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## **C.P. Lotus Corporation**

**卜蜂蓮花有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 00121)

### **(1) CONNECTED TRANSACTION AND (2) POTENTIAL INSIDE INFORMATION**

#### **1. CONNECTED TRANSACTION**

##### **Formation of Joint Venture**

On 5 June 2019, Guangzhou Lotus entered into the Joint Venture Agreement with C.P. Trading, pursuant to which Guangzhou Lotus and C.P. Trading agreed to contribute RMB8 million and RMB12 million as registered capital respectively, representing 40% and 60% respectively of the equity interest, of the JV Company.

##### **Listing Rules Implications**

As of the date of this announcement, CPG is interested in approximately 61.61% of the Ordinary Shares in issue, and is therefore a controlling shareholder of the Company.

As C.P. Trading is an indirect wholly-owned subsidiary of CPG, it is a connected person of the Company under Chapter 14A of the Listing Rules. The Transaction therefore constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under Rule 14.07 of the Listing Rules are more than 0.1% but less than 5%, the Transaction is subject to the reporting and announcement requirements but is exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### **2. POTENTIAL INSIDE INFORMATION**

The following disclosure is made by the Company pursuant to Rule 13.09(2) of the Listing Rules and the provisions on inside information under Part XIVA of the Securities and

Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Assuming that there is no material change to the Group's existing leases in the remaining part of the year ending 31 December 2019, it is expected that, for the sole reason of HKFRS 16 coming into effect for the accounting periods beginning on or after 1 January 2019, the Group would recognise additional expenses in an amount in the range of RMB160 million to RMB190 million for the current financial year as compared to 2018.

The Board wishes to emphasise that the implementation of HKFRS 16 would have no effect on the Group's daily operations and cashflow. Notwithstanding the additional expenses associated with the adoption of HKFRS 16, the Board considers that the Group's overall financial position remains sound.

**Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.**

## **1. CONNECTED TRANSACTION**

On 5 June 2019, Guangzhou Lotus entered into the Joint Venture Agreement with C.P. Trading, pursuant to which Guangzhou Lotus and C.P. Trading agreed to contribute RMB8 million and RMB12 million as registered capital respectively, representing 40% and 60% of the equity interest respectively, of the JV Company respectively.

### **Formation of Joint Venture**

The principal terms of the Joint Venture Agreement are summarised as follows:

#### **Date**

5 June 2019

#### **Parties**

- (i) Guangzhou Lotus; and
- (ii) C.P. Trading

#### **Registered Capital**

The registered capital of the JV Company shall be RMB20,000,000:

- (1) Guangzhou Lotus shall contribute RMB8,000,000 in cash, representing 40% of the registered capital of the JV Company; and
- (2) C.P. Trading shall contribute RMB12,000,000 in cash, representing 60% of the registered capital of the JV Company.

The amount of capital contribution by the parties was determined after arm's length negotiation between the parties taking into account the development plan of the JV Company.

Upon incorporation, Guangzhou Lotus would be interested in 40% equity interest in the JV Company. As such, the JV Company would be accounted for in the financial statements of the Group using equity method but its results would not be consolidated.

### **Board composition**

The board of directors of the JV Company consists of five directors. Two of the directors are appointed by Guangzhou Lotus and three of the directors are appointed by C.P. Trading.

### **Information on the Parties**

The Company is an investment holding company. The subsidiaries of the Company, including Guangzhou Lotus, are principally engaged in the operation of large-scale hypermarket stores in the PRC.

Guangzhou Lotus is a wholly-owned subsidiary of the Company and is principally engaged in the operation of large-scale hypermarket stores in the southern region of the PRC.

C.P. Trading is principally engaged in the sale of animal feed products, agricultural products and related goods in the PRC.

### **Reasons for and Benefit of the Transaction**

It is intended that the JV Company will explore opportunities to invest in retail businesses in the PRC.

By entering into the Joint Venture Agreement and establishing the JV Company, Guangzhou Lotus and C.P. Trading would leverage on their respective experience in supply chain, logistics, warehouse management and agriculture product sales to develop future businesses.

The Board considered that each of Mr. Soopakij Chearavanont (both chairman and executive Director of the Company), Mr. Narong Chearavanont, Mr. Suphachai Chearavanont and Mr. Umroong Sanphasitvong (each an executive Director of the Company) had a material interest in the transaction in view of their shareholding interests in CPG, and accordingly they had abstained from voting on the resolutions for approving the Transaction.

Save as disclosed above, none of the other Directors had any material interest in the Transaction and was required to abstain from voting on the resolutions for approving the Transaction.

The Directors (including the independent non-executive Directors, but excluding those Directors mentioned above who abstained from voting) consider that the Transaction is on normal commercial terms and in the ordinary and usual course of business of the Company, and that the terms of the Joint Venture Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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As of the date of this announcement, CPG is interested in approximately 61.61% of the Ordinary Shares in issue, and is therefore a controlling shareholder of the Company.

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## **2. POTENTIAL INSIDE INFORMATION**

The following disclosure is made by the Company pursuant to Rule 13.09(2) of the Listing Rules and the provisions on inside information under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

The Board wishes to inform the Shareholders and potential investors that, assuming that there is no material change to the Group's existing leases in the remaining part of the year ending 31 December 2019, it is expected that, for the sole reason of HKFRS 16 coming into effect for the accounting periods beginning on or after 1 January 2019, the Group would recognise additional expenses in an amount in the range of RMB160 million to RMB190 million for the current financial year as compared to 2018.

HKFRS 16 came into effect for the accounting periods beginning on or after 1 January 2019, following which lessees no longer distinguish finance leases and operating leases. Instead all leases would be accounted for with a similar approach to finance lease accounting.

In implementing HKFRS16, the Group is required to recognise new lease assets and liabilities on the statement of financial position for the leases previously classified as operating leases, and recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a front-loaded pattern of expenses for most leases, even when the Group pays constant annual rentals.

Furthermore, operating lease payments are no longer included under operating cash flow, except for short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liabilities. The Group is required to split the rentals paid on the capitalised leases into capital element and interest element which are now classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated. Although actual cash flows are unaffected, the adoption of HKFRS 16 results in a change in classification of these cash flows.

The Group had elected for the modified retrospective approach for the adoption of HKFRS 16, which is an approach consistent with disclosure in the 2018 Annual Report of the Company.

The Group is principally engaged in the operation of large-scale hypermarket stores in the PRC which is carried out on the bases of long-term leases for large premises. This accounts for the significant amount of expected additional expenses to the implementation of HKFRS 16. The Board wishes to emphasise that the implementation of HKFRS 16 would have no effect on the Group's daily operations and cashflow. Notwithstanding the additional expenses associated with the adoption of HKFRS 16, the Board considers that the Group's overall financial position remains sound.

**Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.**

## DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“Board”	the board of directors of the Company
“Company”	C.P. Lotus Corporation (卜蜂蓮花有限公司), a company incorporated in the Cayman Islands, the Ordinary Shares of which are listed and traded on the Main Board of the Stock Exchange
“CPG”	Charoen Pokphand Group Company Limited, a company organised and existing under the laws of the Kingdom of Thailand, which is the indirect controlling shareholder of the Company
“C.P. Trading”	Chia Tai C.P. Trading Development Co., Ltd. (正大卜蜂貿易發展有限公司), a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of CPG
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Guangzhou Lotus”	Guangzhou Lotus Supermarket Chain Store Co., Ltd. (廣州易初蓮花連鎖超市有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“HKFRS 16”	Hong Kong Financial Reporting Standard 16, <i>Leases</i>
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Joint Venture Agreement”	the joint venture agreement dated 5 June 2019 entered into between Guangzhou Lotus and C.P. Trading in relation to the establishment of the JV Company
“JV Company”	Chia Tai C.P. (Chengdu) Market Management Co., Ltd. (正大卜蜂(成都)市場管理有限公司), a company to be established in the PRC and held as to 40% by Guangzhou Lotus and 60% by C.P. Trading pursuant to the Joint Venture Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ordinary Share(s)”	ordinary share(s) of HK\$0.02 each in the capital of the Company carrying voting rights at general meetings of

	the Company
“PRC”	the People’s Republic of China, excluding for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	holders of the Ordinary Shares from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Transaction”	the transaction contemplated under the Joint Venture Agreement

By Order of the Board  
**Umroong Sanphasitvong**  
*Director*

Hong Kong, 5 June 2019

*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.*