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RED STAR MACALLINE GROUP CORPORATION LTD:
ONE MUST HOPE THAT MANAGEMENT IS NOT
BITING OFF MORE THAN IT CAN CHEW

Red Star Macalline Group Corporation Ltd () (Code: 1528, Main Board, The Stock Exchange of Hongkong Ltd) is the largest, home improvement and furnishings shopping mall operator in the People's Republic of China (PRC), according to the Company's Global Offering Prospectus, dated June 16, 2015.

However, the Company had material problems, during the 2014 Financial Year, ended December 31, when it was forced to lash out more than 100 million renminbi (about $HK127.40 million) in compensation.

At Appendix I-69 of the Global Offering Prospectus, it is stated, under the heading of '***OTHER EXPENSES***':

	'2012	***2013***	***2014***
	RMB'000	***RMB'000***	***RMB'000***
Compensation paid and payable (note)	*3,920*	*22,026*	*103,091*

Note: The amount incurred in 2014 mainly represented the compensation paid and payable to the property owner and the tenants arising from the closure of one leased shopping mall.'

That sum of money, paid as compensation to the property owner and tenants of the property, represented about 2.84 percent of the Net Profit Attributable to Shareholders in respect of the 2014-Year.

Chicken feed? Maybe!

But this situation has happened in the past and it stands to reason that it could happen in the future.

In Toronto, Canada, the financial problems in respect of operators/owners of shopping malls, on the loss of what is termed, '*Anchor Tenants*', have frightened many an entrepreneur from investing in such illiquid assets as well as '*strip malls*' and, especially, very large, comprehensive shopping malls.

But, the PRC is not Toronto, Canada, is it?

The Initial Public Offering (IPO)

Red Star Macalline made a Global Offering of 543,588,000 '*H*' Shares at the Indicative Offer Price Per Share, ranging from a low of $HK11.18 to a high of $HK13.28.

On June 25, 2015, Management announced that the Offer Price Per Share had been struck at the highest level of $HK13.28 and that the Company had netted approximately $HK6,906.20 million from its cash-raising exercise.

This not inconsiderable amount of money will be utilised, one was told, as follows:

1. Approximately, $HK2,534.30 million, that is about 37 percent of the net proceeds, '*will be used to finance the development of nine of the Company's new Portfolio Shopping Malls*';

2. Approximately, $HK1,647.30 million, that is about 24 percent of the net proceeds, '*will be used to invest in or acquire other home improvement and furnishings retailers and other market participants in the new sectors the Company is expanding into along the home improvement and furnishings value chain in China*';

3. Approximately, $HK1,457.40 million, that is about 21 percent of the net proceeds, '*will be used to refinance the Company's existing indebtedness*';

4. Approximately, $HK633.60 million, that is about nine percent of the net proceeds, '*will be used to finance the development of the Company's O2O business and information technology systems*'; and,

5. Approximately, HK633.60 million, that is about nine percent of the net proceeds, '*will be used for working capital and other general corporate purposes*'.

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