Name	Investment in Project	Proceeds Proposed to be Used
1	Home Furnishing Mall Construction Project ^(Note)		
1.1	Foshan Lecong Shopping Mall Project	126,781.96	100,000.00
1.2	Nanning Dingqiu Shopping Mall Project	60,668.75	56,000.00
1.3	Nanchang Chaoyang Xincheng Shopping Mall Project	58,988.02	40,000.00
	Subtotal	246,438.73	196,000.00
2	Tmall “Home Decoration Tongcheng Station” Project	89,054.00	22,000.00
3	3D Shejiyun Platform Construction Project	62,318.00	30,000.00
4	Construction Project for New Generation Home Improvement Platform System	62,898.00	35,000.00
5	Repayment of Interest-bearing Debts of the Company	117,000.00	117,000.00
	Total	<u>577,708.73</u>	<u>400,000.00</u>

Note: The total investment amounts of the Foshan Lecong shopping mall project, the Nanning Dingqiu shopping mall project and the Nanchang Chaoyang Xincheng shopping mall project are RMB1,800.00 million, RMB1,000.00 million and RMB1,000.00 million, respectively. In the table, the investment amounts of each project are the subsequent investment amounts required, after deducting the self-owned funds invested by the Company as of the date of the resolution being approved by the Board.

Before obtaining the proceeds from the Issuance, the Company will use its self-raised funds to invest based on the progress of the projects, and will replace the funds with the proceeds obtained, according to procedures specified in relevant regulations.

If the actual net proceeds from the Issuance are less than the proceeds proposed to be invested, the Company will adjust and determine final amount of proceeds funded to each project, the priority, and the specific investment amount for each project, according to the actual proceeds and the project implementation, and any difference will be made up by the Company using the self-raised funds.

LETTER FROM THE BOARD

Within the scope of the above funded projects, the Board may appropriately adjust the amount of proceeds to be invested in the above projects, according to the actual needs of the projects and procedures specified in relevant regulations.

(7) *Lock-up Period*

The Shares subscribed for by the target subscribers for the Non-public Issuance shall not be transferred within six months from the date on which the Issuance is completed unless otherwise specified by laws, regulations and normative documents in relation to the lock-up period.

Any reduction of the subscribed Shares of the Company by the target subscribers under the Issuance after the expiry of the lock-up period shall also comply with relevant requirements under the Company Law, the Securities Law, the SSE Listing Rules and other laws, regulations, rules, normative documents, relevant rules of stock exchanges, and the Articles of Association. Additional Shares obtained from bonus issue, conversion of capital reserve into share capital and otherwise after the completion of the Non-public Issuance are subject to the above lock-up period arrangements.

(8) *Place of Listing*

The A shares for the Non-public Issuance will be listed for trading on the SSE.

(9) *Arrangements for Undistributed Accumulated Profits Prior to the Non-public Issuance*

After the completion of the Issuance, the undistributed accumulated profits prior to the Issuance will be shared among the new and existing Shareholders of the Company in proportion to their shareholdings upon completion of the Issuance, taking into account of the interests of the new and existing shareholders.

(10) *Validity Period of the Non-public Issuance Resolutions*

The validity period of the Issuance resolutions is 12 months from the date on which the Non-public Issuance is considered and approved at the AGM and the Class Meetings.

LETTER FROM THE BOARD

C. Formulating the Plan for the Non-public Issuance of A Shares

Pursuant to the Administrative Measures for Issuance, the Implementation Rules, the No. 25 of Standard of Content and Format on Information Disclosure for Publicly Listed Companies - Listed Company Non-public Issuance of Shares Proposal and Issuance Report (《公開發行證券的公司信息披露內容與格式準則第25號 – 上市公司非公開發行股票預案和發行情況報告書》) and other relevant laws and regulations, and in light of the actual conditions of the Company, the Company has formulated the 2020 Plan for the Non-public Issuance of A Shares of Red Star Macalline Group Corporation Ltd., which is appended hereto as Appendix I.

The above plan has been approved by the Board at the meeting of the Board held on 3 June 2020, and is hereby proposed for approval by the Shareholders at the AGM and the Class Meetings, respectively.

D. Report on the Use of Proceeds Previously Raised

Pursuant to the provisions under the Administrative Measures for Issuance and the Regulations on the Report on the Use of the Proceeds Raised in the Previous Issuance of Shares (《關於前次募集資金使用情況報告的規定》), and in light of the actual situation of the Company, the Company has prepared the Report on the Use of the Proceeds Previously Raised (《前次募集資金使用情況報告》), which is appended hereto as Appendix II.

The above report has been approved by the Board at the meeting of the Board held on 3 June 2020, and is hereby proposed for approval by the Shareholders at the AGM and the Class Meetings, respectively.

E. Feasibility Report on the Use of the Proceeds from the Non-public Issuance of A Shares

According to the requirements of the Administrative Measures for Issuance and in light of the actual situation of the Company, the Company has prepared the Feasibility Report on the Use of Proceeds from the Non-public Issuance of A Shares, which is appended hereto as Appendix III.

The above feasibility report has been approved by the Board at the meeting of the Board held on 3 June 2020, and is hereby proposed for approval by the Shareholders at the AGM and the Class Meetings, respectively.

LETTER FROM THE BOARD

F. Shareholder's Return Plan for the Next Three Years (2020-2022)

According to the requirements of the Notice on Matters in relation to Further Implementing Cash Dividend of Listed Companies (《關於進一步落實上市公司現金分紅有關事項的通知》) and the Regulatory Guidelines for Listed Companies No. 3 - Cash Dividend of Listed Companies (《上市公司監管指引第3號 - 上市公司現金分紅》) issued by CSRC, the Company has prepared the Shareholder's Return Plan of Red Star Macalline Group Corporation Ltd. for the Next Three Years, which is appended hereto as Appendix IV.

The above plan has been approved by the Board at the meeting of the Board held on 3 June 2020, and is hereby proposed for approval by the Shareholders at the AGM and the Class Meetings, respectively.

G. Remedial Measures for Dilution of Current Returns by the Non-public Issuance of A Shares

Pursuant to the requirements of the Opinions of the General Office of the State Council on Further Enhancing the Protection of Legitimate Rights and Interests of Medium and Small Investors in Capital Markets (Guo Ban Fa [2013] No. 110), the Several Opinions of the State Council on Further Promoting the Sound Development of Capital Markets (Guo Fa [2014] No. 17), the Guiding Opinions on the Dilution of Current Returns by Initial Offering and the Refinancing and Material Asset Restructuring (CSRC Announcement [2015] No. 31) issued by CSRC and other relevant provisions, in order to protect the interests of minority investors, the Company has conducted analysis on the impact of the Non-public Issuance of A Shares on dilution of current returns, and formulated remedial measures for dilution of current returns. Specific details are appended hereto as Appendix V.

The above Dilution of Current Returns by the Non-public Issuance of A Shares and Remedial Measures has been approved by the Board at the meeting of the Board held on 3 June 2020, and is hereby proposed for approval by the Shareholders at the AGM and the Class Meetings, respectively.

LETTER FROM THE BOARD

H. Authorization to the Board to deal with the matters in relation to the Non-public Issuance with full discretion

In order to ensure the smooth implementation of the Non-public Issuance, in accordance with the Company Law, the Securities Law, the Administrative Measures for the Issuance, the Implementation Rules and other laws and regulations, and the Articles of Association of the Company, this resolution will be submitted to the Shareholders for approval by way of a special resolution at the AGM and the Class Meetings, respectively, to authorize the Board, which will in turn authorize the management of the Company, to deal with the matters in relation to the Non-public Issuance of A Shares with full discretion within the scope of authorization. The contents of authorization include but are not limited to:

- (1) Formulating and implementing specific plans for the Non-public Issuance, including determining the timing of the issuance, the number to be issued, the start and end dates of the issuance, pricing principles, pricing reference date (only for changes of pricing principles and pricing reference date resulting from amendment or promulgation of relevant new laws, regulations and normative documents), issue price, method of issuance, target subscriber, use of proceeds, specific subscription method, subscription ratio and other matters related to the issue pricing method, according to the changes in laws, regulations and policies on non-public issuance of shares and the opinions of regulatory authorities (including but not limited to CSRC, the SSE, the Hong Kong Stock Exchange and other regulatory authorities), and in consideration of the actual conditions of the Company and the market, to the extent permitted by relevant laws and regulations, normative documents (as amended from time to time and promulgated after the resolution of the Board) and the Articles of Association of the Company;
- (2) Carrying out work involved in the projects funded by the proceeds from the Non-public Issuance, and signing material contracts and other relevant legal documents in the implementation of the projects funded by the proceeds from the Non-public Issuance. Adjusting or determining the specific arrangements for the use of the proceeds, within the scope of use of proceeds considered and approved at the shareholder's general meeting, and according to the actual progress and capital needs of the projects to be funded by the proceeds; according to the actual progress and operational needs of the projects, the Company may first use its self-raised funds to implement the projects to be funded by the proceeds, before the receipt of the proceeds, and replace the funds with the proceeds obtained; according to relevant laws and regulations, requirements of regulatory authorities and market conditions, necessary adjustments are made to the projects to be funded by the proceeds;
- (3) Handling matters in relation to the application for the Non-public Issuance, and preparing, amending and submitting the application materials for the Issuance and listing, according to the requirements of regulatory authorities;

LETTER FROM THE BOARD

- (4) Determining to sign, supplement, amend, submit, report and perform all agreements and documents arising in the Non-public Issuance, including but not limited to underwriting agreement, sponsor agreement, agreement to engage intermediaries, share subscription agreement and other legal documents;
- (5) Opening a proceeds deposit account and signing agreements on the management and use of proceeds;
- (6) Adjusting the specific arrangements for the projects to be funded by the proceeds to the extent permitted by laws and regulations and within the scope of the approval of the shareholder's general meeting, according to the requirements of the relevant competent authorities and the actual conditions of the market;
- (7) In case of force majeure, new regulations of the securities regulatory authorities on the Non-public Issuance of shares or changes in market conditions, adjusting the specific plan for the Non-public Issuance accordingly and continue to handle matters in relation to the Non-public Issuance, including but not limited to canceling the plan for the Non-public Issuance of A shares or extending the validity period of the application for the Non-public Issuance of A shares, according to the opinions of regulatory authorities, except for matters which are subject to further voting at the shareholder's general meeting under relevant laws, regulations and the Articles of Association;
- (8) After the completion of the Non-public Issuance, handling matters including the listing of the shares for the Non-public Issuance on the SSE, and lock-up of the shares;
- (9) According to the actual results of the Non-public Issuance, handling and announcing matters including the change in the registered capital of the Company, the amendment to corresponding provisions of the Articles of Association and the industrial and commercial change registration;
- (10) Handling other matters in relation to the Non-public Issuance which are not covered, to the extent permitted by laws, regulations and the Articles of Association of the Company.

If the above authorizations involve specific implementation matters to be handled after the approval by securities regulatory authorities for the Non-public Issuance, the authorization is valid from the date of consideration and approval at the AGM and the Class Meetings to the date of completion of the implementation matters, while other authorizations are valid for 12 months from the date of from the date of consideration and approval at the AGM and the Class Meetings.

LETTER FROM THE BOARD

4. IMPACT OF THE ISSUANCE ON THE COMPANY'S SHAREHOLDING STRUCTURE

For reference and illustration purposes only, assuming that there are no changes to the total issued share capital of the Company prior to the completion of the Issuance and that subject to the regulatory requirements of the places where the Shares of the Company are listed, a maximum of 912,887,622 A Shares are issued under the Issuance (which represents approximately 25.72% of the total issued share capital of the Company as at the Latest Practicable Date and approximately 20.46% of the total issued share capital of the Company as enlarged by the issuance of the A Shares under the Issuance), the shareholding structure of the Company immediately before and after completion of the Issuance is set out as follows:

	Immediately before completion of the Issuance		Immediate after completion of the Issuance	
	Number of shares	Approximate percentage of the Company's total issued share capital	Number of shares	Approximate percentage of the Company's total issued share capital
A Shares				
Red Star Macalline Holding Group Company Limited	2,489,927,872	70.14%	2,489,927,872	55.79%
Changzhou Meikai Information Technology Co., Ltd.	8,460,697	0.24%	8,460,697	0.19%
CHE Jianxing	396,000	0.01%	396,000	0.01%
GUO Binghe	262,200	0.01%	262,200	0.01%
CHE Jianfang	112,200	0.00%	112,200	0.00%
JIANG Xiaozhong	1,461,709	0.04%	1,461,709	0.03%
CHEN Shuhong	44,200	0.00%	44,200	0.00%
PAN Ning	1,079,970	0.03%	1,079,970	0.02%
A Shares held by the public	374,359,121	10.55%	374,359,121	8.39%
New A Shares to be issued under the Issuance ^(Note)	–	–	912,887,622	20.46%
Sub-total of A Shares	<u>2,876,103,969</u>	<u>81.02%</u>	<u>3,788,991,591</u>	<u>84.90%</u>
H Shares	<u>673,896,031</u>	<u>18.98%</u>	<u>673,896,031</u>	<u>15.10%</u>
Total no. of Shares	<u>3,550,000,000</u>	<u>100.00%</u>	<u>4,462,887,622</u>	<u>100.00%</u>

Note: It is assumed that the A Shares issued under the Issuance will be held by independent third parties and included in the public float.

LETTER FROM THE BOARD

Upon the listing of H Shares on the Hong Kong Stock Exchange, the Hong Kong Stock Exchange has granted the Company, a waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules, pursuant to which the Company shall maintain a minimum public float (as defined in the Listing Rules) of 15.10%. Based on the information publicly available to the Company and to the Directors' knowledge, as at the Latest Practicable Date, 15.10% of its total issued share capital were in public hands.

Due to the Issuance (assuming that up to 912,887,622 A Shares are issued, which are expected to be held by independent third parties and included in the public float), the public float of H Share of the Company will be approximately 15.10%, and the public float of the Company (including H Shares and A Shares) will be approximately 43.95%. The Company would still be able to meet the minimum requirement on public float percentage specified by the Hong Kong Stock Exchange upon the listing of H Shares of the Company. The Company will closely monitor its public float percentage to ensure that it, at all times, complies with the relevant requirements regarding public float under the Listing Rules and will promptly notify the Hong Kong Stock Exchange of any changes in its public float.

5. REASONS FOR AND BENEFITS OF THE PROPOSED A SHARE ISSUANCE

The Directors are of the opinion that the Issuance is conducive to further expansion of the business deployment of the Company, optimizing its financial structure and providing capital support for sustainable development of the Company. After the implementation of the projects funded by the proceeds, the Company's Portfolio Shopping Mall network will be further expanded, and its shopping mall arrangements in the core regions in Guangdong, Guangxi, Jiangxi and other provinces will be further improved, which helps the Company consolidate its leading position and regional advantages in relevant regions. The home furnishing mall construction projects are closely related to the Company's strategic plan of business development. The size expansion will help enhance the Company's brand awareness and bargaining power with merchants, which is conducive to improving the Company's profitability and consolidating the Company's leading position in the industry.

Certain proceeds from the Non-public Issuance will be used for the construction and implementation of the Tmall "Home Decoration Tongcheng Station" project, the 3D Shejiyun platform construction project and the construction project for new generation home improvement platform system of the Company, to support the development of the Company's new retail and design, home decoration and other expansionary businesses, better provide consumers with one-stop industry chain services for pan-home improvement and furnishing consumption, enhance consumers' shopping experience and consumer satisfaction, give full play to the synergy between the Company's offline business and expansionary businesses, and promote the transformation and upgrade of the Company's business.

In addition, with the Company's business size expansion, and exploration and development of new businesses, the Company will have capital needs continuously. Since its initial public offering and listing, the Company has met the needs of business development mainly through debt financing. In recent years, the asset-liability ratio and financial expenses

LETTER FROM THE BOARD

have increased. Through financing by the Issuance and use of certain proceeds for repayment of interest-bearing debts, there will be an optimization of the financial structure of the Company, enhancement of its capital strength, and improvement in its risk-resistance ability. The Company will also secure funds to support the sustainable development and expansion of its business, which is conducive to enhancing its core competitiveness.

The Directors consider that the Non-public Issuance of A Shares is in the interests of the Company and the Shareholders as a whole. The above resolutions are required for the Issuance. In the event that any resolution is not approved by the Shareholders at the AGM, the A Shareholder's Class Meeting or the H Shareholder's Class Meeting, the Company will not proceed with the Issuance and will consider revising the terms of the Issuance and have them re-submitted for Shareholder's approval.

6. FUNDRAISING ACTIVITIES

The A Shares of the Company (stock code: 601828) were listed and commenced trading on the SSE on 17 January 2018. The Company issued 315,000,000 A Shares at the issue price of RMB10.23 per share. The total proceeds raised from this issue amounted to RMB3,222.45 million, and the net proceeds raised, after deducting the costs of the A Share issuance of RMB172,442,150.37, amounted to RMB3,050,007,849.63. As at the Latest Practicable Date, the Company has utilized approximately 86.45% of the net proceeds in total for the proceeds funded projects as required as well as replenishing its working capital.

As at the Latest Practicable Date, the Company has not conducted any fund-raising activities in relation to the issue of the equity securities in the 12 months immediately preceding the Latest Practicable Date.

For the upcoming 12 months starting from the Latest Practicable Date, based on its working capital needs and market conditions, the Company will flexibly raise capital through issuing corporate bonds, short-term corporate bonds, beneficiary certificates, and subordinated bonds etc., in order to satisfy the working capital needs for the Company's business development.

7. RESPONSIBILITY STATEMENT

The information in this Supplemental Circular is published in accordance with the Listing Rules and is intended to provide information about the Company. The Directors of the Company jointly and severally bear all responsibility for the information in this Supplemental Circular. The Directors, after making all reasonable enquiries, confirm to the best of their knowledge and belief that the information contained in this Supplemental Circular is accurate and complete in all material respects, is not misleading or deceptive, and that nothing is omitted to cause any statements herein or this Supplemental Circular to be misleading or other matters.

LETTER FROM THE BOARD

8. THE AGM AND THE CLASS MEETINGS

A supplemental notice of the 2019 AGM is set out on pages 147 to 149 of this Supplemental Circular. The 2019 AGM will be held at 2:00 p.m. on Thursday, 18 June 2020 at Conference Center, 3/F, South Building, Block B, Red Star Macalline Headquarters, Lane 1466, Shenchang Road, Minhang District, Shanghai, the PRC as originally scheduled. A supplemental notice of the H Shareholder's Class Meeting is set out on pages 150 to 152 of this Supplemental Circular. The H Shareholder's Class Meeting will be held at 4:00 p.m. (or immediately after the conclusion of the A Shareholder's Class Meeting) on Thursday, 18 June 2020 at Conference Center, 3/F, South Building, Block B, Red Star Macalline Headquarters, Lane 1466, Shenchang Road, Minhang District, Shanghai, the PRC as originally scheduled.

Please refer to the First Circular dated 19 May 2020, the Notice of the 2019 AGM and the Notice of the H Shareholder's Class Meeting of the Company, for details of other resolutions to be considered at the AGM and H Shareholder's Class Meeting, eligibility for attending the AGM and H Shareholder's Class Meeting, the procedure of registration, closure of register of members, voting by way of poll and other related matters.

9. RECOMMENDATION

The Directors consider that all resolutions proposed above are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of all the resolutions to be proposed at the AGM and the H Shareholder's Class Meeting.

By order of the Board
Red Star Macalline Group Corporation Ltd.
GUO Binghe
Vice Chairman

Stock Code: 601828

Stock Abbreviation: Macalline



RED STAR MACALLINE GROUP CORPORATION LTD.

(Domicile address: Suite F801, 6/F, No. 518, Linyu Road, Pudong New District, Shanghai)

**Plan for Non-public Issuance of A Shares in
2020**

June 2020

STATEMENT OF THE COMPANY

1. The Company and all members of the Board of Directors warrant that the contents of the Plan are true, accurate and complete, and confirm that there are no false representations, misleading statements or material omissions in the Plan, and severally and jointly accept the responsibility for the truthfulness, accuracy, completeness and timeliness of the contents of the Plan.
2. The plan for the Non-public Issuance of shares (hereinafter referred to as the “Plan”) has been prepared in accordance with the Administrative Measures for the Issuance of Securities by Listed Companies (《上市公司證券發行管理辦法》), the Implementation Rules for the Non-Public Issuance of Stocks by Listed Companies (《上市公司非公開發行股票實施細則》), the Standards for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 25 – Plans of Listed Companies for Non-Public Issuance of Stocks and Their Issuance Reports (《公開發行證券的公司信息披露內容與格式準則第25號 – 上市公司非公開發行股票預案和發行情況報告書》), and other requirements.
3. After the completion of the Non-public Issuance of shares, the Company shall be responsible for changes in its operation and incomes; investment risks arising out of the Non-public Issuance of shares shall be borne by investors.
4. The Plan is a statement of the Board of Directors of the Company on the Non-public Issuance of shares, and any statement that is inconsistent with the Plan is a misstatement.
5. In case of any questions, investors should consult their stock brokers, lawyers, professional accountants or other professional advisers.
6. Matters set out in the Plan do not indicate substantive judgments, confirmations, authorizations or approvals of approving authorities in respect of matters in relation to the Non-public Issuance of shares. The validity and completion of matters in relation to the Non-public Issuance of shares set out in the Plan are subject to approvals or permissions of relevant approving authorities.

IMPORTANT NOTES

1. Matters in relation to the Non-public Issuance have been considered and approved at the 11th extraordinary meeting of the fourth session of the Board of Directors held on 3 June 2020, and shall not be carried out until they are submitted to the General Meeting of the Company for consideration and approved by CSRC, and shall be subject to the final plan to be approved by CSRC.

2. The number of target subscribers for the Non-public Issuance shall not exceed 35, and target subscribers shall be securities investment fund management companies, securities companies, trust investment companies, finance companies and insurance institutional investors, qualified foreign institutional investors, other domestic and foreign institutional investors, natural persons and other lawful investors meeting subscription conditions specified in laws and regulations then in force. A securities investment fund management company, securities company, qualified foreign institutional investor or RMB qualified foreign institutional investor subscribing through more than two products managed by it will be deemed as one target subscriber. A trust company which is a target subscriber shall only use its self-owned funds to subscribe for the shares.

After an approval is issued by CSRC for the Issuance application, the final target subscribers will be selected through negotiation between the Board of Directors of the Company and the sponsor (the lead underwriter) according to prices quoted by the target subscribers for the subscription. The number of target subscribers shall comply with relevant laws and regulations.

The target subscribers for the Issuance shall subscribe for the shares under the Non-public Issuance in cash.

3. The Pricing Reference Date of the Non-public Issuance of shares is the first day of the issue period of the Non-public Issuance of shares. The price of the Issuance will be not less than 80% of the average trading price of the shares of the Company over the twenty trading days prior to the Pricing Reference Date.

The average trading price of the shares over the twenty trading days prior to the Pricing Reference Date = the total value of the shares traded over the twenty trading days prior to the Pricing Reference Date/the total volume of the shares traded over the twenty trading days prior to the Pricing Reference Date.

After an approval of CSRC in relation to the Issuance is obtained by the Company, the final issue price of the Non-public Issuance of shares will be confirmed through negotiation between the Board of Directors of the Company and the sponsor (the lead underwriter), in accordance with relevant laws and regulations and requirements of the regulatory authorities.

In case of occurrence of dividend payment, bonus issue, conversion of capital reserve into share capital and other ex-right and ex-dividend matters in relation to the shares of the Issuer between the Pricing Reference Date and the issue date, the issue price of the Non-public Issuance will be adjusted accordingly.

4. The number of the shares for the Non-public Issuance is calculated as the total proceeds divided by the issue price, up to 30% of 3,550.00 million shares prior to the issuance; meanwhile, in order to fulfil the undertakings made by the Company upon the initial public offering of H shares as to maintaining at least 15.10% of H shares in public hands, the number of shares for the Non-public Issuance by the Company will be up to 912,887,622 shares (accounting for 25.72% of the total share capital prior to the Issuance). The number of shares to be issued shall be as indicated in the approval of CSRC in relation to the issuance. The Board of Directors of the Company is authorized by the General Meeting to negotiate with the sponsor (the lead underwriter) to confirm the final number to be issued, within the above limit, according to relevant rules of CSRC and the actual subscription.

In the event of bonus issue, conversion of capital reserve into share capital and other ex-right matters of the Company between the Pricing Reference Date and the issue date of the Non-public Issuance, the maximum number of shares to be issued under the Issuance will be adjusted accordingly.

5. The shares subscribed for by the target subscribers under the Non-public Issuance shall not be transferred within six months from the date on which the Issuance is completed unless otherwise specified by laws, regulations and normative documents in relation to the lock-up period.

Any reduction of the subscribed shares of the Company by the target subscribers under the Issuance after the expiry of the lock-up period shall also comply with relevant requirements under the Company Law, the Securities Law, the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange and other laws, regulations, rules, normative documents, relevant rules of stock exchanges, and the Articles of Association. Additional shares obtained from bonus issue, conversion of capital reserve into share capital and otherwise after the completion of the Non-public Issuance shall also subject to the above lock-up period arrangements.

6. The Non-public Issuance of shares will not lead to a change of control of the Company or result in a breach of shareholding requirements for the Company's listing status.

7. The total proceeds from the Non-public Issuance of shares will be up to RMB4,000 million (inclusive), and the net proceeds after deduction of issue expenses will be used for the following projects:

Unit: RMB ten thousand

S/N	Project Name	Investment in Project	Proceeds Proposed to be Used
1	Home Furnishing Mall Construction Project ^(Note)	126,781.96	100,000.00
	1.1 Foshan Lecong Shopping Mall Project		
	1.2 Nanning Dingqiu Shopping Mall Project	60,668.75	56,000.00
	1.3 Nanchang Chaoyang Xincheng Shopping Mall Project	58,988.02	40,000.00
	Subtotal	246,438.73	196,000.00
2	Tmall "Home Decoration Tongcheng Station" Project	89,054.00	22,000.00
3	3D Shejiyun Platform Construction Project	62,318.00	30,000.00
4	Construction Project for New Generation Home Improvement Platform System	62,898.00	35,000.00
5	Repayment of Interest-bearing Debts of the Company	117,000.00	117,000.00
	Total	<u>577,708.73</u>	<u>400,000.00</u>

Note: The total investment amounts of the Foshan Lecong shopping mall project, the Nanning Dingqiu shopping mall project and the Nanchang Chaoyang Xincheng shopping mall project are RMB1,800.00 million, RMB1,000.00 million and RMB1,000.00 million, respectively. In the table, the investment amounts of each project are the subsequent investment amounts required, after deducting the self-owned funds invested by the Company as of the date of the resolution being approved by the Board.

Before obtaining the proceeds from the Issuance, the Company will use its self-raised funds to invest based on the progress of the projects, and will replace the funds with the proceeds obtained, according to procedures specified in relevant regulations.

If the actual net proceeds from the Issuance is less than the proceeds proposed to be invested, the Company will adjust and determine the final proceeds funded projects, the priority, and the specific investment amount of each project, according to the actual amount of the proceeds and the implementation of the projects, and any shortfall will be made up by the Company with its self-raised funds.

Within the scope of the above investment projects, the Board of Directors of the Company may make appropriate adjustments to the amount of proceeds to be invested in the above projects, according to the actual needs of the projects and the procedures specified in relevant regulations.

8. After the completion of the Non-public Issuance of shares, the undistributed accumulated profits prior to the Issuance will be shared among the new and existing shareholders of the Issuer in proportion to their shareholdings upon completion of the Issuance, taking into account the interests of both the new and existing shareholders.
9. The Proposal on the Next Three-Year (2020-2022) Shareholder Return Plan of the Company was considered and approved on 3 June 2020, at the 11th extraordinary meeting of the fourth session of the Board of Directors of the Company, in accordance with the Notice on Further Implementing Matters Concerning Distribution of Cash Dividends by Listed Companies and the Regulatory Guidelines for Listed Companies No.3 – Distribution of Cash Dividends by Listed Companies published by CSRC, and other laws and regulations, and the Articles of Association. The proposal is subject to consideration and approval at the General Meeting of the Company. For details of profit distribution and cash dividend policies, please refer to “Section IV Profit Distribution Policy of the Company and Its Implementation” in the Plan.
10. In accordance with the Opinions of the State Council on Further Promoting the Sound Development of Capital Markets (GF[2014] No.17), the Opinions of the General Office of the State Council on Further Strengthening the Work for Protection of the Legitimate Rights and Interests of Minority Investors in Capital Markets (GBF [2013] No.110), and the Guiding Opinions on Matters Concerning the Dilution of Current Return Due to Initial Public Offering, Refinancing and Material Asset Restructuring (CSRC Announcement [2015] No.31), in order to protect the interests of minority shareholders, investors are advised to pay attention to the careful analysis of the risk of dilution of the current return of the Company due to the Issuance and the adequately disclosed information on the proposed measures contained in “Section V Matters in Relation to Dilution of Current Return Due to the Issuance” of the Plan.

The measures of the Company to make up for the dilution do not constitute a warranty of the Company as to its future profits. Investors should not make investment decisions based on the measures, and the Company will not be liable for compensating for their losses incurred thereby. Investors should pay attention in this regard.

11. There are great uncertainties as to whether the Non-public Issuance Plan will be approved by CSRC and other relevant authorities. Investors should pay attention to the relevant risks.

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DEFINITIONS

In this Plan, unless the context requires otherwise, the following terms have the following meanings:

Issuer, Macalline, Company or the Company	Red Star Macalline Group Corporation Ltd.
RSM Holding or Controlling Shareholder	Red Star Macalline Holding Group Company Limited
Actual Controller	CHE Jianxing
Changzhou Meikai	Changzhou Meikai Information Technology Co., Ltd. (常州美開信息科技有限公司)
Alibaba	Alibaba (China) Technology Co., Ltd.
RSM Holding 2019 Exchangeable Bond Pledge Account	Red Star Macalline Holding Group Company Limited – pledge account for exchangeable corporate bonds (first tranche) issued by Red Star Macalline Holding Group Company Limited through non-public offering in 2019
RSM Holding 2018 Exchangeable Bond Pledge Account	Red Star Macalline Holding Group Company Limited – pledge account for exchangeable corporate bonds (first tranche) issued by Red Star Macalline Holding Group Company Limited through non-public offering in 2018
The Non-public Issuance or the Issuance	non-public issuance of A Shares by Red Star Macalline Group Corporation Ltd. in 2020
The Plan	the plan of Red Star Macalline Group Corporation Ltd. for non-public issuance of A Shares in 2020
Pricing Reference Date	the first day of the issue period of the Non-public Issuance
A Share(s)	RMB-denominated ordinary share(s) issued to domestic investors, listed on a domestic stock exchange, subscribed and traded in RMB, with the approval of CSRC

APPENDIX I THE PLAN FOR THE NON-PUBLIC ISSUANCE OF A SHARES

H Share(s)	RMB-denominated overseas listed foreign ordinary share(s) issued outside mainland China by a company registered in China, listed for trading on the Hong Kong Stock Exchange, subscribed and traded in Hong Kong dollars
General Meeting	the general meeting of Red Star Macalline Group Corporation Ltd.
Board of Directors	the board of directors of Red Star Macalline Group Corporation Ltd.
Board of Supervisors	the board of supervisors of Red Star Macalline Group Corporation Ltd.
Company Law	the Company Law of the People's Republic of China
Securities Law	the Securities Law of the People's Republic of China
Articles of Association	the articles of association of Red Star Macalline Group Corporation Ltd.
CSRC	China Securities Regulatory Commission
SSE	the Shanghai Stock Exchange
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
RMB, RMB0'000, RMB00,000,000	RMB, RMB0,000, RMB00,000,000

In this Plan, some totals may not correspond with the sum of the separate figures due to rounding.

SECTION I SUMMARY OF THE NON-PUBLIC ISSUANCE PLAN

I. Basic Information of the Issuer

Company name	紅星美凱龍家居集團股份有限公司
English name	Red Star Macalline Group Corporation Ltd.
Date of establishment	18 June 2007
Place of listing	SSE and the Hong Kong Stock Exchange
A-share stock abbreviation	Macalline
A-share stock code	601828
A-share listing date	17 January 2018
H-share stock abbreviation	RS Macalline
H-share stock code	01528
H-share listing date	26 June 2015
Registered Capital	RMB3,550,000,000
Legal representative	CHE Jianxing
Board secretary	GUO Binghe
Domicile address	Suite F801, 6/F, No. 518, Linyu Road, Pudong New District, Shanghai
Office address	RS Macalline Headquarters, No.2/5, Lane 1466, Shenchang Road, Minhang District, Shanghai
Postal code	201106
Tel	021-52820220
Fax	021-52820272
Company website	www.chinaredstar.com
Email address	ir@chinaredstar.com
Scope of business	Providing management services, enterprise management and product information consulting to investees; providing home improvement and furnishing shopping malls with design planning and management services; wholesale of furniture, building materials (other than steel) and decoration materials, and relevant supporting services; exhibition and display services. (Goods subject to quota and license management and special provision management shall be treated in accordance with relevant national regulations). Business activities that are subject to approval under laws shall only be carried out with the approval of relevant authorities.

II. Background and Purposes of the Non-public Issuance

(I) Background of the Non-public Issuance

1. Broad Prospects for the Development of the Home Improvement and Furnishing Industry

With the development of the national economy and the improvement in the resident consumption level in China, there are broad prospects for the development of the home improvement and furnishing industry in China. The main driving factors for the future development of the industry include:

- (1) Steady progress in urbanization that drives the sustainable development of the industry

There is steady progress in China's urbanization process, with the urbanization rate rose from 49.95% in 2010 to 60.60% in 2019 and the number of urban population increased to 848 million. The continuous improvement in the urbanization level will bring about the increase in the urban population and housing demand, and promote the growth of investment in urban infrastructure construction and urban housing construction, thus provides broad market space for the home improvement and furnishing industry.

Meanwhile, with the further development of urbanization and the expansion of the urban boundary in China, there will be good development opportunities for the urban construction in third-tier cities and other cities, and central and western China, which will stably support the basic demands in the home decoration and furniture market and drive the sustainable development of the industry.

- (2) The development of the real estate industry and the continuous housing investment and construction that promote the development of the industry

In recent years, China's real estate industry has developed continuously, which helps improve the housing conditions of urban residents and increase the housing level of urban residents. According to the data of the National Bureau of Statistics, the investment in real estate development in China reached RMB13.22 trillion in 2019, with the housing investment of RMB9.71 trillion, representing an increase of 13.9% as compared with that in 2018; in 2019, the building construction area was 8.938 billion sq.m., with the housing construction area of 6.277 billion sq.m, representing an increase of 10.1% as compared with that in 2018. The increase in investment in real estate development and the potential increase in the housing area arising out of housing construction have become important driving forces for the future development of the home improvement and furnishing industry.

In addition, in recent years, the state has weakened the asset attributes of real estate for a return to normal housing attributes, in order to curb the excessively fast growth of housing prices in large cities, control the investment and speculative demands for real estate, thus caused the conversion of a large number of investment and speculative inventory or vacant houses into residential houses for self-occupation or lease, which becomes a source of growth in the demand in the home decoration and furniture market.

- (3) Growth in residents' income and consumption upgrade which provide material basis for industry development

According to the data of the National Bureau of Statistics, in 2019, the per capita disposable income of urban residents in China was RMB42,359, representing an actual increase of 5.0% as compared with that in 2018, without regard to price factors; the per capita consumption expenditure of urban residents was RMB28,063, representing an actual increase of 4.6% compared with 2018, without regard to price factors. With the increase in the disposable income of urban residents, there is a comprehensive upgrade of urban resident consumption, with a growth trend in consumer spending.

Meanwhile, the trend of consumption upgrade brings about a new source of growth for the upgrade of the home improvement and furnishing industry. The main factor affecting the consumption decisions of home improvement and furnishing consumers in China has gradually shifted from price to comprehensive consideration of brand, quality, reputation, service, shopping environment, energy conservation, environmental protection and otherwise, and the demand for high-end brand products will increase accordingly. In addition, the improvement in the consumers' shopping experience and service demand in relation to home furnishing merchandise drives the upgrade of home decoration and furniture shopping malls. Experiential shopping will become the new focus of consumers in the trend of consumption upgrade.

The continuous growth in the income level of urban residents and the upgrade of resident consumption provide a solid material foundation for the development of the home improvement and furnishing industry.

2. *Development and Application of Internet, Big Data and Other Technologies that Drive the Development of New Retail Models in the Industry*

The development and application of Internet, big data and other technologies are driving the development of new retail models in the industry. The new retail models of online and offline integration, integration of goods and services, and industrial chain integration are gradually becoming the new development direction of the current home improvement and furnishing industry.

The online and offline channels in the home improvement and furnishing industry are further integrated, enabling enterprises to provide one-stop shopping and consumption experiences for consumers through online construction of scenarios and offline delivery of shopping and experience scenarios. In addition, enterprises in the industry actively build a big data system to carry out fine management of and precise marketing to consumers, so as to further improve the reach of products to consumers and marketing efficiency.

The development of new retail in the industry will promote the restructuring, transformation and upgrade of the business model of the home improvement and furnishing industry. Leading enterprises in the direction of transformation will further enhance their long-term competitiveness and lead the sustainable development of the industry.

In 2019, the Company signed a strategic cooperation agreement with Alibaba to jointly expand their arrangements in the new retail, with the aim to introduce Alibaba's advanced operation philosophy and technical support in the new retail into the online and offline integration platform, and further promote industry chain services for pan-home improvement and furnishing consumption. The Tongcheng Station for the new retail in which the Company and Alibaba cooperate covers a total of 13 cities, 29 shopping malls and more than 600 brands, and will be further deepened. Through the traffic from "Tongcheng Station+ shopping mall digitalization", the transformation of the home improvement and furnishing industry to the new retail will be comprehensively promoted.

(II) Purposes of the Non-public Issuance

1. Expansion of Arrangements for Home Furnishing Malls and Consolidation of the Leading Position in the Industry

After the implementation of projects funded by the proceeds from the Non-public Issuance, the Company's portfolio shopping mall network will be further expanded, and its shopping mall arrangements in the core regions in Guangdong, Guangxi, Jiangxi and other provinces will be further improved, which helps the Company consolidate its leading position and geographical advantages in relevant regions.

The home furnishing mall construction project is closely related to the Company's strategic plan of business development. The size expansion will help enhance the Company's brand awareness and bargaining power with merchants, which is conducive to improving the Company's profitability and consolidating the Company's leading position in the industry.

2. Support for the Development of New Retail and Expansionary Businesses, and Promotion of Transformation and Upgrade of the Company

Certain proceeds from the Non-public Issuance will be used for the construction and implementation of the Tmall "Home Decoration Tongcheng Station" Project, 3D Shejiyun Platform Construction Project and Construction Project for New Generation Home Improvement Platform System of the Company, to support the development of the Company's new retail and design, home decoration and other expansionary businesses, provide consumers with better one-stop industry chain services for pan-home improvement and furnishing consumption, enhance consumers' shopping experience and consumer satisfaction, give full play to the synergy between the Company's offline business and expansionary business, and promote the transformation and upgrade of the Company's business.

3. *Optimization of the Financial Structure, Providing Financial Support for the Sustainable Development of the Company*

With the Company's business size expansion, and exploration and development of new businesses, the Company will have capital needs continuously. Since its initial public offering and listing, the Company has met the needs of its business development mainly through debt financing. In recent years, the asset-liability ratio and financial expenses of the Company have increased.

Through financing by the Non-public Issuance and use of certain proceeds for repayment of interest-bearing debts of the Company, there will be an optimization of the financial structure of the Company, enhancement of its capital strength, and improvement in its risk-resistance ability, and the Company will also secure funds to support the sustainable development and expansion of its business, which is conducive to enhancing its core competitiveness.

III. Target Subscribers and Their Relationships with the Company

The number of target subscribers for the Non-public Issuance of shares shall not exceed thirty-five persons. The target subscribers shall be securities investment fund management companies, securities companies, trust investment companies, finance companies and insurance institutional investors, qualified foreign institutional investors, other domestic and foreign institutional investors, natural persons and other lawful investors that meet the subscription conditions specified in laws and regulations then in force. A securities investment fund management company, securities company, qualified foreign institutional investor or RMB qualified foreign institutional investor subscribing through more than two products managed by it will be deemed as one target subscriber. A trust investment company which is a target subscriber shall only use its self-owned funds to subscribe for the shares.

After an approval is issued by CSRC for the Issuance application, the final target subscribers will be selected through negotiation between the Board of Directors of the Company and the sponsor (the lead underwriter) for the Issuance, according to prices quoted by the target subscribers for the subscription, and the principle of price priority.

Since no target subscribers have been selected for the Non-public Issuance of shares of the Company, the relationships between target subscribers and the Company cannot be confirmed. The relationships between target subscribers and the Company will be disclosed by the Company in the issuance report published after the completion of the issuance. If any of the subscribers is the connected person of the Company, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules.

IV. Summary of the Non-public Issuance Plan

(I) Class and Nominal Values of Shares to be Issued

The shares to be issued are domestic listed RMB ordinary shares (A shares), with the nominal value of RMB1.00 each.

(II) Method and Time of Issuance

All shares for the Issuance will be issued through private placement to specific subscribers at an appropriate time during the validity period of the CSRC approval.

(III) Pricing Reference Date, Issue Price and Pricing Principles

The Pricing Reference Date for the Non-public Issuance will be the first day of the issue period of the Non-public Issuance of shares. The price of the Issuance will be not less than 80% of the average trading price of the shares of the Company over the twenty trading days prior to the Pricing Reference Date.

The average trading price of the shares over the twenty trading days prior to the Pricing Reference Date = the total value of the shares traded over the twenty trading days prior to the Pricing Reference Date/the total volume of the shares traded over the twenty trading days prior to the Pricing Reference Date.

After an approval of CSRC in relation to the Issuance is obtained by the Company, the final issue price of the Non-public Issuance will be confirmed in accordance with relevant laws and regulations and requirements of regulatory authorities, through negotiation between the Board of Directors of the Company (according to the authorization of the General Meeting) and the sponsor (the lead underwriter) of the Issuance according to enquiries in the market.

In the event of dividend distribution, bonus issue, conversion of capital reserve into share capital and other ex-right and ex-dividend matters in relation to the shares of the Issuer between the Pricing Reference Date and the issue date, the minimum issue price will be adjusted as follows: where the minimum issue price prior to the adjustment is P_0 , the number of bonus shares per share or the number of shares converted from capital reserve is N , the dividend paid per share is D , and the minimum issue price upon the adjustment is P_1 :

Dividend distribution: $P_1 = P_0 - D$

Bonus issue or conversion of capital reserve into share capital: $P_1 = P_0 \div (1 + N)$

Dividend distribution and bonus issue or conversion of capital reserve into share capital: $P_1 = (P_0 - D) \div (1 + N)$

(IV) Total Proceeds

The total proceeds from the Non-public Issuance will be up to RMB4,000 million (inclusive).

(V) Target Subscribers and Subscription Method

The number of target subscribers for the Non-public Issuance of shares shall not exceed thirty-five persons. The target subscribers shall be legal persons, natural persons or other legal investment organizations fulfilling the conditions specified by CSRC. A securities investment fund management company, securities company, qualified foreign institutional investor or RMB qualified foreign institutional investor subscribing through more than two products managed by it will be deemed to be a target subscriber. A trust company which is a target subscriber shall only use its self-owned funds for subscription.

After an approval is granted by CSRC for the application for the Issuance, the final target subscribers will be selected through negotiation between the Board of Directors of the Issuer and the sponsor (the lead underwriter) based on the prices quoted by the target subscribers for the subscription. The number of target subscribers shall comply with relevant laws and regulations.

The target subscribers for the Issuance shall subscribe for the shares under the Non-public Issuance in cash.

(VI) Number to be Issued

The number of the shares for the Non-public Issuance is calculated as the total proceeds divided by the issue price, up to 30% of the total share capital of the Company prior to the issuance; meanwhile, in order to fulfil the undertakings made by the Company upon the initial public offering of H shares as to the minimum number of H shares held in the public hands to be above 15.10%, the number of shares for the Non-public Issuance by the Company will be up to 912,887,622 shares (accounting for 25.72% of the total issued share capital of the Company prior to the Issuance). The number of shares to be issued shall be as indicated in the approval of CSRC in relation to the issuance. The Board of Directors of the Company is authorized by the General Meeting to negotiate with the sponsor (i.e., the lead underwriter) to confirm the final number to be issued, within the above limit, based on the relevant rules of CSRC and the actual subscription.

In the event of bonus issue, conversion of capital reserve into share capital and other ex-right matters of the Company between the Pricing Reference Date and the issue date of the Non-public Issuance, the maximum number of shares for the Issuance will be adjusted as follows

$$Q_1 = Q_0 \times (1 + n)$$

where: Q_0 is the maximum number of shares for the Issuance prior to the adjustment; n is the proportion of bonus shares per share or shares converted from capital reserve (namely the number of additional shares arising from bonus issue or the conversion); Q_1 is the maximum number of shares for the Issuance upon the adjustment.

If the total number of shares for the Non-public Issuance is adjusted due to a change in regulatory policies or in accordance with an issuance approval, the number of shares for the Non-public Issuance will be adjusted accordingly.

(VII) Lock-up Period

The shares subscribed for by the target subscribers for the Non-public Issuance shall not be transferred within six months from the date on which the Issuance is completed unless otherwise specified by laws, regulations and normative documents in relation to the lock-up period.

Any reduction of the subscribed shares of the Company by the target subscribers under the Issuance after the expiry of the lock-up period shall also comply with relevant requirements under the Company Law, the Securities Law, the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange and other laws, regulations, rules, normative documents, relevant rules of stock exchanges, and the Articles of Association. Additional shares obtained from bonus issue, conversion of capital reserve into share capital and otherwise after the completion of the Non-public Issuance are subject to the above lock-up period arrangements.

(VIII) Arrangements for Undistributed Accumulated Profits Prior to the Non-public Issuance

After the completion of the Issuance, the undistributed accumulated profits prior to the Issuance will be shared among the new and existing shareholders of the Issuer in proportion to their shareholdings upon completion of the Issuance, taking into account of the interests of the new and existing shareholders.

(IX) Place of Listing

The shares for the Non-public Issuance will be listed for trading on the Shanghai Stock Exchange.

(X) Use of Proceeds

The proceeds from the Non-public Issuance after deduction of issue expenses will be used for the following projects:

Unit: RMB ten thousand

S/N	Project Name		Investment in Project	Proceeds Proposed to be Used
1	Home Furnishing Mall Construction Project ^(Note)	1.1 Foshan Lecong Shopping Mall Project	126,781.96	100,000.00
		1.2 Nanning Dingqiu Shopping Mall Project	60,668.75	56,000.00
		1.3 Nanchang Chaoyang Xincheng Shopping Mall Project	58,988.02	40,000.00
		Subtotal	246,438.73	196,000.00
2	Tmall “Home Decoration Tongcheng Station” Project		89,054.00	22,000.00
3	3D Shejiyun Platform Construction Project		62,318.00	30,000.00
4	Construction Project for New Generation Home Improvement Platform System		62,898.00	35,000.00
5	Repayment of Interest-bearing Debts of the Company		117,000.00	117,000.00
	Total		<u>577,708.73</u>	<u>400,000.00</u>

Note: The total investment amounts of the Foshan Lecong shopping mall project, the Nanning Dingqiu shopping mall project and the Nanchang Chaoyang Xincheng shopping mall project are RMB1,800.00 million, RMB1,000.00 million and RMB1,000.00 million, respectively. In the table, the investment amounts of each project are the subsequent investment amounts required, after deducting the self-owned funds invested by the Company as of the date of the resolution being approved by the Board.

Before obtaining the proceeds from the Issuance, the Company will use its self-raised funds to invest based on the progress of the projects, and will replace the funds with the proceeds obtained, according to procedures specified in relevant regulations.

If the actual net proceeds from the Issuance is less than the proceeds proposed to be invested, the Company will adjust and determine the final amount of proceeds funded to each project, the priority, and the specific investment amount for each project, according to the actual amount of the proceeds and implementation of the projects, and any shortfall will be made up by the Company with its self-raised funds.

Within the scope of the above proceeds funded projects, the Board of Directors of the Company may make appropriate adjustments to the amount of proceeds to be invested in the above projects, according to the actual needs of the projects and procedures specified in relevant regulations.

(XI) Validity Period of the Non-public Issuance Resolutions

The validity period of the Non-public Issuance resolutions is 12 months from the date on which the Non-public Issuance is considered and approved at the General Meeting of the Company.

V. Whether the Non-public Issuance Constitutes a Connected Transaction

As at the issue date of the Plan, target subscribers for the Issuance were not determined. Whether there is a subscription by a related party for the shares of the Company for the Non-public Issuance which constitutes a connected transaction will be disclosed in the issuance report published after the completion of the Issuance. If any of the subscribers is the connected person of the Company, the Company will follow the relevant requirements under Chapter 14A of the Listing Rules.

VI. Whether the Issuance Leads to a Change of Control of the Company

As at the announcement date of the Plan, the total share capital of the Company comprises 3,550 million shares. The Controlling Shareholder of the Company, RSM Holding, holds the voting right of 2,498.3886 million shares (of which RSM Holding's wholly-own subsidiary Changzhou Meikai holds 8.4607 million shares, the RSM Holding 2019 Exchangeable Bond Pledge Account and the RSM Holding 2018 Exchangeable Bond Pledge Account holds 510.1500 million shares and 63.8300 million shares, respectively), accounting for 70.38% of the total share capital of the Company. Mr. CHE Jianxing holds 92.00% equity interest in RSM Holding, and directly holds 0.3960 million shares of the Company, and is the Actual Controller of the Company.

Based on 9,128,876.22 million shares, the maximum number of shares to be issued under the Issuance, the total share capital of the Company upon completion of the Issuance will comprise 44,628,876.22 million shares, and the percentage of voting rights held by RSM Holding will be diluted to 55.98%. RSM Holding will remain the Controlling Shareholder of the Company, and CHE Jianxing will remain the Actual Controller of the Company.

The Issuance will not lead to a change of control of the Company.

VII. Whether the Issuance Will Result in a Breach of Shareholding Requirements for the Company's Listing Status

The Issuance will not result in a breach of shareholding requirements for the Company's listing status.

VIII. Approval of the Issuance Plan and Pending Approval Procedures

Matters in relation to the Issuance have been considered and approved at the 11th extraordinary meeting of the fourth session of the Board of Directors of the Company and the 5th extraordinary meeting of the fourth session of the Board of Supervisors of the Company held on 3 June 2020.

In accordance with relevant laws and regulations, the Issuance is subject to the approval at the General Meeting of the Company and by CSRC.

SECTION II FEASIBILITY ANALYSIS BY THE BOARD OF DIRECTORS IN RELATION TO USE OF PROCEEDS

I. Plan for Use of Proceeds

The proposed total proceeds from the Non-public Issuance by the Company will be up to RMB4,000 million, and the net proceeds after the deduction of issue expenses will be used for the following projects:

Unit: RMB ten thousand

S/N	Project Name		Investment in Project	Proceeds Proposed to be Used
1	Home Furnishing Mall Construction Project ^(Note)	1.1 Foshan Lecong Shopping Mall Project	126,781.96	100,000.00
		1.2 Nanning Dingqiu Shopping Mall Project	60,668.75	56,000.00
		1.3 Nanchang Chaoyang Xincheng Shopping Mall Project	58,988.02	40,000.00
		Subtotal	246,438.73	196,000.00
2	Tmall “Home Decoration Tongcheng Station” Project		89,054.00	22,000.00
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4	Construction Project for New Generation Home Improvement Platform System		62,898.00	35,000.00
5	Repayment of Interest-bearing Debts of the Company		117,000.00	117,000.00
Total			577,708.73	400,000.00

Note: The total investment amounts of the Foshan Lecong shopping mall project, the Nanning Dingqiu shopping mall project and the Nanchang Chaoyang Xincheng shopping mall project are RMB1,800.00 million, RMB1,000.00 million and RMB1,000.00 million, respectively. In the table, the investment amounts of home furnishing mall construction projects are the subsequent investment amounts required, after deducting the self-owned funds invested by the Company as of the date of the resolution being approved by the Board.

If after the proceeds from the Non-public Issuance are obtained, the actual net proceeds are less than the total proceeds proposed to be invested, the difference will be made up by the Company, using its self-raised funds. Meanwhile, the priority and amounts of investments of the proceeds will be adjusted and finally determined by the Company according to factors including the order of priority and actual progress of the projects. The Company will first invest its self-raised funds according to the actual conditions of the above projects, before obtaining the proceeds, and will replace the funds with the proceeds obtained, according to procedures specified in relevant regulations.

II. Information on Proceeds Funded Projects

(I) *Home Furnishing Mall Construction Project*

1. *Background of Project Implementation*

China has seen a stable and rapid development of the national economy for more than 20 years, with rapid growth in economic indicators of the national economy. Under the background of sound and rapid economic development, there is a solid foundation for the development of the home furnishing materials industry. As the rapid growth of the national economy helps improve the spending power of residents, the consumption expenditure for home decoration increases. Under the background, China's home furnishing materials industry grows rapidly. Since home improvement material products have the characteristics of "emphasis on display and space-consuming", it is difficult for ordinary manufacturers or distributors to fully penetrate every market in the region where they operate, with their own channels and retail networks. Therefore, represented by various shopping malls, home furnishing circulation enterprises show a great market value. They work closely with manufacturers or distributors to increase the market penetration of home improvement material products.

Compared with other non-chain enterprises in the industry, enterprises which have nationwide presence are able to collect and integrate various commercial resources, with their scale advantage, thus continuously improving their profitability and risk control capabilities. Therefore, nationwide expansion and large-scale development have become the development trend in the industry. At the present stage, the competition between enterprises in the industry will focus on store location and the improvement in corporate internal management capabilities, including the cultivation and occupation of high-quality business districts in regions, the understanding of the operation of home improvement and furnishing shopping malls, and the ability to implement corporate strategies.

In recent years, according to the characteristics of markets all over China and its development, the Company has further increased its market share and coverage rate, and strengthened its control and influence over the market, through store development. The market demand in megapolises including Beijing, Shanghai, Shenzhen and Guangzhou, where the highest concentrations of home improvement materials circulation industry can be found, is becoming saturated. In regions where the proceeds funded projects are located, such as Foshan, Nanning and Nanchang, the home decoration demands increase with the development of the local economy. Therefore, the establishment of a network of home furnishing malls in these cities by the Company is conducive to improving the strategic arrangement of the Company and further increasing its market share.

2. *Feasibility of Home Furnishing Mall Construction Project*

(1) Compliance with national industrial policies

The State Council, the Ministry of Commerce and other government departments have successively published a number of industry policies and regulations, including the Several Issues on Promoting the Development of Chain Operation, the Several Opinions of the State Council on Promoting the Development of Circulation Industry, the 13th Five-Year Plan for the Development of Domestic Trade Circulation, thus creating a good external environment for the development and operation of the industry. The construction of the proceeds funded projects is conducive to promoting the circulation of home decoration and furnishing products in the market, which is in line with the development direction of the national industrial policy.

(2) Brand and customer resource advantages ensure the development of the Company

The Company is a leading operator of home improvement and furnishing shopping malls in China. As at 31 March 2020, the Company operated 87 Portfolio Shopping Malls, 249 Managed Shopping Malls, and 12 Home Furnishing Malls through strategic cooperation, and authorized the opening of 46 franchised home improvement material projects by way of franchising, including a total of 428 home improvement material stores/industry streets, with a total operating area for Portfolio Shopping Malls and Managed Shopping Malls operated by the Company of 20,999,766.62 sq.m. Through the two-wheel drive development model of Portfolio Shopping Malls and Managed Shopping Malls, the Company occupied properties in prime locations in first and second-tier cities, and accumulated extensive experience in operating shopping malls, constantly strengthened its brand value, and created a relatively high entry barrier.

The Company's strong brand influence, good customer base, and strong advertising help greatly reduce the time and cost of investment promotion, which greatly support the construction of the home furnishing malls. Through the construction of the home furnishing mall projects, the Company is able to continuously and rapidly enhance its market competitiveness and influence in local areas, thus improving the utilization efficiency of the proceeds, effectively ensuring the maximization of shareholder's interests.

(3) Mature investment promotion and cooperation model

The success of the Company's investment promotion is vital to the Company's development. The Company has accumulated rich experience in industry development and management, and has established a set of standard internal operation systems, for the processes from the preliminary feasibility study of a project, planning and design, construction, investment promotion for shopping malls, to opening and operation. Through years of continuous development, the Company has a good brand image and appeal across China. In terms of investment promotion, the Company adopts the model of centralized investment promotion management by the headquarters. Regarding investment promotion, the Company adheres to the principle of openness and fairness, and has established good strategic

cooperative relationships with well-known international and domestic brand merchants, and long-term stable partnerships with manufacturers which have high brand awareness and strong expansion ability, thus ensuring the Company's investment promotion work and the occupancy rate of shopping malls after the openings. Based on the good long-term cooperative relationships, the Company's home decoration products can be supplied stably. Meanwhile, the Company is able to effectively attract consumers through media campaigns, reporting, publicity, print advertising and other means, in investment promotion. The mature investment promotion model of the Company strongly ensures the smooth implementation of the project.

- (4) Accumulation of years of development management and operation management experience of the Company

The Company has established a mature standardization system for shopping mall development and management, ensuring the rapid and continuous development of home furnishing malls of the Company. After years of development, the Company has accumulated rich experience in the development of home furnishing malls, and has formed a set of efficient and sound development processes, including rules and policies on market analysis, project site selection, engineering construction design, merchant introduction, etc. For effective business implementation and development, the Company has a special management department to collect and collate information on all home furnishing malls of the Company, review the opening of the home furnishing malls, and put forward improvement plans for issues in the operation of Portfolio Shopping Malls, Leased Portfolio Shopping Malls and Managed Shopping Malls, and supervise the implementation of the plans. Meanwhile, the Company has always attached importance to the cultivation and introduction of professionals, and has established a mature and sound human resources management system to effectively cultivate, attract and retain management personnel.

Since its establishment, the Company has taken the lead in proposing "one-stop" shopping, adhered to the business philosophy of "market-oriented operation and shopping mall-oriented management", and has established reasonable and effective operation standards and supervision mechanisms for home furnishing malls, in consideration of its corporate culture, industry convention and brand culture. The Company has formulated a sound system for the management of home furnishing malls, covering employee management, after-sales service management, financial management, etc. The Company's rich experience in the management of home furnishing malls will materially ensure the implementation of the project.

3. *Necessity of the Home Furnishing Mall Construction Project*

- (1) Improve the strategic arrangements of the Company by setting up offline stores for new retail business, and enhance its market competitiveness

The Company has as its mission, “building a warm and harmonious homeland and enhancing consumption and lifestyle”. It will continue to follow the operation and management model of “market-oriented operation and shopping mall-oriented management”, so as to provide better and more professional services for consumers, consolidate its market leading position and strengthen the brand image of “Home Furnishing Expert” of “Red Star Macalline” in the consumers’ mind to build the most pioneering and professional “omni-channel platform provider in the home improvement and furnishing industry”.

As there are more restrictions for home improvement and furnishing malls in choosing properties, and those suitable for home improvement and furnishing malls needs to have some characteristics, such as adequate operating area and convenient transportation, therefore, retail properties for home improvement and furnishing in a specific market are extremely rare, and the enterprises that enter in the specific market earlier will hold the advantage of the good geographical location and own the first-mover advantage. The Company plans further improve the network layout of home furnishing malls in the local and surrounding areas by establishing home furnishing malls in Foshan, Nanning, Nanchang and other cities, to meet the Company’s regional development strategy. While further enhancing the local market competitiveness of the Company, the Company will set up offline stores for new retail business of the Company, thus laying a foundation for the layout of the new online and offline retail business.

- (2) Increase the long-term profitability of the Company

The Company has opened home furnishing malls nationwide and has achieved rapid expansion through self-construction, lease and management. The home furnishing mall construction project reflects the Company’s operation model of independent land acquisition, independent operation of shopping malls and creative replication and expansion, ensuring the Company’s continuous and stable cash flow and revenue. The successful implementation of the home furnishing mall construction project will increase the Company’s annual average rental income, thus enhancing its annual average net profit.

(3) Enhance the overall brand value of the Company

In recent years, circulation enterprises for home improvement and furnishing in China have accelerated the pace of chain expansion. The competition in the industry has shifted from the pursuit of the size of the shopping mall to brand building, corporate internal management and the establishment of close partnership. Due to its early entry into the industry and more than 30 years of development, the Company has gradually established a leading position in the home improvement and furnishing industry. While achieving rapid and steady expansion, the Company has become a leader in the industry, with its strengths including effective and coordinated development under the Portfolio Shopping Mall model and the Managed Shopping Malls model and rich customer resources. The awards received by the Company reflect its development achievements and enhance its brand awareness and influence in the industry.

The implementation of the home furnishing mall construction project can further expand the Company's outlets for home improvement and furnishing in shopping mall, improve its nationwide business strategy, and help improve its influence in the industry, the appeal of its brand and the brand bargaining capacity, thus securing a good base for the Company's further expansion and business development.

4. *Information on Projects for Home Furnishing Mall Construction*

(1) Foshan Lecong shopping mall project

1) Basic information

Project name:	Red Star Home Furnishing World Trade Center in Lecong, Foshan
Project company:	Foshan Junda Enterprise Management Co., Ltd. (佛山郡達企業管理有限公司)
Project location:	south of Red Star Macalline, east side of Shuiteng Avenue, Guangzhan Highway, Lecong Committee of Residents, Lecong Town, Shunde District
Land area:	95,431.27 sq.m.
Planned floor area:	270,000.00 sq.m.

2) Project certificates and licenses

Qualification documents obtained for the project are as follows:

<u>Document Type</u>	<u>Document Number</u>
Project establishment approval/filing	Filing Certificate for Investment Projects of Enterprises in Guangdong (filing project No.: 2017-440606-70-03-001801)
Environmental impact assessment approval/filing	Registration Form for Environmental Impacts of Construction Projects (filing No.: 201844060600005241)
State-owned Land Use Certificate	Yue(2018)Shun De Qu Bu Dong Chan Quan No. 2218000559
Construction land planning permit	Di Zi No. 440606201701588
Construction project planning permit	Jian Zi No. 440606201905138
Building engineering construction permit	440606201909170101

3) Project development prospects

Foshan, where the project is located, is a prefecture-level city in Guangdong Province, a city in the Pearl River Delta, an important city in the Guangdong-Hong Kong-Macao Greater Bay Area, an important manufacturing base in China, a national famous historical and cultural city, an important part of “Guangzhou-Foshan Metropolitan Area”, “Guangzhou-Foshan-Zhaoqing Economic Rim” and “Pearl River-Xi River Economic Belt”, a national advanced manufacturing base, and an important manufacturing center in Guangdong. It is in a leading position in the economic development of Guangdong Province. As at the end of 2018, the permanent residents population of the city was 7,905.7 thousand, and the GDP of the city for 2018 was RMB993.588 billion, representing an increase of 6.3% compared with last year. The per capita disposable income of residents for the year was RMB49,630, representing an increase of 8.3% or (after deducting price factors) 6.2% compared with last year; the per capita consumption expenditure was RMB34,053.

As the incomes and consumption level of residents in Foshan gradually increase, their demand for household products grows day by day, along with their increasing demand for quality of life. The construction of the project will meet the higher demand of local residents for quality life, thus further promoting the development of the local home furnishing market.

4) Project investment estimation and economic benefits

The estimation of subsequent investments in the project and the proceeds proposed to be used are as follows:

Unit: RMB ten thousand

<u>Description</u>	<u>Investment in Project</u>	<u>Proceeds Proposed to be Used</u>
Construction investment	108,181.96	100,000.00
Other costs for engineering construction	17,400.00	–
Reserve funds	1,200.00	–
Total	126,781.96	100,000.00

The economic benefits of the project are as follows:

Unit: RMB ten thousand

<u>Description</u>	<u>Indicators</u>
Estimated annual average revenue generated upon the completion of the project	40,548.56
Payback period of the after-tax investment (including the construction period)	11.13 years
After-tax internal rate of return	10.00%

5) Project progress and financing

The construction period of the project is 2 years, and the investment amount is RMB1,267.8196 million, of which the proceeds to be used will be RMB1,000.00 million and the remaining funds will be funds raised by the Company and otherwise.

(2) Nanning Dingqiu shopping mall project

1) Basic information

Project name:	Nanning Red Star Macalline Shibo Furniture Exhibition Center
Project company:	Nanning Red Star Macalline Shibo Furniture Exhibition Center Company Limited (南寧紅星美凱龍世博家居展覽中心有限公司)
Project location:	Intersection of Dingqiu Overpass and Shajing Avenue, Jiangnan District, Nanning City
Estimated total investment:	RMB1,000.00 million
Land area:	45,947.16 sq.m.
Planned floor area:	166,442.00 sq.m.

2) Project certificates and licenses

Qualification documents obtained for the project are as follows:

<u>Document Type</u>	<u>Document Number</u>
Project establishment approval/filing	Information Registration Form (project code: 2018-450105-47-03-038528)
Environmental impact assessment approval/filing	Registration Form for Environmental Impacts of Construction Projects (filing No.: 201945010500000020)
State-owned Land Use Certificate	Gui(2019)Nan Ning Shi Bu Dong Chan Quan No. 0043694
Construction land planning permit	Di Zi No. 450101201900005
Construction project planning permit	Jian Zi No. 450101201900461
Building engineering construction permit	450105201907192101

3) Project development prospects

Nanning, where the project is located, is the administration center of Guangxi Zhuang Autonomous Region, the core city of the Beibu Bay city clusters, the central city in Beibu Bay Economic Zone in China as determined and confirmed by the State Council, and the integrated transportation hub with access to the sea, in the southwest region. As of 2018, the city had 7 districts and 5 counties with a total area of 22,112 square kilometers, a built-up area of 372 square kilometers, a permanent residents population of 7,254.1 thousand and an urban population of 4,526.1 thousand, and an urbanization rate of 62.4%.

GDP of Nanning for 2018 was RMB434.14 billion, representing an increase of 5.4%. The total retail sales of consumer goods for the year increased by 9.0% compared with the previous year, and the retail sales of consumer goods in urban areas rose by 8.9%. The per capita disposable income of urban residents was RMB35,276, representing an increase of 6.2%. The good economic development momentum in Nanning has driven the further development of the local home furnishing market.

As the incomes and consumption level of residents in Nanning gradually increase, their demand for household products grows day by day, with an improvement in the pursuit of quality of life. The construction of the project will meet the higher demand of local residents for quality life, thus further promoting the development of the local home furnishing market.

4) Project investment estimation and economic benefits

The estimation of subsequent investments in the project and the proceeds proposed to be used are as follows:

Unit: RMB ten thousand

<u>Description</u>	<u>Investment in Project</u>	<u>Proceeds Proposed to be Used</u>
Construction investment	58,701.64	56,000.00
Other costs for engineering construction	1,967.11	-
Total	60,668.75	56,000.00

The economic benefits of the project are as follows:

Unit: RMB ten thousand

Description	Indicators
Estimated annual average revenue generated upon the completion of the project	26,305.99
Payback period of the after-tax investment (including the construction period)	12.87 years
After-tax internal rate of return	8.77%

5) Project progress and financing

The construction period of the project is 2 years, and the investment amount is RMB606.6875 million, of which the proceeds to be used will be RMB560.00 million and the remaining funds will be funds raised by the Company and otherwise.

(3) Nanchang Chaoyang Xincheng shopping mall project

1) Basic information

Project name:	Nanchang Red Star Macalline Global Home Expo Center
Project company:	Nanchang Red Star Macalline Global Home Expo Center Co., Ltd. (南昌紅星美凱龍環球家居博覽中心有限責任公司)
Project location:	North of Jiuzhou Avenue, west of Ziyu Road, south of Huwei Road, east of Taohua South Road, and adjacent to Nanchang Zoo on the west side, to Chaoyang Tiancheng Residential District on the north side and the Evergrande Residential District on the south side, Xihu District, Nanchang City
Estimated total investment:	RMB1,000.00 million
Land area:	56,874.00 sq.m.
Planned floor area:	188,705.55 sq.m.

2) Project certificates and licenses

Qualification documents obtained for the project are as follows:

<u>Document Type</u>	<u>Document Number</u>
Project establishment approval/filing	Notice on Filing for Investment Projects of Enterprises in Jiangxi (project code: 2017-360103-72-03-020908)
Environmental impact assessment approval/filing	Registration Form for Environmental Impacts of Construction Projects (filing No.: 201836010300000087)
State-owned Land Use Certificate	Gan(2018)Nan Chang Shi Bu Dong Chan Quan No. 0168945
Construction land planning permit	Di Zi No. 360100201700161
Construction project planning permit	Jian Zi No. 360100201900175 Jian Zi No. 360100201900176 Jian Zi No. 360100201900177 Jian Zi No. 360100201900178
Building engineering construction permit	360103201905270201

3) Project development prospects

Nanchang, where the project is located, is the provincial capital of Jiangxi Province, the core city of the Poyang Lake city cluster, the political, economic, cultural, scientific, educational and transportation center of Jiangxi Province, and the important central city in the middle reach of the Yangtze River which is determined with the approved by the State Council. In 2018, the GDP of Nanchang was RMB527.4 billion with a growth rate of 5.43%, representing a year-on-year increase of RMB27.1 billion, and Nanchang ranked first in terms of GDP in the province. In 2018, the total registered population in Nanchang was 5,318.8 thousand, of which the urban population was 2,945.5 thousand, with the urbanization rate of the registered population reaching 55.38%. As at the end of the year, the permanent residents population was 5,545.5 thousand. In 2018, the per capita disposable income of urban residents in the city was RMB40,844, representing an increase of 8.4%, and the per capita consumption expenditure of urban residents was RMB26,081, representing an increase of 7.4%.

As the incomes and consumption level of residents in Nanchang gradually increase, their demand for household products grows day by day, with an improvement in the pursuit of quality of life. The construction of the project will meet the higher demand of local residents for quality life, thus further promoting the development of the local home furnishing market.

4) Project investment estimation and economic benefits

The estimation of subsequent investments in the project and the proceeds proposed to be used are as follows:

Unit: RMB ten thousand

<u>Description</u>	<u>Investment in Project</u>	<u>Proceeds Proposed to be Used</u>
Construction investment	48,183.24	40,000.00
Other costs for engineering construction	10,804.78	–
Total	58,988.02	40,000.00

The economic benefits of the project are as follows:

Unit: RMB ten thousand

<u>Description</u>	<u>Indicators</u>
Estimated annual average revenue generated upon the completion of the project	14,241.76
Payback period of the after-tax investment (including the construction period)	13.21 years
After-tax internal rate of return	5.95%

5) Project progress and financing

The construction period of the project is 2 years, and the investment amount is RMB589.8802 million, of which the proceeds to be used will be RMB400.00 million and the remaining funds will be funds raised by the Company and otherwise.

*(II) Tmall “Home Decoration Tongcheng Station” Project**1. Background of Project Implementation*

On May 24, 2019, the Company and Alibaba (China) Technology Co., Ltd. (hereinafter referred to as “Alibaba”) entered into the Strategic Cooperation Agreement, pursuant to which the parties will carry out comprehensive and deep strategic cooperation in construction of new retail stores and e-commerce platforms, and the logistics, warehousing, distribution and installation service provider system, consumer finance, integrated business form, payment system and information sharing. In the past six months, both parties achieved a number of phased results in big data applications, digital upgrade of shopping malls and online and offline integrated marketing.

The Tmall “Home Decoration Tongcheng Station” project is an important part of the strategic cooperation between the Company and Alibaba, with an aim of jointly creating the local new home furnishing retail business, with Alibaba online traffic and the offline stores of Macalline. The online Tongcheng Station, namely the “Official Flagship Store of Red Star Macalline” on Tmall platform (hereinafter referred to as the “Tongcheng Station”) uses the LBS¹ technology, for localized product display and provisions of localized services, and can present localized product interfaces to consumers online according to their geographic location.

After a consumer logs into the “Tongcheng Station” interface, the background system will locate the geographical position of the consumer and automatically generate an interface of the “Tongcheng Station” for a specific city. Consumers can choose and buy household products from offline shopping malls of Macalline in the same city without going out, and know about the details of the goods through various means including picture, video and 3D scenario. After selecting specific commodities, consumers can buy them online or in a nearby store, and may simultaneously select value-added services including extended warranty and Credit Pay (花呗) installment payment. After placing an order, the consumer can choose to pick up the commodities in an offline store or require brand distributors to deliver and install the commodities. “Product listing, ordering, payment and services” are integrated through connection to the systems of Alibaba and Macalline.

¹ Location Based Services (LBS) use various location technologies to locate the geographical position of a positioning device, and provide information resources and basic services to the positioning device through mobile Internet.

2. *Feasibility of Tmall “Home Decoration Tongcheng Station” Project*

Since Alibaba became the shareholder of Macalline in May 2019, both parties have carried out strategic cooperation in strategic investment, construction of new retail stores and online e-commerce platforms, etc. The Tmall “Home Decoration Tongcheng Station” project represents deep cooperation between both parties in new retail and consists of two main parts, namely merchant operation and merchandise operation.

(1) Merchant operation

Merchant operation represents a core model of cooperation between Macalline and Alibaba on the online e-commerce platform. By building a localized home building materials flagship store based on the urban dimension, it will promote new retail changes in the home improvement and furnishing industry from the two directions of focusing on local consumption and enhancing shopping experience. Under this cooperation model, the Company accurately matches the needs of consumers by digitizing shopping malls and merchandise. While increasing the shopping efficiency of consumers, it also meets consumers’ needs for online and offline services of the same quality and the same price, thereby facilitating the rapid increase of online and offline traffic of merchants.

(2) Merchandise operation

The demand for merchandise operation is based on the rapid increase in the proportion of young consumers and the characteristics of the industry. It is a necessary supplement under the model of the merchant operation of the Tongcheng Station. It represents an active attempt to realize the transformation of the home improvement and furnishing industry to the new retail.

Merchandise operation will help continuously improve the word of mouth and achieve rapid growth in sales, through mutual empowerment between offline stores and online Tongcheng Station, and through the coordinated optimization of the rapid supply chain capability, online and offline integrated operation capability and service capability of new retail.

3. *Necessity of Tmall “Home Decoration Tongcheng Station” Project*

Over a long period, online and offline consumption for home improvement and furnishing have not really integrated, and the response in the home furnishing industry to new concepts and technologies has lagged behind the response in other standard product industries. The products of home improvement and furnishing industry have the market particularities of high fragmentation, correlation and complexity, and the products of the industry have the commodity characteristics of low frequency of purchase, high average order value, emphasis on experience and high individuation. Besides, the degree of intellectualized reconstruction in the industry is relatively low with the result that the large consumer market with huge potential has not been integrated on a large scale, which is reflected by the low degree of brand convergence and the insufficient online and offline integration.

In recent years, enterprises in industries have started the “transformation to new retail”. The home improvement and furnishing industry also shows an urgent need for the transformation to “new retail”. How to eliminate the significant information asymmetry between the e-commerce system and the distributor system so as to enable consumers to buy the same products online, which are high-price and quality, as those provided offline, is an urgent problem confronting brand owners, distributors and home furnishing malls.

The Tmall “Home Decoration Tongcheng Station” project plays to the respective strengths of Alibaba and Macalline. It enables accurate matching on a city-by-city basis through the digital transformation closer to the home improvement and furnishing industry. Meanwhile, it helps effectively solve pain points in the industry and realize the efficient transformation to the new retail model, in line with the current consumption trend, based on the strategy of providing products and services online and offline at the same price with the same quality. Through the effective use of design tools and Internet-based means, it helps realize the efficiency improvement in the industry and design cost reduction, and enables users to use virtual furniture to complete home decoration, achieving the target of what they see is what they get, thus greatly improving the user’s consumption experience.

4. *Basic Information on Tmall “Home Decoration Tongcheng Station” Project*

(1) Contents of construction and project company

The project will deepen the localized new home furnishing retail business of the Company, with Alibaba online traffic and the offline shopping malls of Macalline, under merchant and merchandise operation, focusing on solving the current pain points of low integration efficiency resulting from information asymmetry between online and offline businesses in the home improvement and furnishing industry, optimizing the shopping experience of consumers, thus achieving rapid sales growth.

Contents of the construction are as follows:

1) LBS-based new retail commodity platform

Through localized brand and distributor operation, the quality goods and services of offline shopping malls will be listed on the Tmall platform, to create a new retail commodity platform for home improvement and furnishing industry under the principle of “the same quality and price in the same city”, with the strong commodity retail capability of Alibaba ecology.

2) Marketing and promotion platform with online and offline integration as the core

Under the empowerment by the new retail commodity platform for home furnishing and through merchant operation, and user analysis and recommendation, cooperation with Alibaba will be carried out in building an online and offline integrated marketing and promotion platform with promotion activities including “Tmall 618”, “Super Brand Day” and “Tmall double 11” as the core, so as to solve pain points of low frequency of purchase in consumption for home furnishing, and improve the operation efficiency.

3) Multi-scenario, highly-focused and professional live-broadcasting platform

Consumption for home furnishing focuses on experience and personalization, which naturally corresponds to live stream marketing. With a focus on “Taobao Live Streaming (淘寶直播)”, one of the largest live broadcasting platforms in China at present, we will build a professional live broadcasting platform for the home improvement and furnishing industry by making use of existing store, merchant, shopping guide and designer resources of Red Star Macalline, and in the form of live broadcasting including visit to stores, factories and construction sites.

The project will be implemented by Red Star Macalline Yuejia Network Technology Company Limited (紅星美凱龍悅家互聯網科技有限公司) and Shanghai Anjia Network Technology Company Limited (上海安家網絡科技有限公司), both of which are wholly-owned subsidiaries of the Company.

(2) Project investment estimation

The total project investment of RMB890.54 million will be mainly used for platform construction and payment of operating expenses, labor costs and capital investment related to operation, and may include the proceeds of RMB220.00 million from the Non-public Issuance of shares.

(3) Project benefit forecast

After the project is completed and reaches the designed capacity, the project is expected to generate good economic benefits with an annual average sales revenue of RMB714.63 million, the payback period of the after-tax investment being 6.8 years (including the construction period), and the after-tax internal rate of return being 15.19%.

(4) Project approval or filing

As at the announcement date of the Plan, the filing matters of the project are being handled.

*(III) 3D Shejiyun Platform Construction Project**1. Background of 3D Shejiyun Platform Construction Project Implementation*

According to the latest statistics, the total number of home decoration companies in China exceeds 100 thousand. Home furnishing industry has the problems of low technicalization, informatization, and slow digitalization process. With the transformation of the home decoration market from a potential market to an existing market, this is a development opportunity for the digitization of home decoration enterprises, and innovation will be the core driving force for the growth of enterprises in the future.

At present, the traditional home furnishing design business is mainly carried out through plan renderings for decoration in serving customers. However, the shortcomings of the display method are obvious, such as undiversified form, poor display effect, long production cycle and poor interactivity. In addition, the customer's aesthetic fatigue in this way of expression prevents the designer from quickly grasping the user's needs and effectively transforming it.

At present, designers mostly use locally-stored common models when making design renderings for cost considerations, and due to the fact that current home improvement material products are continuously shortened in the update iteration cycle, the commodity models lack circulation and sharing, so commodity modeling will incur very high costs but generate extremely low benefits. Therefore, designers and manufacturers have insufficient motivation for modeling based on real commodities, and seldom perform modeling of home furnishing commodities for design based on the actual needs of users, resulting in the inconsistency between beautiful rankings and decoration results, failing to achieve the target of what users see is what users get.

*2. Feasibility of 3D Shejiyun Platform Construction Project**(1) Extensive market resources*

Through years of operation accumulation in the industry, the Company has maintained long-term and stable cooperation with 13,000 brand merchants and 46,000 distributors. Therefore, the Company has the industry resources required for project development. Upon success of this project, brand merchants can timely promote digital product models, and the sales efficiency of the stores will be greatly improved, which will help the Company continue to deepen the cooperation with brand merchants and other companies.

(2) Essential technologies for project development

The main technologies used in this project are dual-engine technology, AI technology and big data technology. The dual-engine technology can realize full parameterization and physical rendering, which will provide more accurate designs and more realistic light and shadow effects in the model. Based on AI technology, the 3D cloud design can intelligently match various design styles with consumer needs, and provide direct presentation in real house scenarios and structures. Designers can provide customers with the best solution for the product mix based on this, so as to achieve the improvement of user experience and designer efficiency.

Besides, after the platform construction is completed, big data technology can be used to manage and analyze data such as user information, user habits and home improvement plans, thus realizing the management and automatic processing of home improvement models. In order to maintain the core technology of the Company, the Company is actively applying for intellectual property rights such as software copyrights and invention patents, which will ensure the smooth implementation of the project.

(3) Excellent teams

Currently, the project team has a total of 154 employees. Its core team members have work experience in renowned domestic and foreign enterprises such as The Home Depot, B&Q and AutoDesk, and is equipped with rich industry experience and world-leading software technologies.

3. *Necessity of 3D Shejiyun Platform Construction Project*

(1) Promote the digital development of the home improvement and furnishing industry

Though the home improvement and furnishing industry has experienced more than 20 years of development in China, the need to accelerate the pace of industry development through digitalization is increasing. With the continuous improvement of technological level the cost of digitalization has been reduced by cloud computing and digital modeling technologies. Through the development, construction and operation of cloud design platform project, the home improvement and furnishing industry will fully introduce digitalization, intelligence, VR panorama and other technologies which can drive the digital transformation of the interior decoration industry.

(2) Promote the reshaping, transformation and upgrading of business models of the home improvement and furnishing industry

With the continuous improvement in Internet coverage and changes in the age structure of consumers, the proportion of online shopping continues to increase. As such, many home improvement brands have launched online businesses. However, due to the low digitalization level of product models in the industry, even e-commerce platforms are only displaying product images with no products display in the house space scenarios of users. Therefore, it is difficult to make breakthroughs in online sales due to the lack of product experience for online customers.

Since the outbreak of COVID-19 in 2020, home improvement and furnishing shopping malls and stores were unable to open normally. Affected by the epidemic, traditional offline marketing activities cannot be carried out as normal, the traditional business models are in more urgent need of transformation and upgrading.

The construction of the project will integrate digital technologies, and form a new model combining online design, online communication and online marketing, which can provide consumers with a solution to home decoration and experience of ‘what you see is what you get’. The project will support home improvement brands in carrying out online businesses, thus promoting the reshaping, transformation and upgrading of business models of the home improvement and furnishing industry.

- (3) Empower interior designers to serve customers, and accelerate the development of enterprises

At present, interior designers are mainly using drawing and rendering tools based on two-and three-dimensional software (such as AutoDesk and 3dsMax) in their work, which lead to high learning costs and complicated operations. Due to the lack of funds and technical capacities to deploy centralized high-performance computing centers and decentralized software technology platforms, home improvement companies are facing problems including long design cycles, unable to enhance delivery of design plans and failure to satisfy users, which significantly reduce the customer conversion efficiency. The cloud design platform will rely on Internet-based technologies to promote the in-depth and integrated application of cloud design, big data and intelligence technologies, which will provide interior designers with high-efficient and low-cost design tools and resources and enable designers to provide better services to customers.

4. *Basic Information on the Project*

- (1) Contents of construction and project company

The project, based on technologies such as big data, cloud computing and AI technology, is committed to creating an integrated platform for intelligent and immersive home improvement design and interaction, promoting and informationization and upgrading of the home improvement and furnishing industry. Main contents of the project include:

- 1) Development of online intelligent 3D cloud design software for home improvement

With the dual-engine technology of “full parameterization and physical rendering” as the core, the project will carry out in-depth research and development in AI technology and cloud rendering technology to provide industry-leading functions such as one-click layout, intelligent matching, search models via picture, intelligent recommendation and 12K panorama.

- ① Develop AI intelligent design

The platform can be used to recommend best products and product portfolios for the design plan through machine learning, model application data, product portfolio and combination data, designer application data and user profile information.

② Build a house model database

Through quick search of house model, sample houses and product portfolio solutions, designers can match a standard house model in an instant, thus greatly enhancing efficiency.

③ Establish a 3D model database of real products

Designers can use the real product model design plans of various brands through the Shejiyun Platform. At the same time, through Shejiyun Platform, distributors can also design sample houses equipped with products, so that customers can directly call and display sample houses at stores, thereby providing customers with high-quality and scenario-based consumer experience at low cost.

④ Panoramic multimedia interaction and display services

Based on the traditional dialogue mode, the platform can provide an innovative interaction mode to make up the deficiency in VR that it only provides single-person experience, and realize multi-person immersive experience and real-time preview of decoration plans, providing customers with a better consumer experience.

2) Marketing and promotion plan of Shejiyun Platform

We will continue to promote the Shejiyun Platform through activities such as media promotion and participation in industry summits, so as to promote popularity, recognition and utilization among users and expand coverage of the Shejiyun Platform across China.

The project will be implemented by Shanghai Red Star Macalline Cloud Design Information Technology Company Limited (上海紅星美凱龍設計雲信息科技有限公司), a wholly-owned subsidiary of the Company.

(2) Project investment estimation

The total project investment is RMB623.18 million, which is mainly used as the construction and operation expenses of the platform, labor costs and capital investment related to its development. The proceeds of RMB300 million from the Non-public Issuance of Shares will be invested in the project.

(3) Project benefit forecast

Upon its completion and full operation, the project is expected to generate annual sales income of RMB502.70 million. The after-tax payback period (including construction period) is 6.77 years, and the after-tax internal rate of return is 13.28% with sound economic returns.

(4) Project approval or filing

The Filing Certificate for Investment Projects of Enterprises in Shanghai has been obtained for the project.

In accordance with the Classified Management Catalogue for Environmental Impact Assessment of Construction Projects (Decree No.44 of the Ministry of Environmental Protection) and the Types of Projects Excluded From Environmental Impact Assessment Management of Construction Projects in Shanghai (2019) and other regulations, no environmental impact reports, environmental impact report forms or environmental impact registration forms are required to be prepared or completed for the project.

(IV) Construction Project for New Generation Home Improvement Platform System

1. Background of the Implementation of Construction Project for New Generation Home Improvement Platform System

According to the Report of Market Prospective and Investment Strategic Planning on China Home Improvement Industry issued by the Qianzhan Industry Institute (前瞻產業研究院), the market size of the furnishing and decoration industry in China has exceeded RMB2 trillion by 2017. According to forecasts, the market size of the furnishing and decoration industry in China will reach RMB2.6 trillion by 2020, maintaining a compound annual growth rate of approximately 7%.

From the perspective of consumer groups, post-80s and post-90s consumers account for a relatively high proportion of consumers in the home improvement and home furnishing market, with increasing demand for overall home furnishing and home improvement solutions. The all-inclusive decoration has advantages in the sense of technology, diversified options of style and unified standards, which becomes popular in the market. Consumers pay more attention to quality of consumption and experience, and tend to choose intelligent and technological products customized for the whole house, thereby promoting the development of home furnishing towards high-end and quality.

However, despite the huge market capacity development potential, the home improvement industry is slow in reforms due to huge market capacity. The home improvement industry is facing difficulties resulted from backward management mode, low standardization and unable to ensure delivery quality. At present, home improvement companies have many problems that restricts the further development of the industry, such as low entry barriers, high cost in customer acquisition, long industrial chain, multiple participants, high customer turnover and lack of technologies in the industry.

In order to cope with the problems stated above, the Company intends to upgrade production tools with modern information technologies, so as to capture more market share. The Company will build the middle and back end of the home decoration system through the online and offline integration, to comprehensively improve the efficiency of home decoration, batch home decoration and common area decoration businesses.

2. *Feasibility of Construction Project for New Generation Home Improvement Platform System*

The Company has accumulated technical strengths and experience over the years, which will provide a reliable foundation for the Construction Project for New Generation Home Improvement Platform System, as follows:

- (1) Our technical strength will provide guarantee for the middle-end technical platform construction

With the development of times, new technologies and concepts have been gradually mature and have been used in the home improvement industry. Such new technologies and concepts mainly include penetration of VR, robot technologies, cloud design, BIM, big data, and assembly technologies. The development of these new technologies and concepts has laid a foundation for this project.

- (2) Our complete supply chain and efficient delivery capabilities will provide support for the platform construction

The Company has a complete supply chain system, which can provide powerful support for the construction of the home improvement supply chain platform. The home improvement supply chain platform mainly includes product development, intelligent cloud warehousing and the construction of delivery system.

Through the one-stop F2C supplier investment operation mode, the Company can establish an open supply chain platform, which enables as many suppliers and distributors to join the supply chain as possible and improves the supply capacity of the Company. Meantime, the Company is also preparing for the establishment of “intelligent cloud warehouse”, which can analyze the information on supplier warehousing and logistics through the big data, coordinate the logistics and distribution services for distributors in a unified manner, and provide after-sales service including on-site measurement and installation. As such, the integrated supply system can reuse warehousing resources of the integrated supply chain, thus reducing operating costs and improving operating efficiency.

In the process of product delivery and realization, the quality of the decoration is difficult to control due to numerous service links, independence of materials and construction control, which will also affect the result of decoration, price and construction period. Therefore, the Company has established a unified standard process for business operation, supply chain management and construction management, thus realizing standardized delivery and ensuring the quality of delivery. In addition, the Company will continue to improve the construction and delivery system through the construction of the project command center platform and the construction site visualization project, so as to enhance the customer experience.

- (3) The construction of process quality platform meets the needs of industry development

As many provinces and municipalities in China have successively issued guidelines and related supporting measures for prefabricated buildings and the industrialized development of buildings, the prefabricated decoration will be the future trend of the industry. The prefabricated interior decoration project has realized the integrated design covering architecture, structure, decoration and equipment, and is suitable for simultaneous and interpenetrating construction of processes such as structure, decoration and equipment installation, which will also effectively reduce the working hours, labor forces and repair rate.

In order to further improve its technological quality in decoration engineering, the Company plans to build a fabricated assembly R&D and design center, mainly including the establishment of a process research and development workshop, a fabricated construction research and development workshop, a process display area, a fabricated product display area, a workers' industrialization training room and a fabricated practice base. This will help greatly improve the quality of the Company's home decoration products and services and the labor productivity, save labor and costs, shorten the construction period and improve benefits, and reduce the waste of raw materials, noise, dust, construction waste and other pollutants.

- (4) The construction of intelligent marketing platform will further enhance the Company's capabilities in customer acquisition

The Company will promote the construction of intelligent marketing platform for home improvement, which will integrate shopping malls and online and offline marketing scenarios of home improvement, and maintain data on sales information and customer experience, so as to improve the conversion rate of orders. Main measures include offline joint marketing, online intelligent marketing and word-of-mouth marketing.

In terms of online and offline joint marketing, as of 31 March 2020, the Company operated 87 Portfolio Shopping Malls, 249 Managed Shopping Malls, and 12 home furnishing malls through strategic cooperation, and authorized the opening of 46 franchised home improvement material projects by way of franchising, including a total of 428 home improvement material stores/industry streets, with a total operating area for Portfolio Shopping Malls and Managed Shopping Malls operated by the Company of 20,999,766.62 sq.m. The large number of offline shopping mall pipelines provides a solid foundation for the Company to enhance its marketing and customer acquisition capabilities.

Meanwhile, the Company will build a traffic entrance through tools such as mini programs for mobile-end products, and form a marketing system and conversion logic to approach users, thus enhancing the company's ability to acquire customers through smart marketing.

In addition, the Company is also committed to word-of-mouth marketing based on existing customer resources, and improve customer recommendation relying on our high-quality services, thereby reducing customer acquisition costs. Through the intelligent marketing platform, existing customers of the Company are expected to bring more potential customers.

- (5) The construction of design and R&D platform will contribute to unified standards for home improvement business

The construction of design and R&D platform mainly includes: 1) establishing and improving standards for various business design bidding and design effects in the decoration industry group; 2) establishing a new grading management system for designers according attributes of the industry and actual conditions of the Company, so as to improve the grading management system for designers and optimize the functions and organization of the Design Institute; 3) releasing fashion trend of home improvement based on actual conditions of our businesses and combining the development direction and design trend of domestic and international decoration industry; 4) creating high-quality platforms in cooperation with renowned domestic and international interior design competitions; improving the organization platform of M+ Design Competition to provide opportunities for designers in the industry.

3. *Necessity of Construction Project for New Generation Home Improvement Platform System*

- (1) Conform to the industry trend of fully furnished services

With the upgrading of consumption level and consumption concepts, the young consumer groups are more tending to fully furnished home improvement. The construction of this project is in line with the industry trend of fully furnished services, which will enable the Company to further expand its share in home improvement market and enhance its competitiveness.

- (2) Enhancing the overall brand value of the Company

Through the Construction Project for New Generation Home Improvement Platform System, the Company will build a powerful middle and back-end, which will empower the innovation and breakthroughs of shopping malls and develop core competitiveness of the Company. The construction of the project will expand and effectively supplement principal businesses of the Company, and support the synergy with operation businesses of existing home improvement and furnishing shopping malls, thereby further enhancing core competitiveness and brand influence of the Company.

- (3) Creating IP for renowned designers

In order to create an IP platform for renowned designers, the Company will, in cooperation with renowned domestic and international designers, pool together home improvement platform design capabilities through the M+ China Top Interior Design Award, the IP platform will provide designers with growth and training opportunities, with a view to cultivating more renowned designer IPs.

4. *Basic Information on the Construction Project for New Generation Home Improvement Platform System*

(1) Contents of construction and project company

The project will, relying on existing technologies and industry resources of the Company, build a complete of new generation home improvement platform covering from middle-end technical platform to the supply chain platform, process quality platform, design and development platform and intelligent marketing platform. In addition to penetrate all business lines of the Company and integrate and optimize all business links, the project will further improve the efficiency of home improvement business, and generate synergy effects between home improvement and related businesses with operation businesses of existing home improvement and furnishing shopping malls.

The platform mainly involves online construction of informatization systems, and offline construction of technology centers and fabricated assembly R&D and design centers. Online construction of informatization systems mainly include the establishment of a middle platform for business sharing and a bank of components for business process nodes to provide system support for the rapid, diversified and flexible development of decoration-related businesses, and the integration of the bottom layer and the Company's existing basic service system to quickly establish a strong and stable SaaS systems for decoration industry groups, and the development of ERP business management systems, mini program, smart marketing, middle platforms for electronic contracts, and other tools. Offline construction of technology centers mainly includes the establishment of core areas including server rooms, professional research and development areas, product testing areas, technology exchange and display areas to provide strong infrastructure support for the online construction of informatization systems. Offline construction of fabricated assembly R&D and design centers mainly includes the establishment of a process research and development workshop, a fabricated construction research and development workshop, a process display area, a fabricated product display area, a workers' industrialization training room and a fabricated practice base.

After the completion, the project will provide strong service support for the systematic management platform of the Company's home decoration business. Meanwhile, it will optimize the supply chain and process quality of the Company's home decoration business and improve the intelligence, technicalization and high-performance support for home decoration, so as to adapt to the rapid and diversified development of the decoration business.

The project will be implemented by Betterhome Construction Technology Co., Ltd. (家倍得建築科技有限公司), a 90% holding subsidiary of Macalline.

(2) Project investment estimation

The total project investment is RMB628.98 million, which is mainly used as the operating expenses related to system construction, labor costs and capital investment related to system construction. The proceeds of RMB350 million from the Non-public Issuance of Shares will be invested in the project.

(3) Project benefit forecast

The construction period of the project is 2 years. The project will not directly form products and external sales, nor generate any direct economic benefits. However, upon its completion, the project can indirectly bring huge benefits to the development of the Company. In the highly competitive home improvement market, the project will further optimize the Company's resource allocation in home improvement and related systems and enhance operating efficiency, thus ensuring the Company to better ride on the development tide of the industry.

(4) Project approval or filing

As at the announcement date of the Plan, the filing matters of the project are being handled.

(V) Repayment of Interest-Bearing Debts of the Company

1. Basic Information on the Project

The Company intends to use RMB1,170 million of proceeds from the Non-public Issuance to repay interest-bearing debts including corporate bonds. In case of any balance after repayment corporate bonds, it will be used to repay bank loans of the Company.

As approved by the "ZJXX [2019] No. 628" document issued by the CSRC, the Company issued "Public offering of Corporate Bonds of 2019 of Red Star Macalline Group Corporation Ltd. (First tranche)" to qualified investors in June 2019. The Bond had an issuance size of RMB2 billion with an annualized return of 5.35%, the fixed interest rate of which shall be repaid annually. The Company is entitled to the option to adjust the coupon rate at the end of the second year, and investors are entitled to the redemption option.

According to the Prospectus of corporate bonds, the Company is entitled to deciding whether to raise the coupon rate for the next 2 years at the end of the second year of the Bond. If the Company does not exercise the option to raise the coupon rate, the coupon rate of the Bond will remain unchanged at the original coupon rate. According to the redemption terms of the Corporate Bond, following the Company's issuance of announcement regarding whether to adjust the coupon rate of the Bond and the adjustment range, the bond holders are entitled to the option to register within the redemption registration period to sell back all or part of the Bond to the Issuer at nominal value, or the option to continue to hold the Bond and accept the above adjustment.

Therefore, the Company intends to use the proceeds from the Issuance to repurchase part of the Corporate Bond. In case of any balance of the proceeds from the Issuance following repurchasing the Corporate Bond, it will be used to repay operating bank loans of the Company that are still within the borrowing period.

2. Necessity and Feasibility of the Project

In recent years, although the Company has taken proactive measures to reduce the asset-liability ratio, the overall asset-liability ratio of the Company remains at a relatively high level. At the end of the years 2017, 2018 and 2019, the Company's asset-liability ratio on a consolidated basis were 54.72%, 59.14% and 59.95%, respectively, representing a continuous upward trend.

In addition, in the years 2017, 2018 and 2019, the financial expenses of the Company on a consolidated basis were RMB1.132 billion, RMB1.533 billion and RMB2.26 billion, respectively. With the development of the Company's businesses, the financial expenses recorded year-on-year increase. The increasing asset-liability ratio has weakened the Company's risk-resistance capability to some extent, and restricted the Company's financing capability, which exposed the Company to higher financial risks. Meantime, the large number of interest-bearing liabilities have increased the Company's financial costs, leading to high financial expenses for a long time, which directly affects the operating performance of the Company.

The Company intends to use proceeds from the Non-public Issuance to repay interest-bearing debts in accordance with its actual business needs, which will reduce interest expenses, capital pressure and financial burden of the Company and improve its asset-liability structure and profitability. It will create more values for shareholders, and is in line with the interests of the Company and all shareholders.

In summary, the Company's intention to use RMB1,170 million of proceeds from the Non-public Issuance to repay interest-bearing debts will ease its short-term debt repayment pressure, enhance its capability to resist financial risks, improve its asset-liability structure, reduce interest expenses, and improve its profitability, capital strength and financing capability, which will lay a solid foundation for the stable and healthy development of the Company in the future and realize sustainable and healthy development. Therefore, such intention is necessary and feasible.

III. The Impact of the Issuance on the Company's Operation and Management and Financial Position

(I) The Impact of the Issuance on the Company's Operation and Management

The utilization of the proceeds is in line with relevant national industry policies and the strategic development direction of the Company, which shows excellent market prospects and economic benefits. The construction project for home improvement and furnishing shopping malls is closely related to the business development strategic planning of the Company. The expansion of scale will enhance brand awareness of the Company, and improve its strategic

layout. With further improvement in market share and market competitiveness, the Company will be more capable to negotiate prices with merchants, which is conducive to further enhancing the Company's profitability. Tmall "Home Decoration Tongcheng Station" construction project will give full play to respective advantages of Alibaba and Macalline. Through the digital transformation which are more closely connected to the home improvement and furnishing industry, the Company can provide targeted match services at city level. Combining current consumer trends and the strategy of the same quality and price for online and offline product and services, the Company can effectively solve pain spots of the industry, and realize high conversation of the new retail model. The 3D Shejiyun platform construction project will empower enterprises with service capabilities such as online design, online communication and online marketing, and enhance the competitiveness of home improvement companies, leading to rapid growth and development. The Construction Project for New Generation Home Improvement Platform System will expand and effectively supplement home improvement and related businesses, and support the synergy with operation businesses of existing home improvement and furnishing shopping malls, thereby further enhancing core competitiveness and brand influence of the Company.

In addition, upon repayment of interest-bearing debts of the Company using part of proceeds from the Issuance, it will improve the Company's capital structure and reduce its financial expenses, thereby enhancing the overall operation and profitability of the Company.

(II) The Impact of the Issuance on the Company's Financial Position

Upon the receipt of proceeds from the Non-public Issuance, the Company's financial position will be further improved and its total assets and net assets will increase accordingly, while its asset-liability ratio will decrease, so that the financial strength, anti-risk capability and subsequent financing capability will be enhanced. Upon completion of the Issuance, since the net assets of the Company will increase and proceeds funded projects have a certain construction period, the return on net assets will decline and the earnings per share will be diluted in the short term. Upon completion of the Issuance, the listed company will receive a large amount of cash inflows from the proceeds, and cash inflows from financing activities will increase significantly. In the future, with the implementation of proceeds funded projects and the gradual reflection of project benefits, the revenue generating the Company's principal businesses will increase, its profitability will be improved, and its return on net assets and earnings per share will gradually increase.

IV. Conclusions of Feasibility Analysis of Proceeds Funded Projects

In summary, the Non-public Issuance is in line with relevant national industry policies, industry development trends and the strategic goals of the Company, which shows excellent development prospects. The Issuance will enhance the long-term and sustainable development capabilities of the Company, and improve the synergy among businesses and the core competitiveness of the Company. Meantime, the Issuance will optimize the Company's capital structure and reduce its financial risks. The implementation of proceeds funded investment will improve the strategic layout of the Company, strengthen its competitiveness in the market, enhance its mid-and long-term profitability and increase its overall brand value.

SECTION III DISCUSSION AND ANALYSIS BY THE BOARD IN RELATION TO THE IMPACT OF THE NON-PUBLIC ISSUANCE ON THE COMPANY

I. Changes in Business and Asset Integration Plans, Articles of Association, Expected Shareholder Structure, Senior Management Structure and Business Revenue Structure of the Company Upon the Issuance

(I) Whether There Will be Integration Plans for the Principal Business and Assets of the Company After the Issuance

After the completion of the Issuance, the Company's principal business will remain unchanged, and there will be no plans for business and asset integration as a result of the Non-public Issuance.

(II) Whether the Articles of Association of the Company Will be Amended After the Issuance

After the completion of the Issuance, the Company will amend the Articles of Association with regard to the registered capital and share capital structure, and register industrial and commercial changes. Except the above amendments, the Company does not have a plan to amend the Articles of Association for the time being.

(III) Impact of the Issuance on the Shareholder Structure

As at the announcement date of the Plan, the total share capital of the Company comprises 3,550 million shares. The Controlling Shareholder of the Company, RSM Holding, holds the voting right of 2,498.3886 million shares (of which RSM Holding's wholly-own subsidiary Changzhou Meikai holds 8.4607 million shares, the RSM Holding 2019 Exchangeable Bond Pledge Account and the RSM Holding 2018 Exchangeable Bond Pledge Account holds 510.1500 million shares and 63.8300 million shares, respectively), accounting for 70.38% of the total share capital of the Company. Mr. CHE Jianxing holds 92.00% equity interest in RSM Holding, and directly holds 0.3960 million shares of the Company, and is the Actual Controller of the Company.

Based on 912,887,622 shares, the maximum number of shares for the Issuance, the total share capital of the Company upon completion of the Issuance comprises 4,462,887,622 shares, and the percentage of voting rights held by RSM Holding will be diluted to 55.98%. RSM Holding will remain the Controlling Shareholder of the Company, and CHE Jianxing will remain the Actual Controller of the Company.

The Issuance will not lead to a change of control of the Company.

(IV) Impact of the Issuance on the Senior Management Structure

The Company does not have a plan to adjust the senior management for the time being, and there will be no change in the senior management structure as a result of the Issuance.

(V) Impact of the Issuance on the Business Structure

After the completion of the Issuance, the proceeds will be used for the Home Furnishing Mall Construction Project, Tmall “Home Decoration Tongcheng Station” Project, 3D Design Cloud Platform Construction Project, Construction Project for New Generation Home Improvement Platform System and repayment of interest-bearing debts of the Company, and there will be no change in the business structure of the Company as a result of the Issuance.

II. Changes in the Financial Position, Profitability and Cash Flow of the Company Upon the Issuance

(I) Impact of the Issuance on the Financial Position of the Company

After the completion of the Issuance, there will be an increase in the net assets and total assets of the Company, a decrease in its asset-liability ratio, and a further improvement in its overall financial position. The Issuance will be conducive to the improvement in the solvency of the Company, optimization of its asset structure and reduction in financial risks.

(II) Impact of the Issuance on the Profitability of the Company

After the completion of the Issuance, since there will be an increase in the net assets and the total capital share of the Company while the benefits of the proceeds funded projects take time to emerge, there will be a certain decrease in the return on net assets, the earnings per share and other financial indicators in the short term. However, with the implementation of the projects, there will be an expected further increase in the Company’s revenue, a decrease in financial expenses, and an improvement in its long-term profitability, which is conducive to the transformation and upgrade of the Company and the realization of its sustainable development.

(III) Impact of the Issuance on the Cash Flow of the Company

After the completion of the Issuance, there will be a significant increase in the net cash inflow from financing activities of the Company. In the future, with the implementation of the proceeds funded projects, it is expected that the cash flow from investment activities of the Company will be a considerable net outflow during the implementation. After successful implementation of the proceeds funded projects, there will be an expansion of the size of the Company’s principal business, an improvement in its profitability, and an increase in the cash inflow from operating activities, and an improvement in the overall cash flow of the Company.

III. Changes in Business Relations, Management Relations, Connected Transactions and Competitions Between the Company and the Controlling Shareholder and Its Connected Persons

After the completion of the Issuance, there will be no material changes in business relations and management relations between the Company and the Controlling Shareholder and its connected persons. The Non-public Issuance will not lead to new competitions or connected transactions between the Company and the Controlling Shareholder and its connected persons.

IV. Whether the Funds and Assets of the Company Will be Occupied by the Controlling Shareholder and Its Connected Persons or the Company Will Provide a Guarantee for the Controlling Shareholder and Its Connected Persons After the Completion of the Issuance

After the completion of the issuance, the funds and assets of the Company will not be occupied by the Controlling Shareholder and its connected persons in violation of rules, and the Company will not provide a guarantee for the Controlling Shareholder and its connected persons in violation of rules.

V. Whether the Company's Debt Structure is Reasonable; Whether the Liabilities (Including Contingent Liabilities) Are Greatly Increased by the Issuance; Whether the Debt Ratio is Too Low and the Financial Costs are Unreasonable

As of March 31, 2020, the Company's asset-liability ratio on a consolidated basis was 60.97%. Upon receipt of proceeds from the Issuance, the Company's asset-liability ratio will decline, and the Company's asset-liability structure will be more stable; the liabilities (including contingent liabilities) will not be greatly increased by the Issuance, the debt ratio will not be too low and the financial costs will not be unreasonable. Meanwhile, the Company's financial costs will be more reasonable, and financial cost pressure will be reduced, which will enhance Company's risk resistance capability and sustainable profitability.

VI. Risks in Relation to the Non-Public Issuance

(I) Risks Related to Proceeds Funded Projects

1. Risks of Proceeds Utilization

Proceeds from the Non-Public Issuance will be used in Home Furnishing Mall Construction Project, Tmall "Home Decoration Tongcheng Station" Project, 3D Design Cloud Platform Construction Project, Construction Project for New Generation Home Improvement Platform System and repayment of interest-bearing debts of the Company. Upon completion of the Issuance, the proceeds may become idle funds for a certain period if they are not used in a timely manner, which may affect the efficiency of the utilization of the proceeds.

2. Risks of Failure to Generate Expected Returns From Proceeds Funded Projects

The proceeds funded projects were determined by the Company after prudent analysis and argumentation, based on the Company's business development plan and forecasts on the future industry and market development trends. Capitalizing on its mature business model, development experience and market accumulation over the years, the Company expects that the proceeds funded projects will generate a sound investment income.

Some of the proceeds funded projects may not be implemented as scheduled or generate expected returns due to changes in external factors such as the market situation of home improvement and furnishing industry, which may lead to failure to improve the Company's operating results and financial performance as expected.

(II) Risks Related to Business Operations

1. Risks Arising from Macroeconomic Events Such as Economic Slowdown and Cyclical Fluctuations

In recent years, China's macroeconomic growth continued to slow down. In 2019, China recorded a year-on-year GDP growth of 6.1%, more than 20-year low, which may further decline in the future. The slowdown in macroeconomic growth may decelerate original urbanization process of China, and may adversely affect the improvement of China's disposable income of residents and living standards. In the meantime, as a basic industry subject to continuous regulation and control in China, the real estate industry, which is closely related to China's macroeconomic development, has shown obvious cyclical characteristics. The demand for home improvement and furnishing retail industry may be reduced due to adverse changes resulting from slowdown in the macroeconomic growth and cyclical fluctuations in the real estate industry, which will lead to adverse impacts on operating results of the Company to some extent.

In addition, unexpected events such as COVID-19 pandemic in 2020 may also affect the demand of downstream consumers for household products, and reduce the profitability of household product brands and distributors, which may affect the business operation and development of the Company through the transmission of the industry chain.

2. Risks from Increasing Competition in the Industry and Market

The home improvement and furnishing industry in China is relatively competitive, and leading companies operating shopping malls of home improvement and furnishing are relatively concentrated. According to Frost & Sullivan, China's top five operators of home improvement and furnishing chain shopping malls accounted for over 30% of the market share in 2019 in terms of total retail sales, and leading companies in the industry were expanding significantly.

In the meantime, as the level of Internet usage in the industry has increased, online household product brands and online e-commerce platforms for household products may also divert some consumers and introduce new competitors to the operation and management of home improvement and furnishing shopping malls. Household product manufacturers became less willing to enter into home furnishing malls, which in turn affects the occupancy rate of the Company's home furnishing malls.

The increasingly intensified competition in the industry could lead to a decline in the Company's market share and profitability.

3. Risks of Decline of Operating Performance of Shopping Malls

The operating performance of the Company's shopping malls relies on factors such as profitability and cost control of the shopping malls.

Under the Portfolio Shopping Mall model, the Company mainly provides marketing platforms for merchants without inventory risk. However, due to the intensified competition in the home improvement and furnishing industry, the rent and related income of Portfolio Shopping Malls and their occupancy rate depend on their capacities to retain existing merchants and introduce new ones. At the same time, if domestic macro economy, real estate market prosperity and other factors lead to periodic downward fluctuations in the consumer demand of the home improvement and furnishing industry, it may adversely affect the rental level and occupancy rate of shopping malls. In addition, the control on investment costs and financial expenses of self-built and purchased shopping malls, rental costs of leased shopping malls, as well as the operation costs of labor, energy, property maintenance, marketing and administrative management related to shopping mall operations and other expenses, will directly affect the operating performance of the Company's shopping malls, which will in turn affect the profitability of the Company.

Under the Managed Shopping Malls model, the Company charges relevant consultation service fees from its partners and cooperating builders for the provision of project consultation, engineering and commercial management consultation and tenant sourcing services before the opening of the malls. The gross profit margin of such revenue is relatively high due to its high added value and scarcity, but its sustainability depends on the number of new cooperation agreements on Managed Shopping Malls and the implementation of reserved projects. The Company charges annual management fees from its partners during the operation of the shopping malls (generally at a fixed amount or on an incremental basis according to the rental income), and costs related to daily operation and management of the shopping malls shall be borne by such partners. The gross profit margin of such revenue is low but stable during the operation period of Managed Shopping Malls. With continuous expansion of the number of Managed Shopping Malls, the proportion of revenue generated during the operation of shopping malls to the revenue of Managed Shopping Mall business may increase, which may lead to a decline in the gross profit of Managed Shopping Mall business, thereby affecting operating performance and financial position of the Company.

4. *Risks Related to New Business Development*

Based on the nationwide retail platform and the largest merchant and consumer database in the home improvement and furnishing industry in China, the Company intends to further expand attractive Internet-based products and services and supply chain-related products and services. Relying on the brand advantages of Red Star Macalline Home Furnishing Shopping Mall and the synergy between home decoration and home furnishing shopping mall businesses, the Company has expanded its presence in home design and decoration services, and started to develop a pan-home consumer service platform covering Internet-based home improvement business and online retail. Meantime, the Company has also formulated corresponding development strategies for logistics and distribution businesses, so as to consolidate the Company's leading position in the home improvement and furnishing industry in China. In addition, the Company reached a strategic cooperation agreement with Alibaba to jointly expand the layout of new home furnishing retail business, which will further promote the industry chain services for pan-home improvement and furnishing consumption.

The business model of and risks related to the expansionary businesses may differ from those of the shopping mall business of the Company, but the Company may not have sufficient operation experience to effectively manage the expansionary businesses and relevant risks. Such expansionary business may expose the Company to new challenges and risks. If the Company's expansionary business fails to achieve expected results, the Company's businesses, financial position, operating performance and prospects may be adversely affected.

(III) Financial Risks

1. *Fluctuations in Fair Value of Investment Properties Could Lead to Risks of Large Non-recurring Gain or Loss*

For the years 2017, 2018 and 2019 and from January to March of 2020, the Company's net non-recurring gain or loss attributable to owners of the parent company was RMB1.772 billion, RMB1.911 billion, RMB1.866 billion and RMB0.188 billion, respectively, accounting for 43.47%, 42.69%, 41.66% and 47.90% of the net profit attributable to owners of the parent company, respectively, which resulted in a large difference in net profits attributable to owners of the parent company after deducting non-recurring gain or loss.

During the Reporting Period, the Company's non-recurring gains or losses are mainly the gain or loss arising from changes in fair value of investment properties measured subsequently at fair value and the value-added portion of investment gains from investment properties valuation of associates and joint ventures attributable to the enterprise. For such portion of non-recurring gain or loss, gains from changes in fair value are unrealized (no cash inflows generated and no right to receive payment) prior to the sales or dispositions of relevant investment properties. In addition, the Company's non-recurring gains or losses also include changes in the fair value of financial assets at fair value, government grants credited to profit or loss for the current period, funds-use income received from non-financial enterprises and credited to the profit or loss for the current period, the total amount of which accounts for a

small proportion of total profit. Therefore, fluctuations in fair value of investment properties of the Company will lead to continuous generation of large amount of non-operating profits or losses with large range of changes in the future.

2. Liquidity Risks Upon Repayment of Current Liabilities

As the end of the years 2017, 2018 and 2019 and March of 2020, the current ratio of the Company was 0.64, 0.62, 0.50 and 0.59, respectively, with a quick ratio of 0.64, 0.61, 0.49 and 0.58, respectively. The current ratio and quick ratio of the Company were both low, mainly due to large investments resulted from continuous expansion of the Company's operation scale as well as the Company's asset structure which was mainly non-current assets such as investment properties. The above-mentioned conditions could cause liquidity risks to some extent to the operation of the Company. If the Company's continuous financing capacity is limited or if the Company fails to make repayment arrangements for short-term liabilities in a timely and effective manner, the potential repayment pressure may adversely affect operation activities of the Company.

3. Risks of Dilution of Earnings per Share and Return on Net Assets

Upon completion of the Issuance, net assets of the Company will increase significantly than those prior to the Issuance, and the share capital will also increase accordingly. Since it takes a certain period of time for the proceeds used to exert effects, the Company will be exposed to risks of dilution of earnings per share and return on net assets in short term.

(IV) Stock Market Risk

Since the Non-public Issuance will affect the production and operation and financial position of the Company, the changes in these fundamentals will affect the Company's stock price. In addition, the Company's stock price will also be affected by China's macroeconomic condition, major policies, domestic and international political conditions, changes in supply and demand in the stock market, and expectations of investors. The market price of the Company's stock may deviate from its own investment value due to the occurrence of the abovementioned risks, causing direct or indirect losses to investors. Investors are advised to have sufficient understanding on this and pay enough attention.

(V) Approval Risk

The Non-public Issuance is subject to approval at general meeting of the Company and approval of the CSRC. Such approvals are the prerequisites for the Non-public Issuance. There are uncertainties as to whether and when relevant approvals will be obtained. Therefore, investors are advised to pay attention to the investment risks.

SECTION IV PROFIT DISTRIBUTION POLICY OF THE COMPANY AND ITS IMPLEMENTATION

I. Profit Distribution Policy of the Company

According to relevant regulations including the Notice on Further Implementing Matters Concerning Distribution of Cash Dividends by Listed Companies (ZJF[2012] No.37) and the Regulatory Guidelines for Listed Companies No.3 – Distribution of Cash Dividends by Listed Companies (CSRC Announcement [2013] No.43) issued by CSRC, the Articles of Association of the Company provides for matters concerning the profit distribution policy.

Relevant policies concerning the profit distribution policy of the Company as set out in the Articles of Association are as follows:

“Article 185 The Board, the Board of supervisors and the general meeting shall consider the opinions of the independent non-executive directors, external supervisors and minority shareholders when determining and evaluating the Company’s profit distribution policy.

The Company shall implement continuous, stable, scientific and proactive profit distribution policies, and attach importance to the provision of reasonable return to shareholders and ensure the continuity and stability of the profit distribution policy.

(I) The Company’s profit distribution policy

1. The Company may use cash, shares, combination of cash and shares or other forms as permitted by the laws and regulations in making profit distribution, and give priority to the provision of cash dividends. Profit distribution shall not exceed the cumulative distributable profit or damage the Company’s continuous operation capability;
2. Subject to the prevailing laws and regulations as well as any regulatory rules, the profit distributed by the Company in the form of cash every year shall be not less than 20% of the distributable profit realized in that year;
3. While ensuring its normal business development, the Company adheres to the principle of giving priority to the provision of cash dividends when making profit distribution; no share dividends may be distributed if no cash dividends were made during the year. The Board is obliged to put forward a cash dividend proposal and it should explain the proposed use or the principles for using the distributable profit realized but not distributed in the current year;
4. In the event that the Board fails to put forward a cash dividend proposal due to major investment plans or major cash expenditures or other reasons, it must explain the reasons and the specific use of the retained profits in the profit distribution proposals;

5. If the Board believes that the Company has relatively good future growth potential, relatively high net asset value per share, and that the Company's share price does not match its share capital or that distributing share dividends conforms to the overall interests of all shareholders, it may draw up share dividend distribution proposals subject to compliance with its cash dividend policies;
6. The Company generally distributes profits annually; the Board may also put forward interim profit distribution proposals in accordance with the Company's profit conditions and funding needs;
7. The Company shall exercise its right as the shareholder of its subsidiaries to ensure the Company's ability to implement the cash dividend plan of the year with the profits distributed by the subsidiaries in the form of cash.

(II) The Company's differentiated cash dividend policy

The Board shall distinguish the following situations and put forward differentiated cash dividend policies in accordance with the procedures specified in the Articles of Association, after comprehensively considering features of the industry in which the Company operates, the Company's development stage, mode of operation, profit level and any arrangement on major capital expenditure:

1. In the case where the Company is at a mature stage of development and there is no major capital expenditure arrangement, cash dividends shall account for at least 80% of the current profit distribution;
2. In the case where the Company is at a mature stage of development and there is a major capital expenditure arrangement, cash dividends shall account for at least 40% of the profit distribution;
3. If the Company is at a growth stage and there is a major capital expenditure arrangement, cash dividends shall account for at least 20% of the profit distribution.

In the case where the Board finds it difficult to determine the Company's stage of development and there is a major capital expenditure arrangement, provisions in the preceding paragraphs shall apply.

(III) The Company's review procedures on profit distribution

1. The Board shall formulate a profit distribution plan;
2. The profit distribution plan approved by the Board shall not be implemented until it is approved at the general meeting;

3. In the case where the Board fails to make a cash dividend plan or its cash dividend distribution plan does not comply with the Company's Articles of Association, the Board must explain the reasons and the use of retained profits in its periodic report, the independent non-executive directors shall provide their independent opinions in this regard;
4. The Supervisory Committee shall supervise the profit distribution plans formulated by the Board. It has the right to require the Board to make rectifications if the Board fails to make cash dividend distribution plans in accordance with the Company's Articles of Association or the cash dividend distribution plans made by the Board do not comply with the Company's Articles of Association;
5. If it is necessary to adjust profit distribution policies due to any major change to the business environment or the Company's internal operating conditions, the Board shall formulate new profit distribution policies and the independent non-executive directors and external supervisors shall give their opinions in this regard. The new profit distribution policies formulated by the Board shall be submitted to the general meeting for review and shall not be implemented until it is approved by more than 2/3 of voting rights held by the shareholders who attend the general meeting. Voting at the general meeting shall be conducted in person or via internet voting system to facilitate minority shareholder's participation in the formulation or modification of the profit distribution policies.

As for cash dividends and other payments to holders of onshore-listed shares, the Company shall pay in RMB, and payments to holders of foreign shares will be denominated and declared in RMB and paid in Hong Kong dollars. The Company shall, in accordance with the relevant regulations on foreign exchange control, pay in Hong Kong dollars for cash dividends and other payments to holders of foreign shares.

Upon passing of the resolution on profit distribution plan at the general meeting, the Company's Board shall complete the dividend (or share) distribution within two months after the general meeting."

II. Profit Distribution and Use of Undistributed Profit for the Last Three Years

(I) Profit Distribution for the Last Three Years

1. The profit distribution plan for 2017: On June 8, 2018, the 2017 annual general meeting considered and approved the Profit Distribution Plan of the Company for 2017: based on the total share capital of 3,938,917,038 Shares following A-share IPO in January 2018, a distribute cash dividends of RMB3.2 (tax inclusive, the actual distribution amount may be subject to rounding adjustments) per every 10 Shares. If the total share capital of the Company is changed due to reasons such as placing, buy-back and other reasons on the record date, the distribution amount of

cash dividends will be adjusted accordingly within the total amount of RMB1,260,453,452.16 (tax inclusive). After the distribution of cash dividends, the undistributed profit of RMB3,210,150,883.52 of the Company of the year will be carried forward to the year.

2. The profit distribution plan for 2018: On 16 May 2019, the 2018 annual general meeting considered and approved the Profit Distribution Plan of the Company for 2018: based on the total share capital of 3,550,000,000 Shares at the end of 2018, a distribution of cash dividends of RMB2.7 (tax inclusive, the actual distribution amount may be subject to rounding adjustments) per every 10 Shares. If the total share capital of the Company is changed due to reasons such as placing, buy-back and other reasons on the record date, the distribution amount of cash dividends will be adjusted accordingly within the total amount of RMB958,500,000.00 (tax inclusive). After the distribution of cash dividends, the undistributed profit of RMB3,815,885,354.84 of the Company of the year will be carried forward to next year.
3. The profit distribution plan for 2019: On 17 April 2020, the first meeting of the fourth session of the Board considered and approved the Profit Distribution Plan of the Company for 2019: based on the total share capital of 3,550,000,000 Shares at the end of 2019, the 2019 cash dividend per share proposed to be RMB2.53 (tax inclusive) and one share per 10 shares will be issued to all shareholders by way of conversion of capital reserve. The total amount of the proposed 2019 cash dividends is RMB898,150,000.00 (tax inclusive) and 355,000,000 bonus shares will be issued. The above profit distribution plan is subject to consideration and approval at the general meeting of the Company.

(II) Cash Dividends for the Last Three Years

Unit: RMB

Item	2019^{Note}	2018	2017
Cash dividends (tax inclusive)	89,815.00	95,850.00	126,045.35
Net profit attributable to shareholders of the parent company	447,968.17	447,741.12	407,789.77
Percentage of net profit attributable to common shareholders of the listed company in the consolidated statements	20.05%	21.41%	30.91%

Note: The Profit Distribution Plan of the Company for 2019 is subject to consideration and approval at the general meeting of the Company

The distributions of cash dividends of the Company for the last three years (from 2017 to 2019) complied with the requirements of the Articles of Association.

(III) Use of Undistributed Profit in the Last Three Years

The undistributed profit of the Company in the last three years were mainly used for the operation and development of the Company, and satisfying the fund demand of the Company for continuous expansion in its business scale and new businesses. The arrangements for the use of the Company's undistributed profit were in line with the actual conditions of the Company and its all shareholders.

III. Next Three-Year Shareholder Return Plan of the Company

According to the Notice on Further Implementing Matters Concerning Distribution of Cash Dividends by Listed Companies, the Regulatory Guidelines for Listed Companies No.3 – Distribution of Cash Dividends by Listed Companies and other relevant laws, regulations and regulatory documents, the Company has established a dividend distribution mechanism for shareholder's return, and defined provisions on the principle, form, conditions, decision-making mechanism and procedures and changes related to profit distribution in the Articles of Association in line with the actual conditions of the Company.

In order to further clarify next three-year shareholder return plan, continuously guide investors to establish the concept of long-term and rational investment, and actively create returns for investors, the Company has formulated the Next Three-Year (2020-2022) Shareholder Return Plan. The Return Plan defines specific contents, the decision-making mechanism and the decision-making procedure for planning and adjustment in connection with the next three-year shareholder return plan, so as to improve the mechanism for protecting the rights of small and medium-sized investors. The Return Plan has been considered and approved by the 11th extraordinary meeting of the fourth session of the Board, and will be submitted to the general meeting of the Company for consideration.

Upon completion of the Non-public Issuance, the Company will strictly implement the existing profit distribution policy, and actively promote the profit distribution to shareholders provided relevant conditions are met, so as to increase returns for shareholders.

SECTION V MATTERS IN RELATION TO DILUTION OF CURRENT RETURN DUE TO THE ISSUANCE

According to relevant requirements of the Opinions of the State Council on Further Promoting the Sound Development of Capital Markets (GF[2014] No.17), the Opinions of the General Office of the State Council on Further Strengthening the Work for Protection of the Legitimate Rights and Interests of Minority Investors in Capital Markets (GBF[2013] No.110) and the Guiding Opinions on Matters Concerning the Dilution of Current Return Due to Initial Public Offering, Refinancing and Material Asset Restructuring (CSRC Announcement [2015] No.31), in order to protect the information right of small and medium-sized investors and to safeguard the interests of small and medium-sized investors, the Company analyzed the potential impact of the Non-public Issuance on current returns, and formulated specific remedial measures for returns. Relevant entities have made commitments to implementing effectively the Company's remedial measures for returns. The measures are as follow:

I. The Impact of the Dilution of Current Return by the Non-Public Issuance on the Company's Key Financial Indicators**(I) Basic Assumptions**

1. There is no major change in the macroeconomic environment, industrial policy, industry development and the product market, etc.;
2. The Non-public Issuance are expected to be completed by the end of October 2020 (the completion time is only used for the calculation of the impact of the dilution of current return by the Non-public Issuance on the Company's key financial indicators, and shall be subject to approval by CSRC and the actual completion time of the Issuance);
3. The proceeds from the Issuance is RMB4,000 million, without considering the impact of issuance expenses;
4. The number of shares expected to be issued is at the maximum, which is 912,887,622 shares, and shall be approved by CSRC;
5. According to the 2019 annual report disclosed by the Company, the Company's net profit attributable to owners of the parent company in 2019 was RMB4,479.6817 million, and the net profit attributable to owners of the parent company after deducting non-recurring gain or loss was RMB2,613.6223 million. The net profit attributable to common shareholders of the parent company and the net profit attributable to common shareholders of the parent company after deducting non-recurring gain or loss in 2020 are calculated according to the following three conditions: (1) equivalent to those of 2019; (2) increase by 10% as compared with 2019; (3) increase by 20% as compared with 2019. This assumption is only used for

the calculation of the impact of dilution of current return by the Non-public Issuance of shares on the key financial indicators, and does not represent the Company's judgment on its operation and trend in 2020 or constitute a profit forecast of the Company;

6. The impact on the Company's operation and financial conditions (such as financial expenses and investment incomes) following the receipt of proceeds from the Issuance has not been considered;
7. In the calculation of the Company's total share capital at the end of the period and earnings per share following the Issuance, only the impact of the above assumptions on the total share capital is considered, regardless of other factors that may cause changes in equity;
8. The above assumptions are for the calculation of the impact only and do not constitute a profit forecast.

(II) Impact on Key Financial Indicators of the Company

Based on the above assumptions, the impact of the Non-public Issuance on the Company's key financial indicators are calculated as follows:

Item	2019	2020	
		Prior to the Issuance	Following the Issuance
Total share capital at the end of the period (ten thousand shares)	355,000.00	355,000.00	446,288.76
Scenario 1: The net profit attributable to shareholders of the parent company and the net profit attributable to owners of the parent company after deducting non-recurring gain or loss in 2020 are equivalent to 2019			
Net profit attributable to shareholders of the parent company (RMB ten thousand)	447,968.17	447,968.17	447,968.17
Net profit attributable to owners of the parent company after deducting non-recurring gain or loss (RMB ten thousand)	261,362.23	261,362.23	261,362.23
Basic earnings per share (RMB/share)	1.26	1.26	1.21
Diluted earnings per share (RMB/share)	Not applicable	1.25	1.20
Basic earnings per share after deducting non-recurring gain or loss (RMB/share)	0.74	0.74	0.71
Diluted earnings per share after deducting non-recurring gain or loss (RMB/share)	Not applicable	0.73	0.70

Item	2019	2020	
		Prior to the Issuance	Following the Issuance
Scenario 2: The net profit attributable to shareholders of the parent company and the net profit attributable to owners of the parent company after deducting non-recurring gain or loss in 2020 increase by 10% as compared with 2019			
Net profit attributable to shareholders of the parent company (RMB ten thousand)	447,968.17	492,764.98	492,764.98
Net profit attributable to owners of the parent company after deducting non-recurring gain or loss (RMB ten thousand)	261,362.23	287,498.45	287,498.45
Basic earnings per share (RMB/share)	1.26	1.39	1.33
	Not applicable		
Diluted earnings per share (RMB/share)	Not applicable	1.38	1.32
Basic earnings per share after deducting non-recurring gain or loss (RMB/share)	0.74	0.81	0.78
Diluted earnings per share after deducting non-recurring gain or loss (RMB/share)	Not applicable	0.80	0.77

Scenario 3: The net profit attributable to shareholders of the parent company and the net profit attributable to owners of the parent company after deducting non-recurring gain or loss in 2020 increase by 20% as compared with 2019

Net profit attributable to shareholders of the parent company (RMB ten thousand)	447,968.17	537,561.80	537,561.80
Net profit attributable to owners of the parent company after deducting non-recurring gain or loss (RMB ten thousand)	261,362.23	313,634.67	313,634.67
Basic earnings per share (RMB/share)	1.26	1.51	1.45
	Not applicable		
Diluted earnings per share (RMB/share)	Not applicable	1.50	1.44
Basic earnings per share after deducting non-recurring gain or loss (RMB/share)	0.74	0.88	0.85
Diluted earnings per share after deducting non-recurring gain or loss (RMB/share)	Not applicable	0.88	0.84

Note: Basic earnings per share and diluted earnings per share are calculated according to the Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 9) – Calculation and Disclosure of Rate of Return on Equity and Earnings per Share

According to the above calculation, upon completion of the Non-public Issuance, the basic earnings per share and diluted earnings per share of the Company are expected to decline to some extent in the short term, and therefore the current return of the Company will be diluted to some extent in the short term.

II. Risk Warning for Dilution of Current Return by the Issuance

Upon receipt of proceeds from the Non-public Issuance, the Company's total share capital and net assets will increase accordingly. Since projects funded by proceeds from the Non-public Issuance have a certain construction period, and there are uncertainties in the benefits of such projects which will be gradually reflected after production, the earnings per share and return on net assets may decline within a short term. However, such situation will be improved gradually with the realization of the proceeds. Investors are advised to pay attention to the risks of the potential dilution of the earnings per share and return on net assets by the Non-public Issuance.

III. Necessity and Rationality for the Board to Choose the Issuance

For the necessity and rationality of this financing, please refer to relevant contents in "Section II Feasibility Analysis by the Board of Directors in Relation to Use of Proceeds".

IV. Relationship Between the Proceeds Funded Projects and the Company's Existing Business and Reserve in Terms of Personnel, Technology and Market for Proceeds Funded Projects

(I) Relationship Between the Proceeds Funded Projects and the Company's Existing Business

As a leading home improvement and furnishing shopping mall operator in China, the Company mainly engages in the business of offering comprehensive services to merchants, consumers and partners of the home improvement and furnishing shopping malls through the operation and management of both Portfolio Shopping Malls and Managed Shopping Malls. The Company also offer pan-home furnishing products and services, including Internet retailing, interior design, as well as logistics and delivery services.

The proceeds funded projects are closely related to and based on existing principal businesses of the Company. On the one hand, such projects will further expand the Company's layout in home furnishing malls, and consolidate its leading position in the industry; on the other hand, the construction and implementation of Tmall "Home Decoration Tongcheng Station" Project, 3D Design Cloud Platform Construction Project and Construction Project for New Generation Home Improvement Platform System will facilitate the development of the Company's expansionary businesses including new retail and design and home decoration, so as to provide consumers with better one-stop industry chain services for pan-home improvement and furnishing consumption, and enhance consumers' shopping experience and satisfaction, thereby gives full play to the synergy of the Company's offline businesses and expansionary businesses to promote the transformation and upgrade of the Company's businesses.

(II) Reserves in Terms of Personnel, Technology and Market for the Company's Proceeds Funded Projects

1. Personnel Reserve

The Company has an experienced and visionary management team with in-depth industry knowledge. Mr. CHE Jianxing, the Actual Controller, founder and chairman of the Company, is an influential and visionary entrepreneur and business leader in the home improvement and furnishing retail industry in China. Main members of the senior management have an average of over 10 years of experience in the home improvement and furnishing retail industry as well as an average tenure of over 8 years in the Company. With rich industry resources and strong execution capacity, they help the Company accurately capture development trends of the industry and actual conditions of the Company, formulate clear and feasible development strategies and ensure the successful implementation of the proceeds funded projects.

2. Technology Reserve

With continuous investment in field of the Internet-based new retail, the Company has established the Internet-based new retail platform building around the concept of “home”, which provides consumers with industry chain services for pan-home improvement and furnishing ranging from design, home renovation, to purchase of household-related products through the operation model of expanding the design and home decoration business. In addition, the Company has signed a strategic cooperation agreement with Alibaba, with the aim to introduce Alibaba's advanced operation concepts and technical support in the new retail into the online and offline integration platform, and further promote industry chain services for pan-home improvement and furnishing consumption. The cooperation between the Company and Alibaba will also provide technical support and assistance for the implementation of the Company's proceeds funded projects.

3. *Market Reserve*

The Company is a nationwide home improvement and furnishing shopping mall operator in China, which ranks first in terms of the area of operational premises, the number of malls, and the geographic coverage. As of the end of March 2020, we have operated 87 Portfolio Shopping Malls, 250 Managed Shopping Malls and 12 home furnishing malls through strategic cooperation¹. In addition, the Company is authorized to open 44 franchise home improvement material projects². The nationwide layout of shopping malls, excellent brand reputation, long-term cooperation with brand merchants and extensive consumer base of the Company have laid a solid market foundation for the implementation of the proceeds funded projects.

V. Remedial Measures for Dilution of Current Return by the Non-Public Issuance

In order to protect the interests of investors, ensure the effective use of proceeds, prevent the risk of diluting current returns, and improve the capacity to create returns to shareholders of the Company, the Company intends to take the following remedial measures:

(I) Ensure the progress of investment in the Proceeds Funded Projects and Realize Maximum Benefits of Projects

Proceeds from the Non-Public Issuance will be mainly used to enhance existing principal businesses of the Company, improve the layout of the home furnishing malls, and invest in expansionary businesses including new retail and design and home decoration, so as to provide consumers with better one-stop industry chain services for pan-home improvement and furnishing consumption. The proceeds funded projects are in line with the industry development trend and the overall strategic development direction of the Company, which have excellent prospects and economic benefits.

Upon the receipt of proceeds from the Issuance, the Company will strive to ensure the progress of the proceeds funded projects. The successful implementation of the proceeds funded projects and the generation of relevant benefits will remedy the dilution of current returns by the Issuance and Listing, which is in line with the long-term interests of shareholders of the Company.

¹ In the first half of 2019, the Company acquired 46.5% of equity interests in Shandong Inzone Green Home Co., Ltd. (山東銀座家居有限公司), and became one of its largest shareholders ranked pari passu with Shandong Commercial Group Co., Ltd. (山東省商業集團有限公司). As of 31 December 2019, Shandong Inzone Green Home Co., Ltd. and its controlling subsidiaries operated 12 home furnishing shopping malls in total in China. Strategic cooperative operation shopping malls mean the home furnishing shopping malls which, based on strategic objectives considered by the Company, to be held through joint investment with the partners, to jointly hold the properties and co-operate

² Franchised home improvement material projects represent the home improvement material stores and home improvement material industry streets operated by the Company by way of franchising. For such franchised home improvement material projects, the Company will not participate in the daily operation and management after their commencement of operations

(II) Reduce Financial Expenses of the Company and Enhance Its Profitability

The Company intends to use part of the proceeds from the Non-public Issuance to repay interest-bearing debts of the Company, thus further improve the asset structure and financial position of the Company. The Company will make full use of such proceeds to support the Company's daily operation, improve the efficiency of proceeds utilization, reduce bank borrowings and financial costs of the Company, and enhance the overall profitability of the Company.

(III) Strengthen the Management of Proceeds

According to relevant requirements of the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Regulatory Guidelines for Listed Companies No. 2 – Regulatory Requirements for the Management and Application of Issue Proceeds of Listed Companies the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, the Measures for the Management of Funds Raised by Listed Companies of the Shanghai Stock Exchange, and other laws, administrative regulations, authority rules and regulatory documents, the Company has formulated the Measures for the Management of Proceeds. Upon receipt of the proceeds from the Non-public Issuance, the Company will, according to the Measures for the Management of Proceeds, sign a tripartite supervision agreement with the sponsor and the commercial bank where the proceeds will be deposited, and deposit the proceeds in the special account of the Company approved by the Board of Directors. In the process of utilizing the proceeds, the Company will strictly comply with the application and approval procedures, and set up a ledger to record the expenditure and investment of the proceeds, so as to ensure that the proceeds will be used for designated purposes.

(IV) Strictly Implement the Profit Distribution Policy of the Company and Strengthen the Mechanism for Investors' Return

The Articles of Association of the Company has defined the form of profit distribution, decision-making procedure, conditions for distribution of cash dividends, conditions for distribution of stock dividends, and the minimum percentage of dividends. In order to clarify the returns of existing and new shareholders following the Non-public Issuance, further refine the provisions on profit distribution policy in the Articles of Association, and enhance the transparency and practicality of the profit distribution decision, the Company has formulated the Next Three-Year (2020-2022) Shareholder Return Plan of Red Star Macalline Group Corporation Ltd.

The Company will strictly implement the profit distribution policy set out in the Articles of Association, and protect the legitimate rights and interests of the Company's shareholders through formulating reasonable dividend return plans, so as to continuously create long-term values for shareholders.

VI. Undertakings of the Controlling Shareholder, the Actual Controller, Directors and Senior Management of the Company on Taking Remedial Measures for Dilution of Current Return by the Non-Public Issuance

According to relevant requirements of the Opinions of the State Council on Further Promoting the Sound Development of Capital Markets (GF[2014] No.17), the Opinions of the General Office of the State Council on Further Strengthening the Work for Protection of the Legitimate Rights and Interests of Minority Investors in Capital Markets (GBF[2013] No.110) and the Guiding Opinions on Matters Concerning the Dilution of Current Return Due to Initial Public Offering, Refinancing and Material Asset Restructuring (CSRC Announcement [2015] No.31), in order to ensure that Red Star Macalline Group Corporation Ltd. (hereinafter referred to as the “**Company**”) will effectively implement remedial measures for dilution of current return by the Non-public Issuance, and to safeguard the interests of small and medium-sized investors, relevant entities have made the following commitments in connection with the Remedial Measures for Dilution of Current Return by the Non-Public Issuance:

(I) Undertakings of Directors and Senior Management

1. I will not to transfer interests to other entities or individuals without compensation or under unfair conditions, nor damage the interests of the Company by other means;
2. I will restrain my own occupational consumption behavior;
3. I will not appropriate the Company’s assets to engage in investment and consumption activities unrelated to my performance of duties;
4. The remuneration system formulated by the Board or the remuneration and assessment Committee will be linked to the implementation of the Company’s remedial measures for returns;
5. The exercise conditions of equity incentives that is implemented or intended to be publicized by the Company will be linked to the implementation of the Company’s remedial measures for returns;
6. During the period from the date of these undertakings to the completion of the Non-public Issuance of shares of the Company, if other new regulatory requirements are imposed by CSRC in relation to the remedial measures for returns and relevant undertakings that makes the said undertakings fail to meet such new requirements of CSRC, I undertake to give further undertaking(s) in accordance with those new requirements.

If I violate or refuse to fulfill the above undertakings, I agree to bear the corresponding penalties or carry out relevant management measures according to relevant regulations formulated by securities regulatory authorities including CSRC and the Shanghai Stock Exchange.

(II) Undertakings of the Controlling Shareholder and the Actual Controller

1. I will not interfere with the operation management activities of the Company or encroach on the interests of the Company.
2. I will firmly implement the Company's remedial measures for dilution of current returns and the relevant undertakings made in this regard. In case of breach of such undertakings, which causes losses to the Company or investors, I will be responsible for compensating the Company or investors according to laws.
3. During the period from the date of these undertakings to the completion of the Non-public Issuance of shares of the Company, if other new regulatory requirements in relation to the remedial measures for returns and relevant undertakings are imposed by CSRC that makes the said undertaking fail to meet such requirements of CSRC, I/the Company undertake to give further undertaking(s) in accordance with those new requirements.

If I violate or refuse to fulfill the above undertakings, I agree to bear the corresponding penalties or carry out relevant management measures according to relevant regulations formulated by securities regulatory authorities including CSRC and the Shanghai Stock Exchange.

APPENDIX I THE PLAN FOR THE NON-PUBLIC ISSUANCE OF A SHARES

(This page is left blank and is an execution page of the Plan of Red Star Macalline Group Corporation Ltd. for Non-public Issuance of A Shares)

**Board of Directors
Red Star Macalline Group Corporation Ltd.**

3 June 2020

With the Approval as to the Initial Public Offering of Shares by Red Star Macalline Group Corporation Ltd. (ZJXK [2017] No.2373) issued by the CSRC, the Company conducted an initial public offering of A Shares in China, and had the A Shares listed on the Shanghai Stock Exchange after the completion of the offering. According to the Administrative Measures for Issuance and the Regulations on the Report on the Use of the Proceeds Raised in the Previous Issuance of Shares (關於前次募集資金使用情況報告的規定) (ZJFXZ [2007] No.500), the use of proceeds previously raised as of 31 December 2019 is reported as follows:

I. PROCEEDS PREVIOUSLY RAISED

(I) Amount and Date of Receipt of the Proceeds Previously Raised

With the Approval as to the Initial Public Offering of Shares by Red Star Macalline Group Corporation Ltd. (ZJXK [2017] No.2373) issued by the CSRC and the consent of the Shanghai Stock Exchange, the Company conducted an initial public offering of 315 million RMB ordinary shares (A shares), at an offering price of RMB10.23 per share, and the total proceeds from the offering were RMB3,222.45 million, and the net proceeds after deduction of offering expenses of RMB172.4422 million were RMB3,050.0078 million, and the aforesaid proceeds were received on 9 January 2018. Deloitte Touche Tohmatsu Certified Public Accountants LLP conducted an examination for the above matter and issued the Capital Verification Report (DSB(Y)Z(18)No.00038).

(II) Management and Deposit of Proceeds Previously Raised in the Special Account

In order to standardize the management and use of the proceeds, improve the efficiency and effectiveness in the use of the proceeds and protect the rights and interests of investors, the Company has formulated the Measures of Red Star Macalline Group Corporation Ltd. for the Storage, Use, Change, Management and Supervision of Proceeds, in accordance with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, the Measures for the Management of Funds Raised by Listed Companies of the Shanghai Stock Exchange (as amended in 2013), the Regulatory Guidelines for Listed Companies No. 2 – Regulatory Requirements for the Management and Application of Issue Proceeds of Listed Companies, and other relevant laws and regulations, and in consideration of the actual situation of the Company, and has conducted special account management for the proceeds.

On 10 January 2018, the Company, China International Capital Corporation Limited, and China Minsheng Banking Corp., Ltd., Shanghai Branch entered into the Tripartite Supervision Agreement for Deposit of Proceeds in Special Account (hereinafter referred to as the "Tripartite Supervision Agreement"). On 7 February 2018, the Company, Urumchi Red Star Macalline Shibo Furniture Plaza Company Limited (烏魯木齊紅星美凱龍家居世博廣場有限公司) (a wholly-owned subsidiary), Hua Xia Bank Co., Limited, Urumchi Branch, and China International Capital Corporation Limited entered into the Quadripartite Supervision Agreement for Deposit of Proceeds in Special Account

(hereinafter referred to as the “Quadripartite Supervision Agreement”). On 10 December 2018, the Company, Xining Red Star Macalline Shibo Home Furnishing Plaza Company Limited (西寧紅星美凱龍世博家居廣場有限公司) (a wholly-owned subsidiary), the Banking Department at China Construction Bank Corporation, Qinghai Branch, and China International Capital Corporation Limited entered into a Quadripartite Supervision Agreement; the Company, Changsha Red Star Macalline Jinxia Home Living Plaza Company Limited (長沙紅星美凱龍金霞家居生活廣場有限公司) (a wholly-owned subsidiary), China Minsheng Banking Corp., Ltd., Changsha Branch, and China International Capital Corporation Limited entered into a Quadripartite Supervision Agreement; the Company, Shanghai HongMei E-commerce Co., Ltd. (上海紅美電子商務有限公司) (a wholly-owned subsidiary), Industrial and Commercial Bank of China Limited, Shanghai Putuo Sub-branch, and China International Capital Corporation Limited entered into a Quadripartite Supervision Agreement.

The Tripartite Supervision Agreement and the Quadripartite Supervision Agreements have been prepared in accordance with and are not significantly different from the SSE Tripartite Supervision Agreement for Deposit of Proceeds in Special Account (Template). As at 31 December 2019, all parties to the agreements performed relevant responsibilities in accordance with the provisions of the supervision agreements.

Information on the proceeds account in relation to the Tripartite Supervision Agreement (“Proceeds Tripartite-Supervision Account”) as at 31 December 2019 is as follows:

Unit: RMB

<u>Deposit Bank</u>	<u>Account Number</u>	<u>31 December 2019 Balance</u>
China Minsheng Banking Corp., Ltd., Shanghai Branch	608016079	30,426,873.07

APPENDIX II REPORT ON THE USE OF PROCEEDS PREVIOUSLY RAISED

Information on the proceeds accounts in relation to the Quadripartite Supervision Agreements (“Proceeds Quadripartite-Supervision Account”) as at 31 December 2019 is as follows:

Unit: RMB

<u>Deposit Bank</u>	<u>Account Number</u>	<u>31 December 2019 Balance¹</u>
Hua Xia Bank Co., Limited, Urumchi Branch	11558000000064924	426.43
Banking Department at China Construction Bank Corporation, Qinghai Branch	63050136370009400372	2,220,477.47
China Minsheng Banking Corp., Ltd., Changsha Branch	630323613	2,293,893.80
Industrial and Commercial Bank of China Limited, Shanghai Jinshajiang Road Sub-branch ²	10012472293001600519	26,598,689.12

Note:

1. The initial amounts in the Proceeds Quadripartite-Supervision Accounts were transferred from the above Proceeds Tripartite-Supervision Account.
2. Industrial and Commercial Bank of China Limited, Shanghai Jinshajiang Road Sub-branch is a sub-branch under Industrial and Commercial Bank of China Limited, Shanghai Putuo Sub-branch, which is Party C to the Quadripartite Supervision Agreement.

II. CHANGES IN PROJECTS FUNDED BY PROCEEDS PREVIOUSLY RAISED

In order to better capitalize on the proceeds and improve the efficiency in use of the proceeds, the Company held the 23rd extraordinary meeting of the third session of the Board of Directors and the 3rd extraordinary meeting of the third session of the Supervisory Committee on 7 February 2018, at which the Resolution on Use of Certain Surplus Funds of Completed Proceeds-funded Projects for Other Proceeds-funded Projects, and Replacement of Self-raised Funds Invested in Advance in Proceeds-funded Projects with Proceeds was considered and approved. It was resolved that RMB48.1204 million among the surplus funds of “Harbin Songbei Shopping Mall Project”, a completed proceeds-funded project, be approved to be used for covering the excess of the self-raised funds actually used over the proceeds proposed to be used for “Hohhot Yuquan Shopping Mall Project” and “Dongguan Wanjiang Shopping Mall Project”, both of which are completed proceeds-funded projects. Upon implementation of the above plan, the proposed proceeds for the Hohhot Yuquan Shopping Mall Project and the Dongguan Wanjiang Shopping Mall Project are changed to RMB76.8253 million and RMB164.1451 million, respectively.

Meanwhile, it was resolved that the Company be approved to use RMB35.3335 million, namely all surplus proceeds of the “Tianjin Beichen Shopping Mall Project”, which is a completed proceeds-funded project, and RMB73.9002 million among the surplus proceeds of the “Harbin Songbei Shopping Mall Project”, for the “Urumqi Convention and Exhibition Mall Project”, so as to meet the future capital needs of the proceeds-funded project, and support the smooth implementation of principal business development and strategic plans of the Company. Upon implementation of the above plan, the proposed proceeds for the Urumqi Convention and Exhibition Mall Project are changed to RMB669.0837 million.

The reasons for the existence of the surplus funds of the “Tianjin Beichen Shopping Mall Project” and the “Harbin Songbei Shopping Mall Project”: During the implementation of relevant projects, under the principles of prudence and saving and subject to ensuring the project quality, the Company paid attention to project management and strictly controlled various expenditures to achieve the highest efficiency with the least investment, thus improving the efficiency in the use of the proceeds and effectively saving project construction funds.

On 7 September 2018, the Company held the 35th extraordinary meeting of the third session of Board of Directors and the 4th extraordinary meeting of the third session of the Supervisory Committee, at which the Resolution on Change in Certain Proceeds-funded Projects was considered and approved. It was resolved that the Company be approved to cease the investment of the proceeds in the “Construction of Unified Logistic Service System”, “Expansion of Home Design and Decoration Services”, “O2O Home Decoration Platform”, and change the use of the corresponding proceeds of RMB1,050.00 million to “Construction of Shopping Mall Projects” (Changsha Jinxia Shopping Mall and Xining Expo Mall), “New Intelligent Home Furnishings Shopping Mall Project” and “Repayment of Interest-Bearing Debts”. For details, see the Announcement on Change of Proceeds-funded Projects (Announcement No.: 2018-115) disclosed by the Company on the official website of Shanghai Stock Exchange and designated media.

The above change of proceeds-funded projects was considered and approved at the second extraordinary general meeting held by the Company on 28 November 2018. For details, see the Announcement of Resolutions of the Second Extraordinary General Meeting in 2018 (Announcement No.: 2018-159) disclosed by the Company on the official website of Shanghai stock exchange and designated media.

APPENDIX II REPORT ON THE USE OF PROCEEDS PREVIOUSLY RAISED

After the adjustment of the above surplus proceeds and change of the use of the proceeds, the proceeds-funded projects of the Company are as follows:

Unit: RMB ten thousand

S/N	Project Name		Investment	Investment	Proceeds	
				Committed Before	Proposed to be Used After	
			Financing	Change		
1	Home Furnishing Mall Construction Projects	1.1	Tianjin Beichen Shopping Mall Project	106,900.00	28,047.00	24,513.65
		1.2	Hohhot Yuquan Shopping Mall Project	56,600.00	7,611.00	7,682.53
		1.3	Dongguan Wanjiang Shopping Mall Project	39,400.00	11,674.00	16,414.51
		1.4	Harbin Songbei Shopping Mall Project	92,100.00	41,683.00	29,480.94
		1.5	Urumqi Convention and Exhibition Mall Project	80,000.00	55,985.00	66,908.37
		1.6	Changsha Jinxia Shopping Mall Project	60,000.00	–	19,000.00
		1.7	Xining Expo Shopping Mall Project	64,000.00	–	11,000.00
	Subtotal			499,000.00	145,000.00	175,000.00
2	Construction of Unified Logistic Service System (Note 1)			60,000.00	45,000.00	–
3	Expansion of Home Design and Decoration Services (Note 2)			30,000.00	20,000.00	–
4	O2O Home Decoration Platform (Note 3)			50,000.00	40,000.00	–
5	Repayment of Bank Loans			80,000.00	40,000.00	40,000.00
6	Replenishment of Working Capital			30,000.00	15,000.78	15,000.78
7	New Intelligent Home Furnishing Shopping Mall			40,000.00	–	40,000.00
8	Repayment of Interest-bearing Debts			50,000.00	–	35,000.00
	Total			839,000.00	305,000.78	305,000.78

The proceeds involved in the changed proceeds-funded projects account for 34.02% of the Company's total proceeds and 34.43% of the actual net proceeds.

Note 1: The project for the construction of unified logistic service system was established by the Company in 2016 according to the then business arrangement and plan, so as to strengthen its home furnishing logistics and distribution service capability. As the Company's subsequent business arrangement and regional development plan are different from the original project plans, and the processes including warehouse center location selection, lease negotiation and formalities handling are time-consuming, the Company expects that the original project plans no longer meet the current situation and actual needs of the development of logistics and distribution business. In order to ensure that the construction of the logistics and distribution network can better serve the Company's overall development strategy to further promote the development of the Company's home decoration and furnishing retail network, the Company intends to reformulate a plan for the construction of unified logistic service system and adjust the investment progress, scale of investment and location selection, etc. As the new project plan for the construction of unified logistic service system was formulated in 2018, in order to improve the efficiency in the use of the proceeds, reduce the risk of investment of the proceeds, and safeguard the interests of all of its shareholders, the Company intends to change and implement the proceeds-funded project, and plans to use its own funds for the construction of unified logistic service system, after the completion of the new plan.

Note 2: When the Company plans the expansion of home design and decoration services, the home decoration business of the project company is at a relatively early stage of development, and it is expected that the Company needs to support the business by the investment of the proceeds, to facilitate the rapid development of the business. However, the funds owned by the project company and the cash flow generated by its business operation are sufficient to support its current business development plan, due to the rapid development of the home decoration industry and its regular chain network, the foundation of the mature home furnishing mall network of Macalline, and the efficient use of the own funds by the project company. In order to improve the efficiency in the use of the proceeds and follow the Company's overall business development plan, the project is proposed to be changed and implemented.

Note 3: According to the original investment plan for the proceeds-funded project, the project is intended to direct online users to the physical display space of offline shopping malls through the development of a large number of online display system platforms, and marketing and promotion investments. With the rapid development of the new retail form of the home improvement and furnishing industry, consumers have higher aesthetic requirements and greater demand for real scene experience and pay more attention to the quality of service they obtain in shopping and consumption. They are willing to pay a certain premium for high-quality service. The Company judges that the original proceeds-funded project cannot fully meet consumers' demand for professional design aesthetic, high-quality shopping experience and high-quality service. Therefore, the Company intends to change the project, and implement the "new intelligent shopping mall", a proceeds-funded project, through Shanghai Hongmei E-Commerce Co., Ltd., which is a platform of the Company engaged in Internet businesses, thus completing the transformation and upgrade to the new home furnishing retail.

III. ACTUAL USE OF PROCEEDS PREVIOUSLY RAISED

(I) Use of Funds for Proceeds-Funded Projects

According to the proceeds use plan disclosed by the Company, all proceeds from the offering of shares after the deduction of offering expenses will be used for all projects in relation to the Company's principal business.

For details of the actual use of the proceeds previously raised as at 31 December 2019, see Appendix I "Comparison Table for Use of Proceeds Previously Raised" and Appendix II "Comparison Table for Benefits from Projects Funded by Proceeds Previously Raised".

(II) Early Investment and Replacement for Proceeds-funded Projects

The Company held the 23rd extraordinary meeting of the third session of the Board of Directors on 7 February 2018, at which the Resolution on Use of Certain Surplus Funds of Completed Proceeds-funded Projects for Other Proceeds-funded Projects, and Replacement of Self-raised Funds Invested in Advance in Proceeds-funded Projects with Proceeds was considered and approved. It was resolved that the Company be approved to replace the self-raised funds previously invested in the proceeds-funded project with the proceeds of RMB1,677.5799 million. For details, see the Announcement of Red Star Macalline Group Corporation Ltd. on Replacement of Self-raised Funds Invested in Advance in Proceeds-funded Projects with Proceeds (Announcement No.: 2018-007) disclosed by the Company on the official website of Shanghai Stock Exchange and designated media.

The Company held the 41st extraordinary meeting of the third session of the Board of Directors and the 7th extraordinary meeting of the third session of the Supervisory Committee on 10 December 2018, at which the Resolution on Replacement of Self-raised Funds Invested in Advance in Proceeds-funded Projects with Proceeds was considered and approved. It was resolved that the Company be approved to replace the self-raised funds previously invested in the proceeds-funded project with the proceeds of RMB421.8569 million. For details, see the Announcement of Red Star Macalline Group Corporation Ltd. on Replacement of Self-raised Funds Invested in Advance in Proceeds-funded Projects with Proceeds (Announcement No.: 2018-168) disclosed by the Company on the official website of Shanghai Stock Exchange and designated media.

(III) Use of Idle Proceeds for Temporary Replenishment of Working Capital***1. Replenishment of Working Capital with Idle Proceeds in 2018***

In order to improve the efficiency in the use of its proceeds and further reduce its financial costs, the Company held the 23rd extraordinary meeting of the third session of the Board of Directors and the 3rd extraordinary meeting of the third session of the Supervisory Committee on 7 February 2018, at which the Resolution on the Use of Certain Idle Proceeds for Temporary Replenishment of Working Capital was considered and approved. It was resolved that the Company be approved to use certain idle proceeds (up to RMB500 million) for temporary replenishment of working capital, for a term of up to 12 months from the date of transfer of the proceeds from the proceeds account of the Company to the transfer of the proceeds back to the account. The Company transferred RMB472.4201 million, RMB27.5790 million and RMB0.9 thousand from the proceeds account respectively on 12 February 2018, 16 August 2018 and 5 December 2018. As at 17 August 2019, the Company returned to the proceeds account in batches, the idle proceeds of RMB500 million temporarily used for the replenishment of working capital.

2. *Replenishment of Working Capital with Idle Proceeds in 2019*

In order to improve the efficiency in the use of its proceeds and further reduce its financial costs, the Company held the 45th extraordinary meeting of the third session of the Board of Directors and the 8th extraordinary meeting of the third session of the Supervisory Committee on 5 March 2019, at which the Resolution on the Use of Certain Idle Proceeds for Temporary Replenishment of Working Capital was considered and approved. It was resolved that the Company be approved to use certain idle proceeds (up to RMB400 million) for temporary replenishment of working capital, for a term of up to 12 months from the date of transfer of the proceeds from the proceeds account of the Company to the transfer of the proceeds back to the account. To sum up, as at 31 December 2019, the idle proceeds used for temporary replenishment of working capital but not returned by the Company were RMB400 million¹.

(IV) Cash Management of Idle Proceeds

As at 31 December 2019, the Company did not carry out cash management of idle proceeds.

(V) Use of Surplus Proceeds for Permanent Replenishment of Working Capital or Repayment of Bank Loans

As at 31 December 2019, the Company did not use the surplus proceeds for permanent replenishment of working capital or repayment of bank loans.

(VI) Use of Surplus Proceeds for Projects in Progress and New Projects

As at 31 December 2019, the Company did not use the surplus proceeds for projects in progress and new projects.

¹ On 5 March 2020, the Company returned to the proceeds account, the idle proceeds of RMB400 million temporarily used for the replenishment of working capital. The Company held the 6th extraordinary meeting of the fourth session of the Board of Directors and the 3rd extraordinary meeting of the fourth session of the Supervisory Committee on 6 March 2020, at which the Resolution on the Use of Certain Idle Proceeds for Temporary Replenishment of Working Capital was considered and approved. It was resolved that the Company be approved to use certain idle proceeds (up to RMB400 million) for temporary replenishment of working capital, for a term of up to 12 months from the date of transfer of the proceeds from the proceeds account of the Company to the transfer of the proceeds back to the account. The Company transferred RMB400 million from the proceeds account on 9 March 2020.

(VII) Use of the Balance of the Proceeds Previously Raised*1. Balance of the Proceeds Previously Raised*

As at 31 December 2019, the actual total investment of the Company in the proceeds-funded projects was RMB2,636.7307 million, and the committed total investment of the proceeds was RMB3,050.0078 million, and the difference between the actual total investment and the committed total investment was RMB413.2771 million, accounting for 13.55% of the committed total investment of the proceeds.

2. Reasons for Failure to Use Up the Proceeds Previously Raised and Plan of Use of the Remaining Proceeds

As at 31 December 2019, the proceeds of the Company were not used up, mainly due to the proceeds-funded projects being under construction. At present, the overall investment in proceeds-funded projects is carried out as planned. The Company will actively promote the construction of the proceeds-funded projects and use the funds in an orderly manner as planned, so as to ensure the smooth implementation of the proceeds-funded projects.

IV. BENEFITS FROM PROJECTS FUNDED BY PROCEEDS PREVIOUSLY RAISED**(I) Comparison Table for Benefits from Projects Funded by Proceeds Previously Raised**

For details of the Comparison Table for Benefits from Projects Funded by Proceeds Previously Raised, see Appendix II Comparison Table for Benefits from Projects Funded by Proceeds Previously Raised.

(II) Explanation for Failure to Separately Calculate the Benefits from Projects Funded by the Proceeds Previously Raised

For details of the Comparison Table for Benefits from Projects Funded by Proceeds Previously Raised, see Appendix II Comparison Table for Benefits from Projects Funded by Proceeds Previously Raised.

(III) Explanation for the Failure of the Total Income From Projects Funded by the Proceeds Previously Raised to Exceed 20% (Inclusive) of the Committed Amount

Not applicable

V. COMPARISON BETWEEN ACTUAL USE OF PROCEEDS PREVIOUSLY RAISED AND RELEVANT INFORMATION DISCLOSED BY THE COMPANY IN PERIODIC REPORTS

There are no differences between the actual use by the Company of proceeds previously raised and the information disclosed in annual reports and other information disclosure documents of the Company.

VI. CONCLUSIONS

The Board of Directors believes that the Company has used the proceeds previously raised, according to the prospectus for the initial public offering. The Company has performed the responsibility to truthfully disclose the use of the proceeds previously raised and the progress, in accordance with the Administrative Measures for Issuance and the Regulations on the Report on the Use of the Proceeds Raised in the Previous Issuance of Shares (關於前次募集資金使用情況報告的規定) (ZJFXZ [2007] No.500).

All Directors of the Company undertake that there are no false representations, misleading statements or material omissions in this report, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of this report.

**The Board of Directors of
Red Star Macalline Group Corporation Ltd.**

3 June 2020

Appendix 1:

COMPARISON TABLE FOR USE OF PROCEEDS PREVIOUSLY RAISED

Unit: RMB ten thousand

Total proceeds:	308,663.75	Total proceeds used:	263,673.08
Total proceeds the use of which is changed:	105,000.00	Total proceeds used each year:	246,249.85
The proportion of the total proceeds the use of which is changed:	34.02%	2018:	17,423.23
		2019:	

S/N	Committed Investment Project	Actual Investment Project	Investment Project			Total Investment of Proceeds as at the Closing Date			Date on which the project is ready for its intended use
			Investment Committed Before Financing	Investment Committed After Financing	Actual Investment	Investment Committed Before Financing	Investment Committed After Financing	Actual Investment	
1	Tianjin Beichen Shopping Mall Project	Tianjin Beichen Shopping Mall Project	28,047.00	24,513.65	24,513.65	28,047.00	24,513.65	24,513.65	- April 2017
2	Hohhot Yuquan Shopping Mall Project	Hohhot Yuquan Shopping Mall Project	7,611.00	7,682.53	7,682.53	7,611.00	7,682.53	7,682.53	- October 2016
3	Dongguan Wanjiang Shopping Mall Project	Dongguan Wanjiang Shopping Mall Project	11,674.00	16,414.51	16,414.51	11,674.00	16,414.51	16,414.51	- September 2016

S/N	Investment Project	Total Investment of Proceeds				Total Investment of Proceeds as at the Closing Date				Date on which the project is ready for its intended use (the project progress as at the closing date)	
		Investment Committed		Investment Actual		Investment Committed		Investment Actual			Difference Between Investment and Actual
		Before Financing	After Financing	Before Financing	After Financing	Before Financing	After Financing	Before Financing	After Financing		
	Actual Investment Project										
4	Harbin Songbei Shopping Mall Project	41,683.00	29,480.94	29,480.94	41,683.00	29,480.94	29,480.94	29,480.94	-	October 2017	
5	Urumqi Convention and Exhibition Mall Project (Note 1)	55,985.00	66,908.37	66,673.30	55,985.00	66,908.37	66,673.30	66,673.30	(235.07)	July 2019	
6	Changsha Jinxia Shopping Mall Project (Note 2)	-	19,000.00	10,771.89	-	19,000.00	10,771.89	10,771.89	(8,228.11)	December 2020	
7	Xining Expo Shopping Mall Project (Note 3)	-	11,000.00	10,778.56	-	11,000.00	10,778.56	10,778.56	(221.44)	December 2018	
	Subtotal for the Home Furnishing Mall Construction Projects	145,000.00	175,000.00	166,315.38	145,000.00	175,000.00	166,315.38	166,315.38	(8,684.62)		
8	Construction of Unified Logistic Service System	45,000.00	-	-	45,000.00	-	-	-	-		
9	Expansion of Home Design and Decoration Services	20,000.00	-	-	20,000.00	-	-	-	-		
10	O2O Home Decoration Platform	40,000.00	-	-	40,000.00	-	-	-	-		
11	Repayment of Bank Loans	40,000.00	40,000.00	40,000.00	40,000.00	40,000.00	40,000.00	40,000.00	-		
12	Replenishment of Working Capital	15,000.78	15,000.78	15,000.78	15,000.78	15,000.78	15,000.78	15,000.78	-		

S/N	Investment Project	Total Investment of Proceeds				Total Investment of Proceeds as at the Closing Date		Date on which the project is ready for its intended use (the project progress as at the closing date)
		Investment Committed		Investment Actual		Investment Committed	Investment After Financing	
		Before Financing	After Financing	Before Financing	After Financing			
13	New Intelligent Home	-	40,000.00	7,356.92	-	40,000.00	7,356.92	(32,643.08)
14	Furnishing Shopping Mall	-	35,000.00	35,000.00	-	35,000.00	35,000.00	-
	Repayment of Interest-bearing Debts	-	-	-	-	-	-	-
		305,000.78	305,000.78	263,673.08	305,000.78	305,000.78	263,673.08	(41,327.70)

Note 1: The opening of the Urumqi Convention and Exhibition Mall was postponed to July 2019, due to delay in construction, bad weather condition and other reasons. As at 31 December 2019, the project was completed and opened. Due to the efficiency improvement in the project, there were surplus proceeds of RMB2.3507 million, which were temporarily used to replenish the general working capital.

Note 2: The Changsha Jinxia Shopping Mall was originally planned to be opened in January 2020. As the completion acceptance report has not been obtained for the mall and the supporting facilities around the mall have still been under construction and improvement, the opening of the mall is expected to be postponed to December 2020, and certain idle proceeds have been used to replenish the general working capital.

Note 3: The Xining Expo Shopping Mall Project was completed in December 2018. Due to the efficiency improvement in the project, there were surplus proceeds of RMB2.2144 million, which are temporarily deposited in the Quadripartite-Supervision Account.

Appendix 2:

COMPARISON TABLE FOR BENEFITS FROM PROJECTS FUNDED BY PROCEEDS PREVIOUSLY RAISED

Unit: RMB ten thousand

S/N	Actual Investment Project	Project Name	Total Capacity Utilization in the Investment Project as at the Closing Date	Committed Benefits	Actual Benefits for the Last Three Years (Note 1)			Total Benefits Generated as at the Closing Date	
					2017 (Note 6)	2018	2019		
1	Home Furnishing	Tianjin Beichen Shopping Mall Project	Not applicable	No committed benefits	2,859	4,077	3,873	10,809	Not applicable
2	Mall Construction	Hohhot Yuquan Shopping Mall Project	Not applicable		4,143	5,133	4,737	14,013	
3	Projects	Dongguan Wanjiang Shopping Mall Project	Not applicable		3,151	3,671	3,854	10,676	
4		Harbin Songbei Shopping Mall Project	Not applicable		591	2,484	3,184	6,259	
5		Urumqi Convention and Exhibition Mall Project	Not applicable		-	-	1,936	1,936	
6		Changsha Jinxia Shopping Mall Project (Note 2)	Not applicable		-	-	-	-	
7		Xining Expo Shopping Mall Project	Not applicable		-	-	5,618	5,618	
8	Construction of Unified Logistic Service System (Note 3)		Not applicable	No committed benefits	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
9	Expansion of Home Design and Decoration Services (Note 3)		Not applicable	No committed benefits	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
10	O2O Home Decoration Platform (Note 3)		Not applicable	No committed benefits	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
11	Repayment of Bank Loans (Note 4)		Not applicable	No committed benefits	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
12	Replenishment of Working Capital (Note 4)		Not applicable	No committed benefits	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
13	New Intelligent Home Furnishing Shopping Mall (Note 5)		Not applicable	No committed benefits	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
14	Repayment of Interest-bearing Debts (Note 4)		Not applicable	No committed benefits	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

Note 1: Projects 1 to 7 are home furnishing mall construction projects. The actual benefit amounts for the last three years are the operating revenues of the shopping malls. The first several years following the opening of the shopping malls are the cultivation periods, when the revenues are obviously lower than the average revenues in the forecast periods, and therefore, a comparison with the average revenues in the forecast periods has a lower reference value;

Note 2: As at 31 December 2019, the Changsha Jinxia Shopping Mall Project was not completed;

Note 3: On 7 September 2018, the Company held the 35th extraordinary meeting of the third session of Board of Directors and the 4th extraordinary meeting of the third session of the Supervisory Committee, at which the Resolution on Change in Certain Proceeds-funded Projects was considered and approved. It was resolved that the Company be approved to cease the investment of the proceeds in the “Construction of Unified Logistic Service System”, “Expansion of Home Design and Decoration Services”, “O2O Home Decoration Platform”, and invest the unused proceeds of the above three projects;

Note 4: The benefits from the Repayment of Bank Loans, the Replenishment of Working Capital, and the Repayment of Interest-bearing Debts cannot be separately calculated. Obtaining the proceeds is conducive to optimizing the financial structure of the Company, improving its risk tolerance, and supporting the sustained growth of its business and consolidate its market position;

Note 5: Main contents of the construction of the “New Intelligent Home Furnishing Shopping Mall” are the upgrade and transformation of home furnishing malls, the construction of “Future Store” and the construction of Internet data centers. It supports and upgrades the Company’s existing home furnishing malls, business and background systems. The benefits from the project are not separately calculated.

Note 6: In January 2018, the Company conducted an initial public offering of A Shares and had the A Shares listed on the Shanghai Stock Exchange. The funds initially invested in relevant projects are self-raised funds of the Company.

**APPENDIX III FEASIBILITY REPORT ON THE USE OF PROCEEDS
FROM THE NON-PUBLIC ISSUANCE OF A SHARES**

I. Plan for Use of Proceeds

The proposed total proceeds from the Non-public Issuance by the Company will be up to RMB4,000 million, and the net proceeds after the deduction of issue expenses will be used for the following projects:

Unit: RMB ten thousand

S/N	Project Name		Investment in Project	Proceeds Proposed to be Used	
1	Home Furnishing Mall Construction Project ^(Note)	1.1	Foshan Lecong Shopping Mall Project	126,781.96	100,000.00
		1.2	Nanning Dingqiu Shopping Mall Project	60,668.75	56,000.00
		1.3	Nanchang Chaoyang Xincheng Shopping Mall Project	58,988.02	40,000.00
	Subtotal			246,438.73	196,000.00
2	Tmall “Home Decoration Tongcheng Station” Project			89,054.00	22,000.00
3	3D Shejiyun Platform Construction Project			62,318.00	30,000.00
4	Construction Project for New Generation Home Improvement Platform System			62,898.00	35,000.00
5	Repayment of Interest-bearing Debts of the Company			117,000.00	117,000.00
	Total			577,708.73	400,000.00

Note: The total investment amounts of the Foshan Lecong shopping mall project, the Nanning Dingqiu shopping mall project and the Nanchang Chaoyang Xincheng shopping mall project are RMB1,800.00 million, RMB1,000.00 million and RMB1,000.00 million, respectively. In the table, the investment amounts of home furnishing mall construction projects are the subsequent investment amounts required, after deducting the self-owned funds invested by the Company as of the date of the resolution being approved by the Board.

If after the proceeds from the Non-public Issuance are obtained, the actual net proceeds are less than the total proceeds proposed to be invested, the difference will be made up by the Company, using its self-raised funds. Meanwhile, the priority and amounts of investments of the proceeds will be adjusted and finally determined by the Company according to factors including the order of priority and actual progress of the projects. The Company will first invest its self-raised funds according to the actual conditions of the above projects, before obtaining the proceeds, and will replace the funds with the proceeds obtained, according to procedures specified in relevant regulations.

II. Information on Proceeds Funded Projects

(I) Home Furnishing Mall Construction Project

1. *Background of Home Furnishing Mall Construction Project Implementation*

China has seen a stable and rapid development of the national economy for more than 20 years, with rapid growth in economic indicators of the national economy. Under the background of sound and rapid economic development, there is a solid foundation for the development of the home furnishing materials industry. As the rapid growth of the national economy helps improve the spending power of residents, the consumption expenditure for home decoration increases. Under the background, China's home furnishing materials industry grows rapidly. Since home improvement material products have the characteristics of "emphasis on display and space-consuming", it is difficult for ordinary manufacturers or distributors to fully penetrate every market in the region where they operate, with their own channels and retail networks. Therefore, represented by various shopping malls, home furnishing circulation enterprises show a great market value. They work closely with manufacturers or distributors to increase the market penetration of home improvement material products.

Compared with other non-chain enterprises in the industry, enterprises which have nationwide presence are able to collect and integrate various commercial resources, with their scale advantage, thus continuously improving their profitability and risk control capabilities. Therefore, nationwide expansion and large-scale development have become the development trend in the industry. At the present stage, the competition between enterprises in the industry will focus on store location and the improvement in corporate internal management capabilities, including the cultivation and occupation of high-quality business districts in regions, the understanding of the operation of home improvement and furnishing shopping malls, and the ability to implement corporate strategies.

In recent years, according to the characteristics of markets all over China and its development, the Company has further increased its market share and coverage rate, and strengthened its control and influence over the market, through store development. The market demand in megapolises including Beijing, Shanghai, Shenzhen and Guangzhou, where the highest concentrations of home improvement materials circulation industry can be found, is becoming saturated. In regions where the proceeds funded projects are located, such as including Foshan, Nanning and Nanchang, the home decoration demands increase with the development of the local economy. Therefore, the establishment of a network of home furnishing malls in these cities by the Company is conducive to improving the strategic arrangement of the Company and further increasing its market share.

2. *Feasibility of Home Furnishing Mall Construction Project*

(1) *Compliance with national industrial policies*

The State Council, the Ministry of Commerce and other government departments have successively published a number of industry policies and regulations, including the Several Issues on Promoting the Development of Chain Operation, the Several Opinions of the State Council on Promoting the Development of Circulation Industry, the 13th Five-Year Plan for the Development of Domestic Trade Circulation, thus creating a good external environment for the development and operation of the industry. The construction of the proceeds funded projects is conducive to promoting the circulation of home decoration and furnishing products in the market, which is in line with the development direction of the national industrial policy.

(2) *Brand and customer resource advantages ensure the development of the Company*

The Company is a leading operator of home improvement and furnishing shopping malls in China. As at 31 March 2020, the Company operated 87 Portfolio Shopping Malls, 249 Managed Shopping Malls, and 12 Home Furnishing Malls through strategic cooperation, and authorized the opening of 46 franchised home improvement material projects by way of franchising, including a total of 428 home improvement material stores/industry streets, with a total operating area for Portfolio Shopping Malls and Managed Shopping Malls operated by the Company of 20,999,766.62 sq.m. Through the two-wheel drive development model of Portfolio Shopping Malls and Managed Shopping Malls, the Company occupied properties in prime locations in first and second-tier cities, and accumulated extensive experience in operating shopping malls, constantly strengthened its brand value, and created a relatively high entry barrier.

The Company's strong brand influence, good customer base, and strong advertising help greatly reduce the time and cost of investment promotion, which greatly support the construction of the home furnishing malls. Through the construction of the home furnishing mall projects, the Company is able to continuously and rapidly enhance its market competitiveness and influence in local areas, thus improving the utilization efficiency of the proceeds, effectively ensuring the maximization of shareholder's interests.

(3) *Mature investment promotion and cooperation model*

The success of the Company's investment promotion is vital to the Company's development. The Company has accumulated rich experience in industry development and management, and has established a set of standard internal operation systems, for the processes from the preliminary feasibility study of a project, planning and design, construction, investment promotion for shopping malls, to opening and operation. Through years of continuous development, the Company has a good brand image and appeal across China. In terms of investment promotion, the Company adopts the model of centralized investment promotion management by the headquarters. Regarding investment promotion, the Company adheres to the principle of openness and

fairness, and has established good strategic cooperative relationships with well-known international and domestic brand merchants, and long-term stable partnerships with manufacturers which have high brand awareness and strong expansion ability, thus ensuring the Company's investment promotion work and the occupancy rate of shopping malls after the openings. Based on the good long-term cooperative relationships, the Company's home decoration products can be supplied stably. Meanwhile, the Company is able to effectively attract consumers through media campaigns, reporting, publicity, print advertising and other means, in investment promotion. The mature investment promotion model of the Company strongly ensures the smooth implementation of the project.

(4) Accumulation of years of development management and operation management experience of the Company

The Company has established a mature standardization system for shopping mall development and management, ensuring the rapid and continuous development of home furnishing malls of the Company. After years of development, the Company has accumulated rich experience in the development of home furnishing malls, and has formed a set of efficient and sound development processes, including rules and policies on market analysis, project site selection, engineering construction design, merchant introduction, etc. For effective business implementation and development, the Company has a special management department to collect and collate information on all home furnishing malls of the Company, review the opening of the home furnishing malls, and put forward improvement plans for issues in the operation of Portfolio Shopping Malls, Leased Portfolio Shopping Malls and Managed Shopping Malls, and supervise the implementation of the plans. Meanwhile, the Company has always attached importance to the cultivation and introduction of professionals, and has established a mature and sound human resources management system to effectively cultivate, attract and retain management personnel.

Since its establishment, the Company has taken the lead in proposing "one-stop" shopping, adhered to the business philosophy of "market-oriented operation and shopping mall-oriented management", and has established reasonable and effective operation standards and supervision mechanisms for home furnishing malls, in consideration of its corporate culture, industry convention and brand culture. The Company has formulated a sound system for the management of home furnishing malls, covering employee management, after-sales service management, financial management, etc. The Company's rich experience in the management of home furnishing malls will materially ensure the implementation of the project.

3. *Necessity of the Home Furnishing Mall Construction Project*

(1) Improve the strategic arrangements of the Company by setting up offline stores for new retail business, and enhance its market competitiveness

The Company has as its mission, "building a warm and harmonious homeland and enhancing consumption and lifestyle". It will continue to follow the operation and management model of "market-oriented operation and shopping mall-oriented management", so as to provide better and more professional services for consumers, consolidate its market leading position and strengthen the brand image of Home Furnishing Expert of "Red Star Macalline" in the consumers' mind to build the most pioneering and professional "omni-channel platform provider in the home improvement and furnishing industry".

As there are more restrictions for home improvement and furnishing malls in choosing properties, and those suitable for home improvement and furnishing malls needs to have some characteristics, such as adequate operating area and convenient transportation, therefore, retail properties for home improvement and furnishing in a specific market are extremely rare, and the enterprises that enter in the specific market earlier will hold the advantage of the good geographical location and own the first-mover advantage. The Company plans further improve the network layout of home furnishing malls in the local and surrounding areas by establishing home furnishing malls in Foshan, Nanning, Nanchang and other cities, to meet the Company's regional development strategy. While further enhancing the local market competitiveness of the Company, the Company will set up offline stores for new retail business of the Company, thus lay a foundation for the layout of the new online and offline retail business.

(2) Increase the long-term profitability of the Company

The Company has opened home furnishing malls nationwide and has achieved rapid expansion through self-construction, lease and management. The home furnishing mall construction project reflects the Company's operation model of independent land acquisition, independent operation of shopping malls and creative replication and expansion, ensuring the Company's continuous and stable cash flow and revenue. The successful implementation of the home furnishing mall construction project will increase the Company's annual average rental income, thus enhancing its annual average net profit.

(3) Enhance the overall brand value of the Company

In recent years, circulation enterprises for home improvement and furnishing in China have accelerated the pace of chain expansion. The competition in the industry has shifted from the pursuit of the size of the shopping mall to brand building, corporate internal management and the establishment of close partnership. Due to its early entry into the industry and more than 30 years of development, the Company has gradually established a leading position in the home improvement and furnishing industry. While achieving rapid and steady expansion, the Company has become a leader in the industry, with its strengths including effective and coordinated development under the portfolio model and managed model and rich customer resources. The awards received by the Company reflect its development achievements and enhance its brand awareness and influence in the industry.

The implementation of the home furnishing mall construction project can further expand the Company's outlets for home improvement and furnishing shopping mall, improve its nationwide business strategy, and help improve its influence in the industry, the appeal of its brand and the brand premium capacity, thus securing a good customer base for the Company's chain expansion.

4. *Information on Projects for Home Furnishing Mall Construction*(1) *Foshan Lecong shopping mall project*

1) Basic information

Project name: Red Star Home Furnishing World Trade Center in Lecong, Foshan

Project company: Foshan Junda Enterprise Management Co., Ltd. (佛山郡達企業管理有限公司)

Project location: south of Red Star Macalline, east side of Shuiteng Avenue, Guangzhan Highway, Lecong Committee of Residents, Lecong Town, Shunde District

Land area: 95,431.27 sq.m.

Planned floor area: 270,000.00 sq.m.

2) Project certificates and licenses

Qualification documents obtained for the project are as follows:

<u>Document Type</u>	<u>Document Number</u>
Project establishment approval/filing	Filing Certificate for Investment Projects of Enterprises in Guangdong (filing project No.: 2017-440606-70-03-001801)
Environmental impact assessment approval/filing	Registration Form for Environmental Impacts of Construction Projects (filing No.: 201844060600005241)
State-owned Land Use Certificate	Yue(2018)Shun De Qu Bu Dong Chan Quan No. 2218000559
Construction land planning permit	Di Zi No. 440606201701588
Construction project planning permit	Jian Zi No. 440606201905138
Building engineering construction permit	440606201909170101

3) Project development prospects

Foshan, where the project is located, is a prefecture-level city in Guangdong Province, a city in the Pearl River Delta, an important city in the Guangdong-Hong Kong-Macao Greater Bay Area, an important manufacturing base in China, a national famous historical and cultural city, an important part of “Guangzhou-Foshan Metropolitan Area”, “Guangzhou-Foshan-Zhaoqing Economic Rim” and “Pearl River-Xi

River Economic Belt”, a national advanced manufacturing base, and an important manufacturing center in Guangdong. It is in a leading position in the economic development of Guangdong Province. As at the end of 2018, the permanent residents population of the city was 7,905.7 thousand, and the GDP of the city for 2018 was RMB993.588 billion, representing an increase of 6.3% compared with last year. The per capita disposable income of residents for the year was RMB49,630, representing an increase of 8.3% or (after deducting price factors) 6.2% compared with last year; the per capita consumption expenditure was RMB34,053.

As the incomes and consumption level of residents in Foshan gradually increase, their demand for household products grows day by day, along with their increasing demand for quality of life. The construction of the project will meet the higher demand of local residents for quality life, thus further promoting the development of the local home furnishing market.

4) Project investment estimation and economic benefits

The estimation of subsequent investments in the project and the proceeds proposed to be used are as follows:

Unit: RMB ten thousand

Description	Investment in Project	Proceeds Proposed to be Used
Construction investment	108,181.96	100,000.00
Other costs for engineering construction	17,400.00	–
Reserve funds	1,200.00	–
Total	126,781.96	100,000.00

The economic benefits of the project are as follows:

Unit: RMB ten thousand

Description	Indicators
Estimated annual average revenue generated upon the completion of the project	40,548.56
Payback period of the after-tax investment (including the construction period)	11.13 years
After-tax internal rate of return	10.00%

5) Project progress and financing

The construction period of the project is 2 years, and the investment amount is RMB1,267.8196 million, of which the proceeds to be used will be RMB1,000.00 million and the remaining funds will be funds raised by the Company and otherwise.

(2) *Nanning Dingqiu shopping mall project*

1) Basic information

Project name:	Nanning Red Star Macalline Shibo Furniture Exhibition Center
Project company:	Nanning Red Star Macalline Shibo Furniture Exhibition Center Company Limited (南寧紅星美凱龍世博家居展覽中心有限公司)
Project location:	Intersection of Dingqiu Overpass and Shajing Avenue, Jiangnan District, Nanning City
Estimated total investment:	RMB1,000.00 million
Land area:	45,947.16 sq.m.
Planned floor area:	166,442.00 sq.m.

2) Project certificates and licenses

Qualification documents obtained for the project are as follows:

<u>Document Type</u>	<u>Document Number</u>
Project establishment approval/filing	Information Registration Form (project code: 2018-450105-47-03-038528)
Environmental impact assessment approval/filing	Registration Form for Environmental Impacts of Construction Projects (filing No.: 201945010500000020)
State-owned Land Use Certificate	Gui(2019)Nan Ning Shi Bu Dong Chan Quan No. 0043694
Construction land planning permit	Di Zi No. 450101201900005
Construction project planning permit	Jian Zi No. 450101201900461
Building engineering construction permit	450105201907192101

3) Project development prospects

Nanning, where the project is located, is the administration center of Guangxi Zhuang Autonomous Region, the core city of the Beibu Bay city clusters, the central city in Beibu Bay Economic Zone in China as determined and confirmed by the State Council, and the integrated transportation hub with access to the sea, in the southwest region. As of 2018, the city had 7 districts and 5 counties with a total area of 22,112 square kilometers, a built-up area of 372 square kilometers, a permanent residents population of 7,254.1 thousand and an urban population of 4,526.1 thousand, and an urbanization rate of 62.4%.

GDP of Nanning for 2018 was RMB434.14 billion, representing an increase of 5.4%. The total retail sales of consumer goods for the year increased by 9.0% compared with the previous year, and the retail sales of consumer goods in urban areas rose by 8.9%. The per capita disposable income of urban residents was RMB35,276, representing an increase of 6.2%. The good economic development momentum in Nanning has driven the further development of the local home furnishing market.

As the incomes and consumption level of residents in Nanning gradually increase, their demand for household products grows day by day, with an improvement in the pursuit of quality of life. The construction of the project will meet the higher demand of local residents for quality life, thus further promoting the development of the local home furnishing market.

4) Project investment estimation and economic benefits

The estimation of subsequent investments in the project and the proceeds proposed to be used are as follows:

Unit: RMB ten thousand

Description	Investment in Project	Proceeds Proposed to be Used
Construction investment	58,701.64	56,000.00
Other costs for engineering construction	1,967.11	—
Total	60,668.75	56,000.00

The economic benefits of the project are as follows:

Unit: RMB ten thousand

Description	Indicators
Estimated annual average revenue generated upon the completion of the project	26,305.99
Payback period of the after-tax investment (including the construction period)	12.87 years
After-tax internal rate of return	8.77%

5) Project progress and financing

The construction period of the project is 2 years, and the investment amount is RMB606.6875 million, of which the proceeds to be used will be RMB560.00 million and the remaining funds will be funds raised by the Company and otherwise.

(3) *Nanchang Chaoyang Xincheng shopping mall project*

1) Basic information

Project name:	Nanchang Red Star Macalline Global Home Expo Center
Project company:	Nanchang Red Star Macalline Global Home Expo Center Co., Ltd. (南昌紅星美凱龍環球家居博覽中心有限責任公司)
Project location:	North of Jiuzhou Avenue, west of Ziyu Road, south of Huwei Road, east of Taohua South Road, and adjacent to Nanchang Zoo on the west side, to Chaoyang Tiancheng Residential District on the north side and the Evergrande Residential District on the south side, Xihu District, Nanchang City
Estimated total investment:	RMB1,000.00 million
Land area:	56,874.00 sq.m.
Planned floor area:	188,705.55 sq.m.

2) Project certificates and licenses

Qualification documents obtained for the project are as follows:

<u>Document Type</u>	<u>Document Number</u>
Project establishment approval/filing	Notice on Filing for Investment Projects of Enterprises in Jiangxi (project code: 2017-360103-72-03-020908)
Environmental impact assessment approval/filing	Registration Form for Environmental Impacts of Construction Projects (filing No.: 201836010300000087)
State-owned Land Use Certificate	Gan(2018)Nan Chang Shi Bu Dong Chan Quan No. 0168945
Construction land planning permit	Di Zi No. 360100201700161
Construction project planning permit	Jian Zi No. 360100201900175 Jian Zi No. 360100201900176 Jian Zi No. 360100201900177 Jian Zi No. 360100201900178
Building engineering construction permit	360103201905270201

3) Project development prospects

Nanchang, where the project is located, is the provincial capital of Jiangxi Province, the core city of the Poyang Lake city cluster, the political, economic, cultural, scientific, educational and transportation center of Jiangxi Province, and the important central city in the middle reach of the Yangtze River which is determined with the approved by the State Council. In 2018, the GDP of Nanchang was RMB527.4 billion with a growth rate of 5.43%, representing a year-on-year increase of RMB27.1 billion, and Nanchang ranked first in terms of GDP in the province. In 2018, the total registered population in Nanchang was 5,318.8 thousand, of which the urban population was 2,945.5 thousand, with the urbanization rate of the registered population reaching 55.38%. As at the end of the year, the permanent residents population was 5,545.5 thousand. In 2018, the per capita disposable income of urban residents in the city was RMB40,844, representing an increase of 8.4%, and the per capita consumption expenditure of urban residents was RMB26,081, representing an increase of 7.4%.

As the incomes and consumption level of residents in Nanchang gradually increase, their demand for household products grows day by day, with an improvement in the pursuit of quality of life. The construction of the project will meet the higher demand of local residents for quality life, thus further promoting the development of the local home furnishing market.

4) Project investment estimation and economic benefits

The estimation of subsequent investments in the project and the proceeds proposed to be used are as follows:

Unit: RMB ten thousand

<u>Description</u>	<u>Investment in Project</u>	<u>Proceeds Proposed to be Used</u>
Construction investment	48,183.24	40,000.00
Other costs for engineering construction	10,804.78	–
Total	<u>58,988.02</u>	<u>40,000.00</u>

The economic benefits of the project are as follows:

Unit: RMB ten thousand

<u>Description</u>	<u>Indicators</u>
Estimated annual average revenue generated upon the completion of the project	14,241.76
Payback period of the after-tax investment (including the construction period)	13.21 years
After-tax internal rate of return	5.95%

5) Project progress and financing

The construction period of the project is 2 years, and the investment amount is RMB589.8802 million, of which the proceeds to be used will be RMB400.00 million and the remaining funds will be funds raised by the Company and otherwise.

(II) Tmall “Home Decoration Tongcheng Station” Project***1. Background of Tmall “Home Decoration Tongcheng Station” Project Implementation***

On 24 May 2019, the Company and Alibaba (China) Technology Co., Ltd. (hereinafter referred to as “Alibaba”) entered into a Strategic Cooperation Agreement, pursuant to which the parties will carry out comprehensive and deep strategic cooperation in construction of new retail stores and e-commerce platforms, and the logistics, warehousing, distribution and installation service provider system, consumer finance, integrated business form, payment system and information sharing. In the past six months, both parties achieved a number of phased results in big data applications, digital upgrade of shopping malls and online and offline integrated marketing.

The Tmall “Home Decoration Tongcheng Station” project is an important part of the strategic cooperation between the Company and Alibaba, with an aim of jointly creating the local new home furnishing retail business, with Alibaba online traffic and the offline stores of Macalline. The online Tongcheng Station, namely the “Official Flagship Store of Red Star Macalline” on Tmall platform (hereinafter referred to as the “**Tongcheng Station**”) uses the LBS¹ technology, for localized product display and provisions of localized services, and can present localized product interfaces to consumers online according to their geographic location.

After a consumer logs into the “Tongcheng Station” interface, the background system will locate the geographical position of the consumer and automatically generate an interface of the “Tongcheng Station” for a specific city. Consumers can choose and buy household products from offline shopping malls of Macalline in the same city without going out, and know about the details of the goods through various means including picture, video and 3D scenario. After selecting specific commodities, consumers can buy them online or in a nearby store, and may simultaneously select value-added services including extended warranty and Credit Pay (花呗) installment payment. After placing an order, the consumer can choose to pick up the commodities in an offline store or require brand distributors to deliver and install the commodities. “Product listing, ordering, payment and services” are integrated through connection to the systems of Alibaba and Macalline.

¹ Location Based Services (LBS) use various location technologies to locate the geographical position of a positioning device, and provide information resources and basic services to the positioning device through mobile Internet.

2. *Feasibility of Tmall “Home Decoration Tongcheng Station” Project*

Since Alibaba became a shareholder of Macalline in May 2019, both parties have carried out strategic cooperation in strategic investment, construction of new retail stores and online e-commerce platforms, etc. The Tmall “Home Decoration Tongcheng Station” project represents deep cooperation between both parties in new retail and consists of two main parts, namely merchant operation and merchandise operation.

(1) Merchant operation

Merchant operation represents a core model of cooperation between Macalline and Alibaba on the online e-commerce platform. By building a localized home building materials flagship store based on the urban dimension, it will promote new retail changes in the home improvement and furnishing industry from the two directions of focusing on local consumption and enhancing shopping experience. Under this cooperation model, the Company accurately matches the needs of consumers by digitizing shopping malls and merchandise. While increasing the shopping efficiency of consumers, it also meets consumers’ needs for online and offline services of the same quality and the same price, thereby facilitating the rapid increase of online and offline traffic of merchants.

(2) Merchandise operation

The demand for merchandise operation is based on the rapid increase in the proportion of young consumers and the characteristics of the industry. It is a necessary supplement under the model of the merchant operation of the Tongcheng Station. It represents an active attempt to realize the transformation of the home improvement and furnishing industry to the new retail.

Merchandise operation will help continuously improve the word of mouth and achieve rapid growth in sales, through mutual empowerment between offline stores and online Tongcheng Station, and through the coordinated optimization of the rapid supply chain capability, online and offline integrated operation capability and service capability of new retail.

3. Necessity of Tmall “Home Decoration Tongcheng Station” Project

Over a long period, online and offline consumption for home furnishing have not really integrated, and the response in the home improvement and furnishing industry to new concepts and technologies has lagged behind the response in other standard product industries. The products of home furnishing industry have the market particularities of high fragmentation, correlation and complexity, and the products of home furnishing industry have the commodity characteristics of low frequency of purchase, high average order value, emphasis on experience and high individuation. Besides, the degree of intellectualized reconstruction in the industry is relatively low with the result that the large consumer market with huge potential has not been integrated on a large scale, which is reflected by the low degree of brand convergence and the insufficient online and offline integration.

In recent years, enterprises in industries have started the “transformation to new retail”. The home improvement and furnishing industry also shows an urgent need for the transformation to new retail. How to eliminate the significant information asymmetry between the e-commerce system and the distributor system so as to enable consumers to buy the same products online, which are high-price and quality, as those provided offline, is an urgent problem confronting brand owners, distributors and home furnishing malls.

The Tmall “Home Decoration Tongcheng Station” project plays to the respective strengths of Alibaba and Macalline. It enables accurate matching on a city-by-city basis through the digital transformation closer to the home improvement and furnishing industry. Meanwhile, it helps effectively solve pain points in the industry and realize the efficient transformation to the new retail model, in line with the current consumption trend, based on the strategy of providing products and services online and offline at the same price with the same quality. Through the effective use of design tools and Internet-based means, it helps realize the efficiency improvement in the industry and design cost reduction, and enables users to use virtual furniture to complete home decoration, achieving the target of what they see is what they get, thus greatly improving the user’s consumption experience.

4. Basic Information on Tmall “Home Decoration Tongcheng Station” Project

(1) Contents of construction and project company

The project will deepen the localized new home furnishing retail business of the Company, with Alibaba online traffic and the offline shopping malls of Macalline, under merchant and merchandise operation, focusing on solving the current pain points of low integration efficiency resulting from information asymmetry between online and offline businesses in the home improvement and furnishing industry, optimizing the shopping experience of consumers, thus achieving rapid sales growth.

Contents of the construction are as follows:

1) LBS-based new retail commodity platform

Through localized brand and distributor operation, the quality goods and services of offline shopping malls will be listed on the Tmall platform, to create a new retail commodity platform for home improvement and furnishing industry under the principle of “the same quality and price in the same city”, with the strong commodity retail capability of Alibaba ecology.

2) Marketing and promotion platform with online and offline integration as the core

Under the empowerment by the new retail commodity platform for home furnishing and through merchant operation, and user analysis and recommendation, cooperation with Alibaba will be carried out in building an online and offline integrated marketing and promotion platform with promotion activities including “Tmall 618”, “Super Brand Day” and “Tmall double 11” as the core, so as to solve pain points of low frequency of purchase in consumption for home furnishing, and improve the operation efficiency.

3) Multi-scenario, highly-focused and professional live-broadcasting platform

Consumption for home furnishing focuses on experience and personalization, which naturally corresponds to live stream marketing. With a focus on “Taobao Live Streaming (淘寶直播)”, one of the largest live broadcasting platforms in China at present, we will build a professional live broadcasting platform for the home improvement and furnishing industry by making use of existing store, merchant, shopping guide and designer resources of Red Star Macalline, and in the form of live broadcasting including visit to stores, factories and construction sites.

The project will be implemented by Red Star Macalline Yuejia Network Technology Company Limited (紅星美凱龍悅家互聯網科技有限公司) and Shanghai Anjia Network Technology Company Limited (上海安家網絡科技有限公司), both of which are wholly-owned subsidiaries of the Company.

(2) *Project investment estimation*

The total project investment of RMB890.54 million will be mainly used for platform construction and payment of operating expenses, labor costs and capital investment related to operation, and may include the proceeds of RMB220.00 million from the Non-public Issuance of shares.

(3) *Project benefit forecast*

After the project is completed and reaches the designed capacity, the project is expected to generate good economic benefits with an annual average sales revenue of RMB714.63 million, the payback period of the after-tax investment being 6.8 years (including the construction period), and the after-tax internal rate of return being 15.19%.

(4) *Project approval or filing*

As at the announcement date of the Plan, the filing matters of the project are being handled.

(III) 3D Shejiyun Platform Construction Project

1. Background of 3D Shejiyun Platform Construction Project Implementation

According to the latest statistics, the total number of home decoration companies in China exceeds 100 thousand. Home furnishing industry has the problems of low technicalization, informatization, and slow digitalization process. With the transformation of the home decoration market from a potential market to an existing market, this is a development opportunity for the digitization of home decoration enterprises, and innovation will be the core driving force for the growth of enterprises in the future.

At present, the traditional home furnishing design business is mainly carried out through plan renderings for decoration in serving customers. However, the shortcomings of the display method are obvious, such as undiversified form, poor display effect, long production cycle and poor interactivity. In addition, the customer's aesthetic fatigue in this way of expression prevents the designer from quickly grasping the user's needs and effectively transforming it.

At present, designers mostly use locally-stored common models when making design renderings for cost considerations, and due to the fact that current home improvement material products are continuously shortened in the update iteration cycle, the commodity models lack circulation and sharing, so commodity modeling will incur very high costs but generate extremely low benefits. Therefore, designers and manufacturers have insufficient motivation for modeling based on real commodities, and seldom perform modeling of home furnishing commodities for design based on the actual needs of users, resulting in the inconsistency between beautiful rankings and decoration results, failing to achieve the target of what users see is what users get.

2. *Feasibility of 3D Shejiyun Platform Construction Project*

(1) *Extensive market resources*

Through years of operation accumulation in the industry, the Company has maintained long-term and stable cooperation with 13,000 brand merchants and 46,000 distributors. Therefore, the Company has the industry resources required for project development. Upon success of this project, brand merchants can timely promote digital product models, and the sales efficiency of the stores will be greatly improved, which will help the Company continue to deepen the cooperation with brand merchants and other companies.

(2) *Essential technologies for project development*

The main technologies used in this project are dual-engine technology, AI technology and big data technology. The dual-engine technology can realize full parameterization and physical rendering, which will provide more accurate designs and more realistic light and shadow effects in the model. Based on AI technology, the 3D cloud design can intelligently match various design styles with consumer needs, and provide direct presentation in real house scenarios and structures. Designers can provide customers with the best solution for the product mix based on this, so as to achieve the improvement of user experience and designer efficiency.

Besides, after the platform construction is completed, big data technology can be used to manage and analyze data such as user information, user habits and home improvement plans, thus realizing the management and automatic processing of home improvement models. In order to maintain the core technology of the Company, the Company is actively applying for intellectual property rights such as software copyrights and invention patents, which will ensure the smooth implementation of the project.

(3) *Excellent teams*

Currently, the project team has a total of 154 employees. Its core team members have work experience in renowned domestic and foreign enterprises such as The Home Depot, B&Q and AutoDesk, and is equipped with rich industry experience and world-leading software technologies.

3. *Necessity of 3D Shejiyun Platform Construction Project*

(1) *Promote the digital development of the home improvement and furnishing industry*

Though the home improvement and furnishing industry has experienced more than 20 years of development in China, the need to accelerate the pace of industry development through digitalization is increasing. With the continuous improvement of technological level the cost of digitalization has been reduced by cloud computing and digital modeling technologies. Through the development, construction and operation of Shejiyun platform project, the home improvement and furnishing industry will fully introduce digitalization, intelligence, VR panorama and other technologies which can drive the digital transformation of the interior decoration industry.

(2) *Promote the reshaping, transformation and upgrading of business models of the home improvement and furnishing industry*

With the continuous improvement in Internet coverage and changes in the age structure of consumers, the proportion of online shopping continues to increase. As such, many home improvement brands have launched online businesses. However, due to the low digitalization level of product models in the industry, even e-commerce platforms are only displaying product images with no products display in the house space scenarios of users. Therefore, it is difficult to make breakthroughs in online sales due to the lack of product experience for online customers.

Since the outbreak of COVID-19 in 2020, home improvement and furnishing shopping malls and stores were unable to open normally. As affected by the epidemic, traditional offline marketing activities cannot be carried out as normal, the traditional business models are in urgent need of transformation and upgrade.

The construction of the project will integrate digital technologies, and form a new model combining online design, online communication and online marketing, which can provide consumers with a solution to home decoration and experience of ‘what you see is what you get’. The project will support home improvement brands in carrying out online businesses, thus promoting the reshaping, transformation and upgrading of business models of the home improvement and furnishing industry.

- (3) *Empower interior designers to serve customers, and accelerate the development of enterprises*

At present, interior designers are mainly using drawing and rendering tools based on two-and three-dimensional software (such as AutoDesk and 3dsMax) in their work, which lead to high learning costs and complicated operations. Due to the lack of funds and technical capacities to deploy centralized high-performance computing centers and decentralized software technology platforms, home improvement companies are facing problems including long design cycles, unable to enhance delivery of design plans and failure to satisfy users, which significantly reduce the customer conversion efficiency. The Shejiyun platform will rely on Internet-based technologies to promote the in-depth and integrated application of cloud design, big data and intelligence technologies, which will provide interior designers with high-efficient and low-cost design tools and resources and enable designers to provide better services to customers.

4. *Basic Information on the Project*

- (1) *Contents of construction and project company*

The project, based on technologies such as big data, cloud computing and AI technology, is committed to creating an integrated platform for intelligent and immersive home improvement design and interaction, promoting and informationization and upgrading of the home improvement and furnishing industry. Main contents of the project include:

- 1) Development of online intelligent 3D cloud design software for home improvement

With the dual-engine technology of “full parameterization and physical rendering” as the core, the project will carry out in-depth research and development in AI technology and cloud rendering technology to provide industry-leading functions such as one-click layout, intelligent matching, search models via picture, intelligent recommendation and 12K panorama.

- ① Develop AI intelligent design

The platform can be used to recommend best products and product portfolios for the design plan through machine learning, model application data, product portfolio and combination data, designer application data and user profile information.

② Build a house model database

Through quick search of house model, sample houses and product portfolio solutions, designers can match a standard house model in an instant, thus greatly enhancing efficiency.

③ Establish a 3D model database of real products

Designers can use the real product model design plans of various brands through the Shejiyun Platform. At the same time, through Shejiyun Platform, distributors can also design sample houses equipped with products, so that customers can directly call and display sample houses at stores, thereby providing customers with high-quality and scenario-based consumer experience at low cost.

④ Panoramic multimedia interaction and display services

Based on the traditional dialogue mode, the platform can provide an innovative interaction mode to make up the deficiency in VR that it only provides single-person experience, and realize multi-person immersive experience and real-time preview of decoration plans, providing customers with a better consumer experience.

2) Marketing and promotion plan of Shejiyun Platform

We will continue to promote the Shejiyun Platform through activities such as media promotion and participation in industry summits, so as to promote popularity, recognition and utilization among users and expand coverage of the Shejiyun Platform across China.

The project will be implemented by Shanghai Red Star Macalline Cloud Design Information Technology Company Limited (上海紅星美凱龍設計雲信息科技有限公司), a wholly-owned subsidiary of the Company.

(2) *Project investment estimation*

The total project investment is RMB623.18 million, which will mainly be used to cover construction and operation expenses of the platform, labor costs and capital investment related to its development. The proceeds of RMB300.00 million from the Non-public Issuance of Shares will be invested in the project.

(3) *Project benefit forecast*

Upon its completion and full operation, the project is expected to generate annual sales income of RMB502.70 million. The after-tax payback period (including construction period) is expected to be 6.77 years, and the after-tax internal rate of return is 13.28% with sound economic returns.

(4) *Project approval or filing*

The Filing Certificate for Investment Projects of Enterprises in Shanghai has been obtained for the project.

In accordance with the Classified Management Catalogue for Environmental Impact Assessment of Construction Projects (Decree No.44 of the Ministry of Environmental Protection) and the Types of Projects Excluded From Environmental Impact Assessment Management of Construction Projects in Shanghai (2019) and other regulations, no environmental impact reports, environmental impact report forms or environmental impact registration forms are required to be prepared or completed for the project.

(IV) Construction Project for New Generation Home Improvement Platform System

1. Background of the Implementation of Construction Project for New Generation Home Improvement Platform System

According to the Report of Market Prospective and Investment Strategic Planning on China Home Improvement Industry issued by the Qianzhan Industry Institute (前瞻產業研究院), the market size of the furnishing and decoration industry in China has exceeded RMB2 trillion by 2017. According to forecasts, the market size of the furnishing and decoration industry in China will reach RMB2.6 trillion by 2020, maintaining a compound annual growth rate of approximately 7%.

From the perspective of consumer groups, post-80s and post-90s consumers account for a relatively high proportion of consumers in the home improvement and home furnishing market, with increasing demand for overall home furnishing and home improvement solutions. The all-inclusive decoration has advantages in the sense of technology, diversified options of style and unified standards, which

becomes popular in the market. Consumers pay more attention to quality of consumption and experience, and tend to choose intelligent and technological products customized for the whole house, thereby promoting the development of home furnishing towards high-end and quality.

However, despite the huge market capacity development potential, the home improvement industry is slow in reforms. The home improvement industry is facing difficulties resulted from backward management mode, low standardization and unable to ensure delivery quality. At present, home improvement companies have many problems that restricts the further development of the industry, such as low entry barriers, high cost in customer acquisition, long industrial chain, multiple participants, high customer turnover and lack of technologies in the industry.

In order to cope with the problems stated above, the Company intends to upgrade production tools with modern information technologies, so as to capture more market share. The Company will build the middle and back end of the home decoration system through the online and offline integration, to comprehensively improve the efficiency of home decoration, batch home decoration and common area decoration businesses.

2. Feasibility of Construction Project for New Generation Home Improvement Platform System

The Company has accumulated technical strengths and experience over the years, which will provide a reliable foundation for the Construction Project for New Generation Home Improvement Platform System, as follows:

- (1) Our technical strength will provide guarantee for the middle-end technical platform construction*

With the development of times, new technologies and concepts have been gradually mature and have been used in the home improvement industry. Such new technologies and concepts mainly include penetration of VR, robot technologies, cloud design, BIM, big data, and assembly technologies. The development of these new technologies and concepts has laid a foundation for this project.

- (2) *Our complete supply chain and efficient delivery capabilities will provide support for the platform construction*

The Company has a complete supply chain system, which can provide powerful support for the construction of the home improvement supply chain platform. The home improvement supply chain platform mainly includes product development, intelligent cloud warehousing and the construction of delivery system.

Through the one-stop F2C supplier investment operation mode, the Company can establish an open supply chain platform, which enables as many suppliers and distributors to join the supply chain as possible and improves the supply capacity of the Company. Meantime, the Company is also preparing for the establishment of “intelligent cloud warehouse”, which can analyze the information on supplier warehousing and logistics through the big data, coordinate the logistics and distribution services for distributors in a unified manner, and provide after-sales service including on-site measurement and installation. As such, the integrated supply system can reuse warehousing resources of the integrated supply chain, thus reducing operating costs and improving operating efficiency.

In the process of product realization, the quality of the decoration is difficult to control due to numerous service links, independence of materials and construction control, which will also affect the result of decoration, price and construction period. Therefore, the Company has established a unified standard process for business operation, supply chain management and construction management, thus realizing standardized delivery and ensuring the quality of delivery. In addition, the Company will continue to improve the construction and delivery system through the construction of the project command center platform and the construction site visualization project, so as to enhance the customer experience.

- (3) *The construction of process quality platform meets the needs of industry development*

As many provinces and municipalities in China have successively issued guidelines and related supporting measures for prefabricated buildings and the industrialized development of buildings, the prefabricated decoration will be the future trend of the industry. The prefabricated interior decoration project has realized the integrated design covering architecture, structure, decoration and equipment, and is suitable for simultaneous and interpenetrating construction of processes such as structure, decoration and equipment installation, which will also effectively reduce the working hours, labor forces and repair rate.

In order to further improve its technological quality in decoration engineering, the Company plans to build a fabricated assembly R&D and design center, mainly including the establishment of a process research and development workshop, a fabricated construction research and development workshop, a process display area, a fabricated product display area, a workers' industrialization training room and a fabricated practice base. This will help greatly improve the quality of the Company's home decoration products and services and the labor productivity, save labor and costs, shorten the construction period and improve benefits, and reduce the waste of raw materials, noise, dust, construction waste and other pollutants.

(4) The construction of intelligent marketing platform will further enhance the Company's capabilities in customer acquisition

The Company will promote the construction of intelligent marketing platform for home improvement, which will integrate shopping malls and online and offline marketing scenarios of home improvement, and maintain data on sales information and customer experience, so as to improve the conversion rate of orders. Main measures include offline joint marketing, online intelligent marketing and word-of-mouth marketing.

In terms of online and offline joint marketing, as of 31 March 2020, the Company operated 87 Portfolio Shopping Malls, 249 Managed Shopping Malls, and 12 Home Furnishing Malls through strategic cooperation, and authorized the opening of 46 franchised home improvement material projects by way of franchising, including a total of 428 home improvement material stores/industry streets, with a total operating area for Portfolio Shopping Malls and Managed Shopping Malls operated by the Company of 20,999,766.62 sq.m. The large number of offline shopping mall pipelines provides a solid foundation for the Company to enhance its marketing and customer acquisition capabilities.

Meanwhile, the Company will build a traffic entrance through tools such as mini programs for mobile-end products, and form a marketing system and conversion logic to approach users, thus enhancing the company's ability to acquire customers through smart marketing.

In addition, the Company is also committed to word-of-mouth marketing based on existing customer resources, and improve customer recommendation relying on our high-quality services, thereby reducing customer acquisition costs. Through the intelligent marketing platform, existing customers of the Company are expected to bring more potential customers.

- (5) *The design of R&D platform construction will contribute to unified standards for home improvement business*

The design of R&D platform construction mainly includes: 1) establishing and improving standards for various business design bidding and design effects in the decoration industry group; 2) establishing a new grading management system for designers according attributes of the industry and actual conditions of the Company, so as to improve the grading management system for designers and optimize the functions and organization of the Design Institute; 3) releasing fashion trend of home improvement based on actual conditions of our businesses and combining the development direction and design trend of domestic and international decoration industry; 4) creating high-quality platforms in cooperation with renowned domestic and international interior design competitions; improving the organization platform of M+ Design Competition to provide opportunities for designers in the industry.

3. *Necessity of Construction Project for New Generation Home Improvement Platform System*

- (1) *Conform to the industry trend of fully furnished services*

With the upgrading of consumption level and consumption concepts, the young consumer groups are more tending to fully furnished home improvement. The construction of this project is in line with the industry trend of fully furnished services, which will enable the Company to further expand its share in home improvement market and enhance its competitiveness.

- (2) *Enhancing the overall brand value of the Company*

Through the Construction Project for New Generation Home Improvement Platform System, the Company will build a powerful middle and back-end, which will empower the innovation and breakthroughs of shopping malls and develop core competitiveness of the Company. The construction of the project will expand and effectively supplement principal businesses of the Company, and support the synergy with operation businesses of existing home improvement and furnishing shopping malls, thereby further enhancing core competitiveness and brand influence of the Company.

- (3) *Creating IP for renowned designers*

In order to create an IP platform for renowned designers, the Company will, in cooperation with renowned domestic and international designers, pool together home improvement platform design capabilities through the M+ China Top Interior Design Award, the IP platform will provide designers with growth and training opportunities, with a view to cultivating more renowned designer IPs.

4. *Basic Information on the Construction Project for New Generation Home Improvement Platform System*

(1) Contents of construction and project company

The project will, relying on existing technologies and industry resources of the Company, build a complete of new generation home improvement platform covering from middle-end technical platform to the supply chain platform, process quality platform, design and development platform and intelligent marketing platform. In addition to penetrate all business lines of the Company and integrate and optimize all business links, the project will further improve the efficiency of home improvement business, and generate synergy effects between home improvement and related businesses with operation businesses of existing home improvement and furnishing shopping malls.

The platform mainly involves online construction of informatization systems, and offline construction of technology centers and fabricated assembly R&D and design centers. Online construction of informatization systems mainly include the establishment of a middle platform for business sharing and a bank of components for business process nodes to provide system support for the rapid, diversified and flexible development of decoration-related businesses, and the integration of the bottom layer and the Company's existing basic service system to quickly establish a strong and stable SaaS systems for decoration industry groups, and the development of ERP business management systems, mini program, smart marketing, middle platforms for electronic contracts, and other tools. Offline construction of technology centers mainly includes the establishment of core areas including server rooms, professional research and development areas, product testing areas, technology exchange and display areas to provide strong infrastructure support for the online construction of informatization systems. Offline construction of fabricated assembly R&D and design centers mainly includes the establishment of a process research and development workshop, a fabricated construction research and development workshop, a process display area, a fabricated product display area, a workers' industrialization training room and a fabricated practice base.

After the completion, the project will provide strong service support for the systematic management platform of the Company's home decoration business. Meanwhile, it will optimize the supply chain and process quality of the Company's home decoration business and improve the intelligence, technicalization and high-performance support for home decoration, so as to adapt to the rapid and diversified development of the decoration business.

The project will be implemented by Betterhome Construction Technology Co., Ltd. (家倍得建築科技有限公司), a 90% holding subsidiary of Macalline.

(2) *Project investment estimation*

The total project investment is RMB628.98 million, which is mainly used as the operating expenses related to system construction, labor costs and capital investment related to system construction. The proceeds of RMB350.00 million from the Non-public Issuance of Shares will be invested in the project.

(3) *Project benefit forecast*

The construction period of the project is 2 years. The project will not directly form products and external sales, nor generate any direct economic benefits. However, upon its completion, the project can indirectly bring huge benefits to the development of the Company. In the highly competitive home improvement market, the project will further optimize the Company's resource allocation in home improvement and related systems and enhance operating efficiency, thus ensuring the Company to better ride on the development tide of the industry.

(4) *Project approval or filing*

As at the announcement date of the Plan, the filing matters of the project are being handled.

(V) Repayment of Interest-Bearing Debts of the Company

1. *Basic Information on the Project*

The Company intends to use RMB1,170 million of proceeds from the Non-public Issuance to repay interest-bearing debts including corporate bonds. In case of any balance after repayment corporate bonds, it will be used to repay bank loans of the Company.

As approved by the "ZJXX [2019] No. 628" document issued by the CSRC, the Company issued "Public offering of Corporate Bonds of 2019 of Red Star Macalline Group Corporation Ltd. (First tranche)" to qualified investors in June 2019. The Bond had an issuance size of RMB2 billion with an annualized return of 5.35%, the fixed interest rate of which shall be repaid annually. The Company is entitled to the option to adjust the coupon rate at the end of the second year, and investors are entitled to the redemption option.

According to the Prospectus of corporate bonds, the Company is entitled to deciding whether to raise the coupon rate for the next 2 years at the end of the second year of the Bond. If the Company does not exercise the option to raise the coupon rate, the coupon rate of the Bond will remain unchanged at the original coupon rate. According to the redemption terms of the Corporate Bond, following the Company's issuance of announcement regarding whether to adjust the coupon

rate of the Bond and the adjustment range, the bond holders are entitled to the option to register within the redemption registration period to sell back all or part of the Bond to the Issuer at nominal value, or the option to continue to hold the Bond and accept the above adjustment.

Therefore, the Company intends to use the proceeds from the Issuance to repurchase part of the Corporate Bond. In case of any balance of the proceeds from the Issuance following repurchasing the Corporate Bond, it will be used to repay operating bank loans of the Company that are still within the borrowing period.

2. Necessity and Feasibility of the Project

In recent years, although the Company has taken proactive measures to reduce the asset-liability ratio, the overall asset-liability ratio of the Company remains at a relatively high level. At the end of the years 2017, 2018 and 2019, the Company's asset-liability ratio on a consolidated basis were 54.72%, 59.14% and 59.95%, respectively, representing a continuous upward trend.

In addition, in the years 2017, 2018 and 2019, the financial expenses of the Company on a consolidated basis were RMB1.132 billion, RMB1.533 billion and RMB2.26 billion, respectively. With the development of the Company's businesses, the financial expenses recorded year-on-year increase. The increasing asset-liability ratio has weakened the Company's risk-resistance capability to some extent, and restricted the Company's financing capability, which exposed the Company to higher financial risks. Meantime, the large number of interest-bearing liabilities have increased the Company's financial costs, leading to high financial expenses for a long time, which directly affects the operating performance of the Company.

The Company intends to use proceeds from the Non-public Issuance to repay interest-bearing debts in accordance with its actual business needs, which will reduce interest expenses, capital pressure and financial burden of the Company and improve its asset-liability structure and profitability. It will create more values for shareholders, and is in line with the interests of the Company and all shareholders.

In summary, the Company's intention to use RMB1,170 million of proceeds from the Non-public Issuance to repay interest-bearing debts will ease its short-term debt repayment pressure, enhance its capability to resist financial risks, improve its asset-liability structure, reduce interest expenses, and improve its profitability, capital strength and financing capability, which will lay a solid foundation for the stable and healthy development of the Company in the future and realize sustainable and healthy development. Therefore, such intention is necessary and feasible.

III. The Impact of the Issuance on the Company's Operation and Management and Financial Position**(I) The Impact of the Issuance on the Company's Operation and Management**

The utilization of the proceeds is in line with relevant national industry policies and the strategic development direction of the Company, which shows excellent market prospects and economic benefits. The construction project for home improvement and furnishing shopping malls is closely related to the business development strategic planning of the Company. The expansion of scale will enhance brand awareness of the Company, and improve its strategic layout. With further improvement in market share and market competitiveness, the Company will be more capable to negotiate prices with merchants, which is conducive to further enhancing the Company's profitability. The "Home Decoration Tongcheng Station" construction project will give full play to respective advantages of Alibaba and Macalline. Through the digital transformation which are more closely connected to the home furnishing industry, the Company can provide targeted match services at city level. Combining current consumer trends and the strategy of the same quality and price for online and offline product and services, the Company can effectively solve pain spots of the industry, and realize high conversion of the new retail model. The 3D Shejiyun platform construction project will empower enterprises with service capabilities such as online design, online communication and online marketing, and enhance the competitiveness of home improvement companies, leading to rapid growth and development. The Construction Project for New Generation Home Improvement Platform System will expand and effectively supplement home improvement and related businesses, and support the synergy with operation businesses of existing home improvement and furnishing shopping malls, thereby further enhancing core competitiveness and brand influence of the Company.

In addition, upon repayment of interest-bearing debts using part of proceeds from the Issuance, it will improve the Company's capital structure and reduce its financial expenses, thereby enhancing the overall operation and profitability of the Company.

(II) The Impact of the Issuance on the Company's Financial Position

Upon the receipt of proceeds from the Non-public Issuance, the Company's financial position will be further improved and its total assets and net assets will increase accordingly, while its asset-liability ratio will decrease, so that the financial strength, anti-risk capability and subsequent financing capability will be enhanced. Upon completion of the Issuance, since the net assets of the Company will increase and proceeds funded projects have a certain construction period, the return on net assets will decline and the earnings per share will be diluted in the short term. Upon completion of the Issuance, the listed company will receive a large amount of cash inflows from the proceeds, and cash inflows from financing activities will increase significantly. In the future, with the implementation of proceeds funded projects and the gradual reflection of project benefits, the revenue generating the Company's principal businesses will increase, its profitability will be improved, and its return on net assets and earnings per share will gradually increase.

IV. Conclusions of Feasibility Analysis of Proceeds Funded Projects

In summary, the Non-public Issuance is in line with relevant national industry policies, industry development trends and the strategic goals of the Company, which shows excellent development prospects. The Issuance will enhance the long-term and sustainable development capabilities of the Company, and improve the synergy among businesses and the core competitiveness of the Company. Meantime, the Issuance will optimize the Company's capital structure and reduce its financial risks. The implementation of proceeds funded investment will improve the strategic layout of the Company, strengthen its competitiveness in the market, enhance its mid and long-term profitability and increase its overall brand value.

**SHAREHOLDER'S RETURN PLAN FOR THE COMING THREE YEARS (2020-2022)
OF RED STAR MACALLINE GROUP CORPORATION LTD.**

In order to meet the needs of the development strategies of Red Star Macalline Group Corporation Ltd. (hereinafter referred to as the "Company"), further strengthen the awareness of generating returns to shareholders, and establish a sound dividend policy as well as a long-term communication mechanism, the Company has formulated this plan according to the relevant laws, regulations and normative documents such as the Notice on Further Implementing Matters Relevant to the Cash Dividend Distribution by Listed Companies and Guidelines No. 3 on the Supervision of Listed Companies – Distribution of Cash Dividends by Listed Companies and the requirements under the corporate governance system of the Company, such as the Articles of Association:

I. Considerations in formulating the dividend plan

With a view to maintaining the long-term and sustainable development of the Company, and based on a comprehensive analysis of the Company's business development strategies, cost of financing, the external financing environment and other factors, the Company has formulated a sustainable, stable and scientific dividend distribution mechanism for investors, after taking into account the Company's present and estimated future profits, cash flow, stage of development, funding needs for investment projects, bank credit and the debt financing environment, balancing the short-term interests with the long-term interests of the shareholders, and making institutional arrangements on profit distribution, so as to ensure the continuity and stability of the Company's profit distribution policies.

II. Principles in formulating the dividend plan

The Company will implement sustainable and stable dividend policies, giving weight to the reasonable return on investments to investors while taking into account the sustainable development, profits and future development strategies of the Company, and establish a sustainable and stable return mechanism for investors. The Company should formulate the dividend plan according to the Articles of Association, and adhere to the profit distribution principle of giving mainly cash dividends. The Board, Board of Supervisors and shareholders at the general meeting of the Company shall take full account of the opinions of Independent Directors, supervisors and minority shareholders when making decisions and reviewing the Company's profit distribution policies.

III. The future dividend plan for the coming three years

The Company may distribute its profits in the form of cash, shares, a combination of cash and shares or other forms as permitted by the laws and regulations, while giving priority to the form of cash dividends. Profit distribution shall not exceed the cumulative distributable profits of the Company, or damage the Company's sustainability in operation.

Where the conditions of giving cash dividends can be met, and the normal business development of the Company can be ensured, the Company should distribute profits in the form of cash. If the Board is of the view that the Company's share price does not match with its size of share capital, and that distributing share dividends is beneficial to the overall interests of all shareholders, the Company may formulate share dividend distribution plans as long as it does not violate the Company's cash dividend policies.

In principle, the Company distributes profits in the form of annual dividends. The Board may propose interim profit distribution plans according to the Company's profits and funding needs. The Company will, by way of the approval procedures at the board meeting and the general meeting, flexibly distribute the profits realized by the subsidiaries according to the business development and profit realization etc. of the subsidiaries so as to guarantee the Company's capability of implementing its cash dividend plan in the current year.

In the coming three years (2020-2022), subject to the prevailing laws and regulations as well as regulatory requirements, the profits distributed by the Company in the form of cash each year shall be no less than 10% of the distributable profits realized in that year.

After a comprehensive consideration of the Company's industry feature, stage of development, mode of operation, profitability and major capital expenditure arrangements, etc., the Board believes that the Company is at its growth stage and that there will be major capital expenditure arrangements in the coming three years. The profits distributed in the form of cash shall account for at least 20% of each instance of profit distribution.

IV. Decision-making mechanism of dividend plan

At least once every three years, the Company shall evaluate the implementation of the executed dividend plans. Subject to the relevant laws, regulations and provisions in the Articles of Association, and based on the opinions of Independent Directors and minority shareholders, the Board shall make appropriate and necessary adjustments to the current dividend plan which is in force and scientifically formulate annual profit distribution plans or interim profit distribution plans after taking into account the Company's profitability, cash flow, stage of development, funding needs of investment projects, bank credit and the external financing environment, etc.. The adjusted dividend plan should be implemented upon approval by the shareholders at the general meeting. The relevant proposal in relation to the adjustments to the dividend plan can only be passed upon the approval of more than two thirds of the shareholders present at the general meeting.

V. Validity of the dividend plan

This dividend plan will become effective upon approval by the shareholders at the general meeting.

Board of Directors
Red Star Macalline Group Corporation Ltd.

3 June 2020

MATTERS IN RELATION TO DILUTION OF CURRENT RETURN DUE TO THE ISSUANCE AND THE REMEDIAL MEASURES

According to relevant requirements of the Opinions of the State Council on Further Promoting the Sound Development of Capital Markets (GF [2014] No. 17), the Opinions of the General Office of the State Council on Further Strengthening the Work for Protection of the Legitimate Rights and Interests of Minority Investors in Capital Markets (GBF [2013] No. 110) and the Guiding Opinions on Matters Concerning the Dilution of Current Return Due to Initial Public Offering, Refinancing and Material Asset Restructuring (CSRC Announcement [2015] No.31), in order to protect the information right of the small and medium investors and to safeguard the interests of small and medium investors, the Company analyzed the potential impact of the Non-public Issuance on current returns, and formulated specific remedial measures for returns. Relevant entities have made commitments to implementing effectively the Company's remedial measures for returns. The measures are as follow:

I. The Impact of the Dilution of Current Return by the Non-Public Issuance on the Company's Key Financial Indicators

(I) Basic Assumptions

1. There is no major change in the macroeconomic environment, industrial policy, industry development and the product market, etc.;
2. The Non-public Issuance are expected to be completed by the end of October 2020 (the completion time is only used for the calculation of the impact of the dilution of current return by the Non-public Issuance on the Company's key financial indicators, and shall be subject to approval by the CSRC and the actual completion time of the Issuance);
3. The proceeds from the Issuance is RMB4,000 million, without considering the impact of issuance expenses;
4. The number of shares expected to be issued is at the maximum, which is 912,887,622 shares, and shall be approved by the CSRC;
5. According to the 2019 annual report disclosed by the Company, the Company's net profit attributable to owners of the parent company in 2019 was RMB4,479.6817 million, and the net profit attributable to owners of the parent company after deducting non-recurring gain or loss was RMB2,613.6223 million. The net profit attributable to common shareholders of the parent company and the net profit attributable to common shareholders of the parent company after deducting non-recurring gain or loss in 2020 are calculated according to the following three conditions: (1) equivalent to those of 2019; (2) increase by 10% as compared with 2019; (3) increase by 20% as compared with 2019. This assumption is only used for the calculation of the impact of dilution of current return by the Non-public Issuance of shares on the key financial indicators, and does not represent the Company's judgment on the operation and trend in 2020 or constitute a profit forecast of the Company;

6. The impact on the Company's operation and financial conditions (such as financial expenses and investment incomes) following the receipt of proceeds from the Issuance have not been considered;
7. In the calculation of the Company's total share capital at the end of the period and earnings per share following the Issuance, only the impact of the above assumptions on the total share capital is considered, regardless of other factors causing changes in equity;
8. The above assumptions are for calculation only and do not constitute a profit forecast.

(II) Impact on Key Financial Indicators of the Company

Based on the above assumptions, the impact of the Non-public Issuance on the Company's key financial indicators are calculated as follows:

<u>Item</u>	<u>2019</u>	<u>2020</u>	
		<u>Prior to the Issuance</u>	<u>Following the Issuance</u>
Total share capital at the end of the period (ten thousand shares)	355,000.00	355,000.00	446,288.76
Scenario 1: The net profit attributable to shareholders of the parent company and the net profit attributable to owners of the parent company after deducting non-recurring gain or loss in 2020 are equivalent to 2019			
Net profit attributable to shareholders of the parent company (RMB ten thousand)	447,968.17	447,968.17	447,968.17
Net profit attributable to owners of the parent company after deducting non- recurring gain or loss (RMB ten thousand)	261,362.23	261,362.23	261,362.23
Basic earnings per share (RMB/share)	1.26	1.26	1.21
Diluted earnings per share (RMB/share)	Not applicable	1.25	1.20
Basic earnings per share after deducting non-recurring gain or loss (RMB/share)	0.74	0.74	0.71
Diluted earnings per share after deducting non-recurring gain or loss (RMB/share)	Not applicable	0.73	0.70

APPENDIX V DILUTION OF CURRENT RETURNS AND REMEDIAL MEASURES

Item	2019	2020	
		Prior to the Issuance	Following the Issuance
Scenario 2: The net profit attributable to shareholders of the parent company and the net profit attributable to owners of the parent company after deducting non-recurring gain or loss in 2020 increase by 10% as compared with 2019			
Net profit attributable to shareholders of the parent company (RMB ten thousand)	447,968.17	492,764.98	492,764.98
Net profit attributable to owners of the parent company after deducting non-recurring gain or loss (RMB ten thousand)	261,362.23	287,498.45	287,498.45
Basic earnings per share (RMB/share)	1.26	1.39	1.33
Diluted earnings per share (RMB/share)	Not applicable	1.38	1.32
Basic earnings per share after deducting non-recurring gain or loss (RMB/share)	0.74	0.81	0.78
Diluted earnings per share after deducting non-recurring gain or loss (RMB/share)	Not applicable	0.80	0.77

Scenario 3: The net profit attributable to shareholders of the parent company and the net profit attributable to owners of the parent company after deducting non-recurring gain or loss in 2020 increase by 20% as compared with 2019

Net profit attributable to shareholders of the parent company (RMB ten thousand)	447,968.17	537,561.80	537,561.80
Net profit attributable to owners of the parent company after deducting non-recurring gain or loss (RMB ten thousand)	261,362.23	313,634.67	313,634.67
Basic earnings per share (RMB/share)	1.26	1.51	1.45
Diluted earnings per share (RMB/share)	Not applicable	1.50	1.44
Basic earnings per share after deducting non-recurring gain or loss (RMB/share)	0.74	0.88	0.85
Diluted earnings per share after deducting non-recurring gain or loss (RMB/share)	Not applicable	0.88	0.84

Note: Basic earnings per share and diluted earnings per share are calculated according to the Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Rate of Return on Equity and Earnings per Share.

According to the above calculation, upon completion of the Non-public Issuance, the basic earnings per share and diluted earnings per share of the Company are expected to decline to some extent in the short term, and therefore the current return of the Company will be diluted to some extent in the short term.

II. Risk Warning for Dilution of Current Return by the Issuance

Upon recipient of proceeds from the Non-public Issuance, the Company's total share capital and net assets will increase accordingly. Since projects funded by proceeds from the Non-public Issuance have a certain construction period, and there are uncertainties in the benefits of such projects which will be gradually reflected after production, the earnings per share and return on net assets may decline within a short term. However, such decline will be improved gradually with the realization of the benefits of proceeds. Investors are advised to pay attention to risks of the potential dilution of the earnings per share and return on net assets by the Non-public Issuance.

III. Necessity and Rationality for the Board to Choose the Issuance

For the necessity and rationality of this financing, please refer to relevant contents in "Section II Feasibility Analysis by the Board of Directors in Relation to Use of Proceeds".

IV. Relationship Between the Proceeds Funded Projects and the Company's Existing Business and Reserve in Terms of Personnel, Technology and Market for Proceeds Funded Projects

(I) Relationship Between the Proceeds Funded Projects and the Company's Existing Business

As a leading home improvement and furnishing shopping mall operator in China, the Company mainly engages in the business of offering comprehensive services to the merchants, consumers and partners of the home improvement and furnishing shopping malls through the operation and management of both Portfolio Shopping Malls and Managed Shopping Malls. The Company is also involved in pan-home furnishing consumption, including Internet retail, Internet home decoration, as well as logistics and delivery services.

The proceeds funded projects are closely related to and based on existing principal businesses of the Company. On the one hand, such projects will further expand the Company's layout in home furnishing malls, and consolidate its leading position in the industry; on the other hand, the construction and implementation of Tmall "Home Decoration Tongcheng Station" Project, 3D Shejiyun Platform Construction Project and Construction Project for New Generation Home Improvement Platform System will enhance the development of the Company's expansionary businesses including new retail and design and home decoration, so as to provide consumers with better one-stop industry chain services for pan-home improvement and furnishing consumption, and enhance consumers' shopping experience and satisfaction, thereby giving full play to the synergy of the Company's offline businesses and expansionary businesses to promote the transformation and upgrading of the Company's businesses.

(II) Reserves in Terms of Personnel, Technology and Market for the Company's Proceeds Funded Projects**1. Personnel Reserve**

The Company has a experienced and visionary management team with in-depth industry knowledge. Mr. CHE Jianxing, the actual controller, founder and chairman of the Company, is an influential and visionary entrepreneur and and business leader in the home improvement and furnishing retail industry in China. Main members of the senior management have an average of over 10 years of experience in the home improvement and furnishing retail industry as well as an average tenure of over 8 years in the Company. With rich industry resources and strong execution capacity, they help the Company accurately capture development trends of the industry and actual conditions of the Company, so as to formulate clear and feasible development strategies and ensure the successful implementation of proceeds funded projects.

2. Technology Reserve

With continuous investment in field of the Internet-based new retail, the Company has established the Internet-based new retail platform building around the concept of “home”, which provides consumers with industry chain services for pan-home improvement and furnishing consumption ranging from design, home decoration, to purchase of household-related products through the operation model of expanding the design and home decoration business. In addition, the Company has signed a strategic cooperation agreement with Alibaba, with the aim to introduce Alibaba's advanced operation concepts and technical support in the new retail into the online and offline integration platform, and further promote industry chain services for pan-home improvement and furnishing consumption. The cooperation between the Company and Alibaba will also provide technical support and assistance for the implementation of the Company's proceeds funded projects.

3. Market Reserve

The Company is a nationwide home improvement and furnishing shopping mall operator in China, which ranks first in terms of area of operational premises, the number of malls, and the geographic coverage. As of the end of March 2020, we have operated 87 Portfolio Shopping Malls, 250 Managed Shopping Malls and 12 Home Furnishing Malls through strategic cooperation¹. In addition, the Company is authorized to open 44 franchise home improvement material projects². The nationwide layout of shopping malls, excellent brand reputation, long-term cooperation with brand merchants and extensive consumer base of the Company have laid a solid market foundation for the implementation of proceeds funded projects.

1 In the first half of 2019, the Company acquired 46.5% of equity interests in Shandong Inzone Green Home Co., Ltd. (山東銀座家居有限公司), and became one of its largest shareholders ranked pari passu with Shandong Commercial Group Co., Ltd. (山東省商業集團有限公司). As of December 31, 2019, Shandong Inzone Green Home Co., Ltd. and its controlling subsidiaries operated 12 home furnishing shopping malls in total in China. Strategic cooperative operation shopping malls mean the home furnishing shopping malls which, based on strategic objectives considered by the Company, to be held through joint investment with the partners, to jointly hold the properties and co-operate

2 Franchised home improvement material projects represent the home improvement material stores and home improvement material industry streets operated by the Company by way of franchising. For such franchised home improvement material projects, the Company will not participate in the daily operation and management after their commencement of operations

V. Remedial Measures for Dilution of Current Return by the Non-Public Issuance

In order to protect the interests of investors, ensure the effective use of proceeds, prevent the risk of diluting current returns, and improve the capacity to create returns to shareholders of the Company, the Company intends to take the following remedial measures:

(I) Ensure the progress of investment in the Proceeds Funded Projects and Realize Maximum Benefits of Projects

Proceeds from the Non-Public Issuance will be mainly used to enhance existing principal businesses of the Company, improve the layout of home furnishing malls, and invest in expansionary businesses including new retail and design and home decoration, so as to provide consumers with better one-stop industry chain services for pan-home improvement and furnishing consumption. Proceeds funded projects are in line with the industry development trend and the overall strategic development direction of the Company in the future, which have excellent prospects and economic benefits.

Upon the receipt of proceeds from the Issuance, the Company will strive to ensure the progress of proceeds funded projects. The successful implementation of proceeds funded projects and the generation of relevant benefits will remedy the dilution of current returns by the Issuance and Listing, which is in line with the long-term interests of shareholders of the Company.

(II) Reduce Financial Expenses of the Company and Enhance Its Profitability

The Company intends to use part of proceeds from the Non-public Issuance to repay interest-bearing debts, thus further improving the asset structure and financial position of the Company. The Company will make full use of such proceeds to support the Company's daily operation, improve the efficiency of proceeds utilization, reduce bank borrowings and financial costs of the Company, and enhance the overall profitability of the Company.

(III) Strengthen the Management of Proceeds

According to relevant requirements of the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Regulatory Guidelines for Listed Companies No. 2 – Regulatory Requirements for the Management and Application of Issue Proceeds of Listed Companies the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, the Measures for the Management of Funds Raised by Listed Companies of the Shanghai Stock Exchange, and other laws, administrative regulations, authority rules and regulatory documents, the Company has formulated the Measures for the Management of Proceeds. Upon recipient of proceeds from the Non-public Issuance, the Company will, according to the Measures for the Management of Proceeds, sign a tripartite supervision agreement with the Sponsor and the commercial bank where the proceeds are deposited, and deposit the proceeds in the special account of the Company approved by the Board of Directors. In the process of utilizing the proceeds, the Company will strictly complete application and approval procedures, and set up a ledger to record the expenditure and investment of the proceeds, so as to ensure that the proceeds will be used for designated purposes.

(IV) Strictly Implement the Profit Distribution Policy of the Company and Strengthen the Mechanism for Investors' Return

The Articles of Association of the Company has defined the form of profit distribution, decision-making procedure, conditions for cash dividends, conditions for the distribution of stock and dividends, and the minimum percentage of dividends. In order to clarify the returns of existing and new shareholders following the Non-public Issuance, further refine the provisions on profit distribution policy in the Articles of Association, and enhance the transparency and practicality of the profit distribution decision, the Company has formulated the Next Three-Year (2020-2022) Shareholder Return Plan of Red Star Macalline Group Corporation Ltd.

The Company will strictly implement the profit distribution policy set out in the Articles of Association, and protect the legitimate rights and interests of the Company's shareholders through formulating reasonable dividend return plans, so as to continuously create long-term values for shareholders.

VI. Undertakings of the Controlling Shareholder, the Actual Controller, Directors and Senior Management of the Company on Taking Remedial Measures for Dilution of Current Return by the Non-Public Issuance

According to relevant requirements of the Opinions of the State Council on Further Promoting the Sound Development of Capital Markets (GF [2014] No. 17), the Opinions of the General Office of the State Council on Further Strengthening the Work for Protection of the Legitimate Rights and Interests of Minority Investors in Capital Markets (GBF [2013] No. 110) and the Guiding Opinions on Matters Concerning the Dilution of Current Return Due to Initial Public Offering, Refinancing and Material Asset Restructuring (CSRC Announcement [2015] No. 31), in order to ensure that Red Star Macalline Group Corporation Ltd. (hereinafter referred to as the "Company") will effectively implement remedial measures for dilution of current return by the Non-public Issuance, and to safeguard the interests of small and medium investors, relevant entities have made the following commitments in connection with the Remedial Measures for Dilution of Current Return by the Non-Public Issuance:

(I) Undertakings of Directors and Senior Management

1. Neither transfer interests to other entities or individuals without compensation or under unfair conditions, nor damage the interest of the Company by other means;
2. To restrain their own occupational consumption behavior;
3. Not appropriate the Company's assets to engage in investment and consumption activities unrelated to its performance of duties;
4. The remuneration system formulated by the Board or the Remuneration and Assessment Committee shall be linked to the implementation of the Company's remedial measures for the return;
5. The exercise conditions of equity incentives that is implemented or intended to be publicized by the Company shall be linked to the implementation of the Company's remedial measures for the return;

6. For other new regulatory requirements introduced by the CSRC in relation to the remedial measures for the return and relevant undertakings during the period from the date of this undertaking to the completion of the Non-public Issuance of A Shares of the Company that makes the said undertaking fail to meet such requirements of the CSRC, then I shall give further undertaking(s) in accordance with those new requirements of the CSRC.

If I violate or refuse to fulfill the above undertakings, I agree to bear the corresponding penalties or relevant management measures according to relevant regulations formulated by securities regulatory authorities including the CSRC and the Shanghai Stock Exchange.

(II) Undertakings of the Controlling Shareholder and the Actual Controller

1. I will not interfere with the operation management activities of the Company or encroach on the interests of the Company.
2. I will firmly implement the Company's measures in relation to the remedial measures for the return and the relevant undertakings made in this regard. In case of breach of such undertakings, which causes losses to the Company or investors, I will be responsible for compensating the Company or investors according to laws.
3. For other new regulatory requirements introduced by the CSRC in relation to the remedial measures for the return and relevant undertakings during the period from the date of this undertaking to the completion of the Non-public Issuance of A Shares of the Company that makes the said undertaking fail to meet such requirements of the CSRC, then I/the Company shall give further undertaking(s) in accordance with those new requirements of the CSRC.

If I violate or refuse to fulfill the above undertakings, I agree to bear the corresponding penalties or relevant management measures according to relevant regulations formulated by securities regulatory authorities including the CSRC and the Shanghai Stock Exchange.



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)

SUPPLEMENTAL NOTICE OF THE 2019 AGM

NOTICE IS HEREBY GIVEN that a notice has been issued on 19 May 2020 in relation to the 2019 annual general meeting (the “**AGM**”) of Red Star Macalline Group Corporation Ltd. (the “**Company**”) will be held at 2:00 p.m. on Thursday, 18 June 2020 at Conference Center, 3/F, South Building, Block B, Red Star Macalline Headquarters, Lane 1466, Shenchang Road, Minhang District, Shanghai, the People Republic of China (the “**PRC**”) for resolutions set out in the notice. Unless indicated otherwise, capitalized terms used in this supplemental notice shall have the same meanings as those defined in the circular and the supplemental circular of the Company dated 19 May 2020 and 4 June 2020, respectively.

SUPPLEMENTAL NOTICE IS HEREBY GIVEN that the AGM will be held as originally scheduled, for the purposes of considering and, if thought fit, approving the following resolutions in addition to the resolutions set out in the Notice of the 2019 AGM of the Company dated 19 May 2020:

SPECIAL RESOLUTIONS

To consider and approve:

11. the resolution on the 2020 Non-public Issuance of A Shares of the Company
 - (a) class and nominal value of shares to be issued;
 - (b) method and time of issuance;
 - (c) target subscribers and subscription method;
 - (d) pricing reference date, issue price and pricing principles;
 - (e) number of shares to be issued;

SUPPLEMENTAL NOTICE OF THE 2019 AGM

- (f) amount and use of proceeds;
 - (g) lock-up period;
 - (h) place of listing;
 - (i) arrangements for undistributed accumulated profits prior to the Non-public Issuance; and
 - (j) validity period of the Non-public Issuance resolutions;
- 12. the resolution on the 2020 Plan for the Non-public Issuance of A Shares of the Company;
 - 13. the resolution on the Feasibility Analysis Report on the Use of Proceeds from the Non-public Issuance of A Shares of the Company; and
 - 14. the resolution on the authorization to the Board to deal with relevant matters in relation to the 2020 Non-public Issuance of A Shares of the Company with full discretion.

ORDINARY RESOLUTIONS

To consider and approve:

- 15. the resolution on the fulfilment of conditions for the Non-public Issuance of A Shares by the Company;
- 16. the resolution on the Report on the Use of Proceeds Previously Raised;
- 17. the resolution on the Shareholder's Return Plan of the Company for the Next Three Years (from 2020 to 2022); and
- 18. the resolution on the remedial measures for the dilution of current returns by the Non-public Issuance of A Shares of the Company.

By order of the Board
Red Star Macalline Group Corporation Ltd.
GUO Binghe
Vice Chairman

Shanghai, the PRC
4 June 2020

SUPPLEMENTAL NOTICE OF THE 2019 AGM

Notes:

1. Save for the inclusion of the newly proposed resolutions, there are no other changes to the resolutions set out in the Notice of the 2019 AGM dated 19 May 2020. Please refer to the Notice and the Circular of the 2019 AGM of the Company dated 19 May 2020 for details of the other resolutions to be considered and approved at the 2019 AGM and other relevant matters.
2. Since the proxy form sent by the Company on 19 May 2020 together with the Circular (the “**First Proxy Form**”) does not contain the additional resolutions as set out in this supplemental notice, this supplemental proxy form (the “**Supplemental Proxy Form**”) (with the aforesaid additional resolutions) has been prepared and is enclosed with this supplemental notice. This Supplemental Proxy Form is for the purpose of the additional resolutions set out in the supplemental notice and only serves as a supplement to the First Proxy Form. This Supplemental Proxy Form will not affect the validity of any First Proxy Form duly completed and sent to the H Share registrar of the Company.
3. If a shareholder has properly completed and submitted only the First Proxy Form in accordance with the instructions set out therein, the appointed proxy will vote on the resolutions set out in the First Proxy Form per the shareholder’s direction and he is entitled to vote or abstain at his discretion on the resolutions set out in the Supplemental Proxy Form. Similarly, if a Shareholder has properly completed and submitted only the Supplemental Proxy Form in accordance with the instructions set out therein, the appointed proxy will vote on the resolutions set out in the Supplemental Proxy Form per the Shareholder’s direction and he is entitled to vote or abstain at his discretion on the resolutions set out in the First Proxy Form. If a Shareholder wishes to provide specific direction to his proxy regarding the voting of all resolutions set out in the First Proxy Form and the Supplemental Proxy Form, he should duly complete and submit both proxy forms in accordance with the instructions set out therein.
4. Pursuant to the Notice of the 2019 AGM published by the Company on 19 May 2020, the register of members of the Company will be closed from Monday, 15 June 2020 to Thursday, 18 June 2020 (both dates inclusive). Shareholders whose names appear on the share register of the Company at the close of business on Friday, 12 June 2020, are entitled to attend and vote at the 2019 AGM.
5. The Shareholders who are entitled to attend and vote at the AGM may appoint one or more proxies to attend and vote on their behalves. A proxy need not to be a Shareholder of the Company.
6. The instrument appointing a proxy must be in writing under the hand of a Shareholder or his attorney duly authorized in writing. If the Shareholder is a legal person, that instrument must be executed either under its seal or under the hand of its director or other attorney duly authorized to sign the same on its behalf.
7. In order to be valid, the First Proxy Form and the Supplemental Proxy Form must be deposited, for H Share Shareholders of the Company, to the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the AGM. If the First Proxy Form and/or the Supplemental Proxy Form is signed by a person under the power of attorney or other authority, a notarized copy of that power of attorney or other authority shall be deposited at the same time as mentioned in the First Proxy Form and/or the Supplemental Proxy Form. Completion and return of the First Proxy Form and the Supplemental Proxy Form will not preclude Shareholders from attending the voting in person at the AGM or any adjourned meetings should they so wish.
8. Shareholders shall produce their identification documents and supporting documents in respect of the shares of the Company held when attending the AGM. If corporate Shareholders appoint authorized representative to attend the AGM, the authorized representative shall produce his/her identification documents and a notarized copy of the relevant authorization instrument signed by the board of directors or other authorized parties of the corporate Shareholders or other notarized documents allowed by the Company. Proxies shall produce their identification documents and the First Proxy Form and/or the Supplemental Proxy Form signed by the Shareholders or their attorney when attending the AGM.
9. The AGM is expected to take for less than half a day. Shareholders attending the AGM shall be responsible for their own travel and accommodation expenses.
10. All voting at the AGM will be conducted by poll.



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)

SUPPLEMENTAL NOTICE OF H SHAREHOLDER’S CLASS MEETING

NOTICE IS HEREBY GIVEN that a notice has been issued on 19 May 2020 in relation to the H shareholder’s class meeting (the “**H Shareholder’s Class Meeting**”) of Red Star Macalline Group Corporation Ltd. (the “**Company**”) will be held at 4:00 p.m. (or immediately after the conclusion of A Shareholder’s Class Meeting) on Thursday, 18 June 2020 at Conference Center, 3/F, South Building, Block B, Red Star Macalline Headquarters, Lane 1466, Shenchang Road, Minhang District, Shanghai, the People Republic of China (the “**PRC**”) for resolutions set out in the notice. Unless indicated otherwise, capitalized terms used in this supplemental notice shall have the same meanings as those defined in the circular and the supplemental circular of the Company dated 19 May 2020 and 4 June 2020, respectively.

SUPPLEMENTAL NOTICE IS HEREBY GIVEN that the H Shareholder’s Class Meeting will be held as originally scheduled, for the purposes of considering and, if thought fit, approving the following resolutions in addition to the resolutions set out in the Notice of the H Shareholder’s Class Meeting of the Company dated 19 May 2020:

SPECIAL RESOLUTIONS

To consider and approve:

2. the resolution on the 2020 Non-public Issuance of A Shares of the Company
 - (a) class and nominal value of shares to be issued;
 - (b) method and time of issuance;
 - (c) target subscribers and subscription method;
 - (d) pricing reference date, issue price and pricing principles;
 - (e) number of shares to be issued;
 - (f) amount and use of proceeds;

SUPPLEMENTAL NOTICE OF THE H SHAREHOLDER'S CLASS MEETING

- (g) lock-up period;
 - (h) place of listing;
 - (i) arrangements for undistributed accumulated profits prior to the Non-public Issuance; and
 - (j) validity period of the Non-public Issuance resolutions;
3. the resolution on the 2020 Plan for the Non-public Issuance of A Shares of the Company;
 4. the resolution on the Feasibility Analysis Report on the Use of Proceeds from the Non-public Issuance of A Shares of the Company; and
 5. the resolution on the authorization to the Board to deal with relevant matters in relation to the 2020 Non-public Issuance of A Shares of the Company with full discretion.

ORDINARY RESOLUTIONS

6. the resolution on the Report on the Use of Proceeds Previously Raised;
7. the resolution on the Shareholder's Return Plan of the Company for the Next Three Years (from 2020 to 2022); and
8. the resolution on the remedial measures for the dilution of current returns by the Non-public Issuance of A Shares of the Company.

By order of the Board
Red Star Macalline Group Corporation Ltd.
GUO Binghe
Vice Chairman

Shanghai, the PRC
4 June 2020

SUPPLEMENTAL NOTICE OF THE H SHAREHOLDER'S CLASS MEETING

Notes:

1. Save for the inclusion of the newly proposed resolutions, there are no other changes to the resolutions set out in the Notice of the H Shareholder's Class Meeting dated 19 May 2020. Please refer to the Notice and the Circular of the H Shareholder's Class Meeting of the Company dated 19 May 2020 for details of the other resolutions to be considered and approved at the H Shareholder's Class meeting and other relevant matters.
2. Since the proxy form sent by the Company on 19 May 2020 together with the Circular (the "**First Proxy Form**") does not contain the additional resolutions as set out in this supplemental notice, this supplemental proxy form (the "**Supplemental Proxy Form**") (with the aforesaid additional resolutions) has been prepared and is enclosed with this supplemental notice. This Supplemental Proxy Form is for the purpose of the additional resolutions set out in the supplemental notice and only serves as a supplement to the First Proxy Form. This Supplemental Proxy Form will not affect the validity of any First Proxy Form duly completed and sent to the H Share registrar of the Company.
3. If a shareholder has properly completed and submitted only the First Proxy Form in accordance with the instructions set out therein, the appointed proxy will vote on the resolutions set out in the First Proxy Form per the shareholder's direction and he is entitled to vote or abstain at his discretion on the resolutions set out in the Supplemental Proxy Form. Similarly, if a Shareholder has properly completed and submitted only the Supplemental Proxy Form in accordance with the instructions set out therein, the appointed proxy will vote on the resolutions set out in the Supplemental Proxy Form per the Shareholder's direction and he is entitled to vote or abstain at his discretion on the resolutions set out in the First Proxy Form. If a Shareholder wishes to provide specific direction to his proxy regarding the voting of all resolutions set out in the First Proxy Form and the Supplemental Proxy Form, he should duly complete and submit both proxy forms in accordance with the instructions set out therein.
4. Pursuant to the Notice of the H Shareholder's Class Meeting published by the Company on 19 May 2020, the register of members of the Company will be closed from Monday, 15 June 2020 to Thursday, 18 June 2020 (both dates inclusive). Shareholders whose names appear on the share register of the Company at the close of business on Friday, 12 June 2020, are entitled to attend and vote at the H Shareholder's Class Meeting.
5. The Shareholders who are entitled to attend and vote at the H Shareholder's Class Meeting may appoint one or more proxies to attend and vote on their behalves. A proxy need not to be a Shareholder of the Company.
6. The instrument appointing a proxy must be in writing under the hand of a H Share Shareholder or his attorney duly authorized in writing. If the H Share Shareholder is a legal person, that instrument must be executed either under its seal or under the hand of its director or other attorney duly authorized to sign the same on its behalf.
7. In order to be valid, the First Proxy Form and the Supplemental Proxy Form must be deposited at the H Share Registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Share Shareholders of the Company) not less than 24 hours before the time for holding the H Shareholder's Class Meeting. If the First Proxy Form and/or the Supplemental Proxy Form is signed by a person under a power of attorney or other authority, a notarized copy of that power of attorney or other authority shall be deposited at the same time as mentioned in the First Proxy Form and/or the Supplemental Proxy Form. Completion and return of the First Proxy Form and the Supplemental Proxy Form will not preclude H Share Shareholders of the Company from attending and voting in person at the H Shareholder's Class Meeting or any adjourned meetings should they so wish.
8. Shareholders shall produce their identity documents and supporting documents in respect of the shares of the Company held when attending the H Shareholder's Class Meeting. If corporate Shareholders appoint authorized representative to attend the H Shareholder's Class Meeting, the authorized representative shall produce his/her identity documents and a notarized copy of the relevant authorization instrument signed by the board of directors of the corporate shareholders or other authorized parties or other notarized documents allowed by the Company. Proxies shall produce their identity documents and the First Proxy Form and/or the Supplemental Proxy Form signed by the Shareholder or their attorney when attending the H Shareholder's Class Meeting.
9. The H Shareholder's Class Meeting is expected to take less than half a day. H Share Shareholders attending the H Shareholder's Class Meeting shall be responsible for their own travel and accommodation expenses.
10. All voting at the H Shareholder's Class Meeting will be conducted by poll.