C.P. Lotus Corporation
卜蜂蓮花有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00121)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the "Board") of C.P. Lotus Corporation (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2018 with comparative figures in 2017, as follows:

Consolidated Statement of Profit or Loss - unaudited

		Six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**5,256,860**	4,982,918
Cost of sales		**(4,331,250)**	(4,113,022)
Gross profit		**925,610**	869,896
Other revenue	*4*	**330,784**	305,608
Other net loss	*5*	**(13,039)**	(29,680)
Distribution and store operating costs		**(892,239)**	(837,306)
Administrative expenses		**(136,416)**	(147,537)
Profit from operations		**214,700**	160,981
Finance costs	*6*	**(54,778)**	(49,520)
Profit before taxation	*7*	**159,922**	111,461
Income tax	*8*	**(22,232)**	(6,571)
Profit for the period attributable to the equity shareholders of the Company		**137,690**	104,890

Consolidated Statement of Profit or Loss - unaudited (Continued)

	Note	Six months ended 30 June	
		2018	2017
Earnings per share	*10*		
- Basic (RMB cent)		**0.62**	0.47
- Diluted (RMB cent)		**0.62**	0.47

Consolidated Statement of Profit or Loss and Other Comprehensive Income - unaudited

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Profit for the period attributable to the equity shareholders of the Company	**137,690**	104,890
Other comprehensive income for the period (after tax and reclassification adjustments)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the People's Republic of China ("PRC")	**701**	4,290
Total comprehensive income for the period attributable to equity shareholders of the Company	**138,391**	109,180

Consolidated Statement of Financial Position - unaudited

	Note	**30 June 2018 RMB'000**	31 December 2017 RMB'000 (Note)
Non-current assets			
Property, plant and equipment		**1,673,215**	1,690,445
Interests in leasehold land held for own use under operating leases		**119,624**	122,771
		1,792,839	1,813,216
Intangible assets		**133,392**	137,455
Goodwill		**2,654,252**	2,654,252
Prepaid lease payments for premises		**8,481**	10,303
Deferred tax assets		**34,972**	34,972
		4,623,936	4,650,198
Current assets			
Prepaid lease payments for premises		**4,005**	4,099
Inventories		**938,599**	1,144,710
Trade and other receivables	*11*	**1,087,990**	849,084
Pledged bank deposits		**51,964**	59,865
Cash and cash equivalents		**138,273**	166,115
		2,220,831	2,223,873
Current liabilities			
Trade and other payables	*12*	**3,358,413**	3,786,001
Contract liabilities		**315,240**	-
Bank loans	*13*	**186,599**	229,946
Loans from controlling shareholder	*14*	**924,010**	913,009
Other loans		**43,775**	43,402
Obligations under finance leases		**13,559**	12,909
Current taxation		**12,688**	27,237
Provisions		**6,454**	7,978
		4,860,738	5,020,482
Net current liabilities		**(2,639,907)**	(2,796,609)
Total assets less current liabilities		**1,984,029**	1,853,589

Consolidated Statement of Financial Position - unaudited (Continued)

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000* *(Note)*
Non-current liabilities		
Obligations under finance leases	**122,585**	129,530
Deferred tax liabilities	**33,483**	34,489
	156,068	164,019
NET ASSETS	**1,827,961**	1,689,570
CAPITAL AND RESERVES		
Share capital	**405,726**	405,726
Reserves	**1,422,235**	1,283,844
TOTAL EQUITY	**1,827,961**	1,689,570

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition method chosen, comparative information is not restated. Further details are disclosed in note 2 of this announcement.

Notes to the Unaudited Interim Financial Statements

1. BASIS OF PREPARATION

The interim financial statements are unaudited and have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") .

The interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company and approved for issue by the Board on 10 August 2018.

The interim financial statements does not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the 2017 annual financial statements.

The interim financial statements have been prepared in accordance with the same accounting policies in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2.

As at 30 June 2018, the Group had net current liabilities of approximately RMB2,639.9 million. In view of the significant net current liabilities, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The directors of the Company (the "Directors") note that the Group generated net cash from operating activities of approximately RMB189.1 million for the six months ended 30 June 2018. With the continuing efforts to driving revenue growth and to reducing operating costs, the Group made a net profit of RMB137.7 million for the six months ended 30 June 2018.

As at 30 June 2018, the Group had loans from its controlling shareholder, C.P. Holding (BVI) Investment Company Limited ("CPH"), amounting to approximately USD139.8 million (equivalent to RMB924.0 million), which are repayable in December 2018. On 13 July 2018, the Group entered into the amendment agreements with CPH to amend the terms of existing agreements including to extend the repayment date to December 2020.

Based on the Group's business plan and unused loan facilities on hand, the Directors believe the Group will generate sufficient cash flows to meet its liabilities as and when they fall due in the next twelve months. The Directors also expect that the Group's ultimate holding company will consider providing support to the Group to the extent necessary.

1. BASIS OF PREPARATION (CONTINUED)

In view of the above, the Directors consider that the Group will generate sufficient financial resources for its working capital and capital expenditure requirements and that it will be able to meet its financial obligations as when they fall due. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. CHANGES IN ACCOUNTING POLICIES

(a) *Overview*

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HK (IFRIC) 22, *Foreign currency transactions and advance consideration*
- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HK (IFRIC) 22 does not have a material effect on how the Group's results and financial position for the current or prior period have been prepared or presented in this interim financial report.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to presentation of contract liabilities. Details of the changes in accounting policies are discussed in note 2(b) for HKFRS 9 and note 2(c) for HKFRS 15.

Under the transition methods chosen, the Group recognises the cumulative effects of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated.

(b) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) HKFRS 9*, Financial instruments (continued)*

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

1 amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

2 FVOCI - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

3 FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

There is no material impact on the carrying amounts of the assets on adoption of HKFRS9.

The measurement categories for all financial liabilities remain the same, except for financial guarantee contracts, if any.

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) HKFRS 9, *Financial instruments (continued)*

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables). As the Group's credit risk is limited by the nature of its retail sales model, this change in accounting policy does not have a significant impact.

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

1 Information relating to comparative periods has not been restated. The information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

2 The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group).

(c) HKFRS 15*, Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method. Comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) HKFRS 15, *Revenue from contracts with customers* (continued)

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Presentation of contract liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

a. "Advance receipts from customers" amounting to RMB396.1 million as at 1 January 2018, which were mainly related to sales of prepaid cards and previously included in trade and other payables are now shown as a separate line item as contract liabilities on the face of the consolidated statement of financial position and the estimated related VAT payable of RMB42.7 million is classified under other creditors and accrued charges.

(ii) Other impacts

The Group's assessment is that the impact of HKFRS15 in other areas including customer rights of return, principal vs agent arrangements, customer financing is not significant as the respective volume of transactions are either not material or the new standard has not led to a change in accounting treatment.

3. REVENUE AND SEGMENT INFORMATION

The principal activity of the Group is the operation of hypermarket stores in the PRC. Revenue represents the net amounts received and receivable for goods sold by the Group to external customers, less returns, discounts and value added taxes.

The Group's customer base is diversified and there is no customer with us whose transactions have exceeded 10% of the Group's revenue.

All revenue from external customers are generated in the PRC and all significant operating assets of the Group are located in the People's Republic of China (the "PRC"). Accordingly, the Group has a single operating and reportable segment – operation of hypermarket stores in the PRC.

4. OTHER REVENUE

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Leasing of store premises	**282,682**	258,446
Other promotion and service income	**46,300**	37,755
Interest income	**1,708**	1,758
Government grants (note)	**94**	7,649
	330,784	305,608

Note: Government grants represent subsidies received from local authorities.

5. OTHER NET LOSS

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Net foreign exchange (loss)/gain	**(16,252)**	30,654
Gain/(loss) on the forward foreign exchange contracts (note 12)	**5,001**	(58,691)
Net loss on disposal of property, plant and equipment	**(1,788)**	(1,643)
	(13,039)	(29,680)

6. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Interest on borrowings:		
- Bank loans	**4,978**	4,913
- Other loans	**38,052**	32,101
Finance charges on obligations under finance leases	**6,906**	7,485
Total interest expense on financial liabilities not at fair value through profit or loss	**49,936**	44,499
Loan arrangement and guarantee fees	**4,842**	5,021
	54,778	49,520

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Depreciation	**97,212**	93,082
Amortisation		
- land lease premium	**3,147**	3,147
- intangible assets	**4,057**	4,062
Operating lease charges		
- property rentals	**267,742**	239,881
Cost of inventories	**4,331,250**	4,113,022

8. INCOME TAX

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Current tax - PRC		
Over-provision in respect of prior year	**(3,431)**	-
Provision for the period	**26,767**	7,693
Deferred tax		
Origination and reversal of temporary differences	**(1,104)**	(1,122)
	22,232	6,571

Income tax is calculated at the rates prevailing in the relevant jurisdictions.

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries did not generate any assessable profits in Hong Kong during the period.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Pursuant to the Corporate Income Tax Law ("CIT law") of the PRC, subsidiaries of the Group established in the PRC are subject to PRC income tax at 25% (2017: 25%) on their assessable profits as determined in accordance with the CIT law.

Further, under the CIT law, 10% withholding tax is levied on the foreign investor in respect of dividend distributions arising from a foreign invested enterprise's profit earned after 1 January 2008. As at 30 June 2018, the PRC subsidiaries of the Group had accumulated losses and therefore no deferred tax liabilities were recognised in this regard.

9. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the period (six months ended 30 June 2017: Nil).

10. EARNINGS PER SHARE

(a)Basic earnings per share

The calculation of the basic earnings per share is based on the following data:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Profit for the period attributable to shareholders equity of the Company	**137,690**	104,890

The weighted average number of shares is calculated based on the following data:

Number of ordinary shares in issue	**11,019,072,390**	11,019,072,390
Number of Series A convertible preference shares in issue	**1,518,807,075**	1,518,807,075
Number of Series B convertible preference shares in issue	**3,897,110,334**	3,897,110,334
Number of Series C convertible preference shares in issue	**3,671,509,764**	3,671,509,764
Number of Series D convertible preference shares in issue	**2,211,382,609**	2,211,382,609
Total	**22,317,882,172**	22,317,882,172

The holders of the convertible preference shares are entitled to receive the same dividends as the holders of ordinary shares.

(b)Diluted earnings per share

The diluted earnings per share for the six months ended 30 June 2018 and 2017 is the same as the basic earnings per share as there were no dilutive potential ordinary or convertible preference shares outstanding during the period.

11. TRADE AND OTHER RECEIVABLES

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
Trade receivables	**91,968**	80,333
Rental deposit	**130,196**	125,547
Value-added tax recoverable	**89,267**	114,908
Other debtors	**121,818**	62,514
Amounts due from related companies	**654,741**	465,782
	1,087,990	849,084

Sales to retail customers are mainly made by cash or credit cards. Credit terms of 30 to 90 days are offered to related companies and corporate customers with ongoing relationship.

At the end of the reporting period, the ageing analysis of trade receivables due from third parties and related companies, based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
Within 30 days	**159,092**	177,742
31 to 60 days	**70,662**	59,646
61 to 90 days	**81,595**	58,942
Over 90 days (note)	**341,827**	148,059
	653,176	444,389

Note : Subsequent to the end of the reporting period, RMB331,038,000 trade receivables due from related companies were received, which belong to the over 90 days category in the above ageing analysis.

12. TRADE AND OTHER PAYABLES

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Notes payable	**97,919**	97,668
Trade creditors	**2,257,030**	2,209,069
Advanced receipts from customers	**-**	396,141
Construction costs payable	**226,610**	266,881
Other creditors and accrued charges	**567,650**	604,255
Amounts due to related companies	**173,952**	171,903
Derivative financial instruments	**35,252**	40,084
	3,358,413	3,786,001

(a) Advance receipts from customers mainly represented the unutilised balance of prepaid cards sold by the Group. As a result of the adoption of HKFRS 15, these balances are classified as contract liabilities and are shown as a separate line on the consolidated statement of financial position (Note 2(c)).

Aging analysis of trade creditors and notes payable of RMB2,354,949,000 (2017: RMB2,306,737,000), based on the invoice date as at the end of reporting period, is as follows :

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Uninvoiced purchases	**609,380**	877,391
Within 30 days	**1,229,270**	1,073,575
31 to 60 days	**176,430**	180,619
61 to 90 days	**129,756**	32,394
More than 90 days	**210,113**	142,758
	2,354,949	2,306,737

At 30 June 2018, the Group had a USD non-delivered forward exchange contract (the "Foreign Exchange Contract") with a notional amount of USD139,770,000 (2017: USD139,770,000). At 30 June 2018, the fair value of the derivative financial liabilities in respect of this Foreign Exchange Contract was RMB35,252,000 (2017: RMB40,084,000). The Foreign Exchange Contract has a maturity of less than one year after the end of the reporting period, and the amount is expected to be payable within one year.

13. BANK LOANS

At 30 June 2018, all bank loans were unsecured and repayable within one year.

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Bank loans	**186,599**	229,946

As at 30 June 2018, the Group had drawn down bank loans of RMB186,599,000, bearing interest at six-month People's Bank of China Rate ("PBOC Rate") multiplied by 1.12-1.20, ranging from 4.87% to 5.22% per annum.

As at 31 December 2017, the Group has drawn down bank loans of RMB229,946,000, bearing interest at six-month rate of PBOC Rate multiplied by 1.20, being 5.22% per annum or bearing fixed interest ranging from 4.70% to 5.22% per annum.

14. LOANS FROM CONTROLLING SHAREHOLDER

At 30 June 2018, the Group had borrowed floating rate loans of USD139,770,000 (equivalent to RMB924,010,000) (2017: USD139,770,000 (equivalent to RMB913,009,000)) from its controlling shareholder, CPH, bearing interest at three-month London Interbank Offered Rate ("LIBOR") plus 4.50% to 5.65% per annum. The loans from the controlling shareholder are unsecured and repayable in December 2018 ("Existing Loans").

On 13 July 2018, the Group entered into the amendment agreements with CPH to amend the terms of Existing Loans agreements, including to extend the repayment date to December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded a net profit attributable to equity shareholders of the Company for the six months ended 30 June 2018 of RMB137.7 million (2017: RMB104.9 million).

Revenue increased by RMB274.0 million compared to the corresponding period in 2017, or 5.5%, to RMB5,256.9 million. The increase was mainly due to the opening of six new stores in the second half of 2017 and three new stores (including one located in the Lotus Center shopping mall) in the first half of 2018; same store sales also recorded a positive growth of 1.2%. Both fresh food and dry grocery recorded significant increase in sales.

Gross profit margin was 17.6% of sales (2017: 17.5%), and gross profit amounted to RMB925.6 million, an increase of RMB55.7 million or 6.4%. Gross profit margin comprised front and back margin : front margin is sales minus direct cost of sales; back margin represents income from suppliers such as discounts and allowances. Front margin amount reduced by 0.7 percentage point to 7.7% as more promotion activities and group sales were conducted while back margin amount increased by 0.8 percentage point to 9.9% from higher volume rebate and new stores allowance.

Other revenue and other net loss was RMB317.7 million or 6.0% of sales (2017: RMB275.9 million or 5.5% of sales). This comprised mainly lease income received from the lease of store space. Lease income increased by RMB24.2 million to RMB282.7 million or 5.4% of sales as a result of contribution from the store space adjacent to six new stores which opened in the second half of 2017 and from the store space adjacent to two new stores and from the Lotus Center shopping mall (except for the space occupied by the new Lotus store) which opened in the period under review. An exchange loss of RMB16.3 million was recorded against our US dollars ("USD") borrowing as a result of depreciation of Renminbi and a gain of RMB5.0 million from the Foreign Exchange Contract was also recorded. As the Foreign Exchange Contract expired on 23 July 2018, a new USD non-delivered forward exchange contract with a notional amount of USD139.8 million, being the current outstanding balance of the shareholder loans, was entered into on 19 July 2018.

Distribution and store operating costs was RMB892.2 million or 17.0% of sales (2017: RMB837.3 million or 16.8% of sales). It comprised mainly store rental, personnel expenses, utilities and depreciation and amortisation representing a total of RMB796.4 million or 5.2%, 6.5%, 1.5% and 1.9% of sales respectively. The increase in expenses was attributed to the opening of six new stores in the second half of 2017 and three new stores and one Lotus Center shopping mall in the period under review, and additional promotion expenses to boost sales.

Administrative expenses was RMB136.4 million or 2.6% of sales (2017 : RMB147.5 million or 3.0% of sales). It mainly comprised personnel expenses of RMB108.0 million, depreciation and amortisation charge of RMB6.8 million, rental expenses of RMB9.2 million and professional fee of RMB3.1 million.

Financial costs were RMB54.8 million or 1.0% of sales (2017: RMB49.5 million or 1.0% of sales).

Income tax was RMB22.2 million (2017: RMB6.6 million).

Net profit attributable to the shareholders of the Company was RMB137.7 million (2017: RMB104.9 million). The improvement was mainly due to the increase in revenue, gross profit and other revenue, which together offset the increase in store operating costs due to new stores opening.

Capital expenditure was RMB82.5 million mainly attributed to purchase of equipment and machinery for the new stores and store renovations.

Capital Structure

The Group finances its own working capital requirements through a combination of funds generated from operation, shareholder loans and bank and other borrowings.

Liquidity and finance resources

During the period under review, the Group's sources of funds were primarily from operating activities, loans from the controlling shareholder and bank borrowings. The decrease in net cash and cash equivalents was mainly due to capital expenditure payments and repayment of bank loans and interest which exceeded the cash generated from operation.

	30 June 2018	31 December 2017
Cash and cash equivalents (RMB million)	**138.3**	166.1
Loans from controlling shareholder, bank loans and other loans (RMB million)	**1,154.4**	1,186.3
Current ratio (x)	**0.46**	0.44
Quick ratio (x)	**0.26**	0.21
Gearing ratio (x) (defined as loans from controlling shareholder, bank loans and other loans divided by total equity)	**0.63**	0.70

	Six months ended 30 June	
	2018	2017
Net cash outflow after effect of foreign exchange rate changes (RMB million)	**(27.8)**	(72.3)

During the period under review, bank loans bear floating interest at six-month PBOC Rate multiplied by 1.12-1.2, ranging from 4.87% to 5.22% per annum. The loans from the Company's controlling shareholder bear interest at three-month LIBOR plus 4.50% to 5.65% per annum and other loans bore interest at three-month LIBOR plus 1.5% per annum.

Foreign currency exposure
The Directors consider that, as the Group's retail operations are all based in the PRC, the Group is not exposed to significant currency risks in its operations.

The Group is however exposed to foreign currency risk from shareholder and other loans which are denominated in currencies other than Renminbi. To manage the exposure to currency risk in respect of the USD borrowings, the Company entered into the Foreign Exchange Contract which expired on 23 July 2018. The Company entered into a new non-delivered forward exchange contract with a notional amount of USD139.8 million on 19 July 2018. In addition, the Company also entered into an interest rate swap contract on 16 July 2018 with the same notional amount to manage the exposure to interest rate risk. The Group does not enter into derivative transactions for speculative purposes.

Employees, training and remuneration policy
The Group employed approximately 11,570 employees as at 30 June 2018, of whom approximately 1,160 were head office staff and approximately 10,410 were stores and distribution centre employees. The Group remunerates its employees based on their performance, experience and the prevailing market rate. The Group also provides other employee benefits to the employees include insurance and medical cover and subsidised training programs.

BUSINESS REVIEW

Store network
The Group owns and operates a total of 73 retail stores in the PRC which includes one premium supermarket and two neighbourhood stores with a total sales area of approximately 550,000 square meters. The Group also operates three shopping malls, one located in Shantou and two located in Xian. During the period under review, we opened two hypermarkets, one neighbourhood store and one shopping mall.

Optimisation of merchandise, sales space and enhanced relationship with suppliers
During the period under review, the Group continued its efforts to enhance the merchandize mix and offerings. The Group continued to expand its direct sourcing capabilities and increased direct purchase of vegetables and fruit. Direct sourcing not only lowers product prices but also allows the Group to gain better control of the quality of products. As consumers' disposable income continues to rise and the demand for high quality imported food continues to increase, the Group introduced a wider range of imported products such as wine, beverages, snacks, health supplements, kitchenware and other groceries in the product offerings. In addition, our house brand team continued to work closely with the merchandise and marketing team to develop price competitive house brand products to enhance the Group's differentiation and competitiveness. During the reporting period, the Group had approximately 50 housebrand SKUs and planned to further increase the SKUs by the end of the year.

The Group continued to re-allocate sales space among different categories. More space was allocated to fresh products and mother and baby care section as a wider range of products were introduced to satisfy the growing demand following to the relaxation of China's one-child policy, while sales space for electronics and apparel was reduced. Furthermore, we continued to review the overall store layout to optimise operation structure, such as reducing self-operated space and expanding the lease areas.

We continued to work closely with our suppliers. Regular meetings were conducted to discuss merchandise strategy and industry trends, and our vendor service team continued to provide high quality service to our vendors.

During the period under review, a new distribution centre for dry merchandise with a total building area of 11,000 square meters was opened in the district of Sanshui, Foshan. The old distribution centre for dry merchandise in Nanhai, Foshan was closed following the expiry of lease contract.

Improvement of operation and system efficiency
We continued to make use of systems and tools to improve operating efficiency. The Group continued to develop integrated data analysis to understand business trends, customer preferences and buying behaviours in order to help further develop tailor-made marketing activities, optimize merchandise assortment and improve overall efficiency.

We regularly reviewed the working conditions of our equipment in stores, focusing on the replacement of high energy consumption, high maintenance aging equipment and facilities to save energy and improve operational efficiency.

The Group has reviewed work process and procedures both at store and at head office level in order to minimise unproductive practices.

During the period under review, the Group started the bidding process for a new ERP system which provides omni-channel functionalities, which should allow our business to become more flexible and better connected across the enterprise.

Strengthening of customer satisfaction and enhancement of brand awareness
During the period under review, the Group continued the very successful "50% off thanks-giving activity" and we raised awareness of women's welfare through our widely recognised "Spring Pink" theme.

We also applied new media technology such as "WeChat public number" and "WeChat moments" to create neighbourhood communication groups for customers located within 5km radius of a store.

We continued to conduct focus group surveys to assess customer opinions and satisfaction levels to ensure that our staff remains focused on delivering excellent customer service.

Legal and regulatory compliance
The Group strives to comply in all material aspects with the relevant laws and regulations which are regarded as having a significant impact on the Group, and did not come across incidence of material breach or non-compliance during the Reporting Period.

PROSPECT

The performance in the first six months showed that our strategic turnaround plan developed by the Board at the end of 2016 was effective. However, the Board remains cautious about the Group's performance in the second half of 2018 as it depends on whether the Group can continue to be diligent in cost control and increase revenue. The Group will continue the development of different retail formats to serve different customers with different needs. We expect to open more retail stores before the end of the year.

CORPORATE GOVERNANCE CODE

The Company has complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules during the reporting period.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors of the Company. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including the review of the unaudited interim financial statements of the Group for the reporting period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Umroong Sanphasitvong
Director

Hong Kong, 10 August 2018

As at the date of this announcement, the Board comprises eight executive directors, namely Mr. Soopakij Chearavanont, Mr. Li Wen Hai, Mr. Narong Chearavanont, Mr. Michael Ross, Mr. Yang Xiaoping, Mr. Meth Jiaravanont, Mr. Suphachai Chearavanont and Mr. Umroong Sanphasitvong, and five independent non-executive directors, namely Mr. Viroj Sangsnit, Mr. Songkitti Jaggabatara, Mr. Itthaporn Subhawong, Mr. Prasobsook Boondech and Mr. Cheng Yuk Wo.