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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)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

UNAUDITED CONSOLIDATED RESULTS HIGHLIGHTS

- Revenue for the Reporting Period was approximately RMB5,265,497,000, representing an increase of RMB8,637,000 or 0.2% as compared to 1H2018.

- Gross profit amounted to approximately RMB931,146,000, an increase of RMB5,536,000 or 0.6% as compared to 1H2018. Gross profit margin increased by 0.1% to 17.7%.

- Profit attributable to equity shareholders of the Company was RMB40,065,000, a reduction of approximately RMB97,625,000 or 70.9% as compared to 1H2018, of which approximately RMB79,354,000 or 57.6% was mainly due to the impacts of the adoption of HKFRS16.

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 2019 (the "**Reporting Period**") with comparative figures in 2018 ("**1H2018**"), as follows:

Consolidated Statement of Profit or Loss - unaudited

		Six months ended 30 June	
		2019	2018
	Note	***RMB'000***	*RMB'000*
			(Note)
Revenue	*3*	**5,265,497**	5,256,860
Cost of sales		**(4,334,351)**	(4,331,250)
Gross profit		**931,146**	925,610
Other revenue	*4*	**381,238**	330,784
Other net gain/(loss)	*5*	**2,573**	(13,039)
Distribution and store operating costs		**(904,808)**	(892,239)
Administrative expenses		**(142,993)**	(136,416)
Profit from operations		**267,156**	214,700
Finance costs	*6*	**(218,075)**	(54,778)
Profit before taxation	*7*	**49,081**	159,922
Income tax	*8*	**(9,016)**	(22,232)
Profit for the period attributable to the equity shareholders of the Company		**40,065**	137,690
Earnings per share	*10*		
- Basic (RMB cent)		**0.18**	0.62
- Diluted (RMB cent)		**0.18**	0.62

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Profit for the period attributable to the equity shareholders of the Company	**40,065**	137,690
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**")	**252**	701
Total comprehensive income for the period attributable to equity shareholders of the Company	**40,317**	138,391

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details are disclosed in note 2 of this announcement.

Consolidated Statement of Financial Position - unaudited

	Note	**30 June 2019** *RMB'000*	31 December 2018 *RMB'000* *(Note)*
Non-current assets			
Investment properties		**1,603,468**	-
Other property, plant and equipment	*2*	**4,451,701**	1,738,851
Interests in leasehold land held for own use under operating leases		**-**	116,476
		6,055,169	1,855,327
Intangible assets		**-**	111,934
Goodwill		**2,268,814**	2,268,814
Trade and other receivables	*11*	**60,455**	6,804
Deferred tax assets		**31,910**	19,757
		8,416,348	4,262,636
Current assets			
Inventories		**984,500**	1,315,011
Trade and other receivables	*11*	**1,181,419**	1,009,760
Pledged bank deposits		**59,210**	61,922
Cash and cash equivalents		**286,726**	461,406
		2,511,855	2,848,099
Current liabilities			
Trade and other payables	*12*	**3,422,132**	3,856,125
Contract liabilities	*13*	**328,251**	357,819
Bank loans	*14*	**406,098**	311,595
Lease liabilities		**250,312**	14,243
Current taxation		**7,278**	24,241
Provisions		**7,845**	7,295
		4,421,916	4,571,318
Net current liabilities		**(1,910,061)**	(1,723,219)
Total assets less current liabilities		**6,506,287**	2,539,417

Consolidated Statement of Financial Position - unaudited (Continued)

		30 June 2019	31 December 2018
		RMB'000	*RMB'000*
			(Note)
Non-current liabilities			
Loans from controlling shareholder	*15*	**950,071**	944,965
Other loans		**45,674**	45,494
Lease liabilities		**4,104,699**	115,287
Deferred tax liabilities		**25,454**	26,502
		5,125,898	1,132,248
NET ASSETS		**1,380,389**	1,407,169
CAPITAL AND RESERVES			
Share capital		**405,726**	405,726
Reserves		**974,663**	1,001,443
TOTAL EQUITY		**1,380,389**	1,407,169

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, 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 21 August 2019.

The interim financial statements do not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the 2018 annual financial statements of the Company.

The interim financial statements have been prepared in accordance with the same accounting policies in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements of the Company. Details of any changes in accounting policies are set out in note 2.

As at 30 June 2019, the Group had net current liabilities of approximately RMB1,910.1 million. In view of the significant net current liabilities, the directors of the Company (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. With the continuing efforts to driving revenue growth and reducing operating costs, the Group made a net profit of approximately RMB40.1 million for the six months ended 30 June 2019.

As at 30 June 2019, the Group had loans from its controlling shareholder, C.P. Holding (BVI) Investment Company Limited ("**CPH**"), amounting to approximately USD139.8 million (equivalent to approximately RMB950.1 million), which are repayable in December 2020. In addition, the Group still has unused loan facilities from the controlling shareholder amounting to USD48.0 million (equivalent to approximately RMB329.3 million), which will expire in December 2020, and unused banking facilities amounting to RMB223,338,000 granted from certain banks.

1. BASIS OF PREPARATION (CONTINUED)

Based on the Group's business plan and cash flow forecast 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 continue to provide support to the Group to the extent necessary.

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 and when they fall due. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases,* and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to hypermarket stores and related investment properties.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalize the lease on a lease-by-lease basis. For the Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalizes are recognized as an expense on a systematic bases over the lease term.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Changes in the accounting policies (continued)

(ii) Lessee accounting (continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) Leasehold investment properties

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("**leasehold investment properties**").

(iv) Lessor accounting

The Group leases out certain areas within hypermarket buildings as the investment properties referred to in paragraph (a)(iii) as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements in this regard.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options and early termination options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options and early termination options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 7.3%. In addition, the Group applied HKAS36 *Impairment of Assets* to right-of-use assets at 1 January 2019.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019; and

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) Transitional impact (continued)

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019.

	1 January 2019 *RMB'000*
Operating lease commitments at 31 December 2018 (before considering reasonably certain not exercise early termination option):	1,978,420
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will not exercise the early termination options	5,972,161
Operating lease commitments at 31 December 2018 (after considering reasonably certain not exercise early termination option):	7,950,581
Less: lease agreements entered into but not yet commenced	(805,470)
	7,145,111
Less: total future interest expenses	(2,831,829)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	4,313,282
Add: Finance lease liabilities recognised as at 31 December 2018	129,530
Total lease liabilities recognised at 1 January 2019	4,442,812

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset.

The Group presents right-of-use assets that do not meet the definition of investment property in "other property, plant and equipment" and presents lease liabilities separately in the statement of financial position.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) Transitional impact (continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 *RMB'000*	Adjustments *RMB'000*	Carrying amount at 1 January 2019 *RMB'000*
Line items in the consolidated statement of financial position impacted by adoption of HKFRS 16:			
Investment properties	**-**	1,673,554	1,673,554
Other property, plant and equipment	**1,738,851**	2,827,446	4,566,297
Interests in leasehold land held for own use under operating leases	**116,476**	(116,476)	-
Intangible assets	**111,934**	(111,934)	-
Trade and other receivables (non-current)	**6,804**	51,322	58,126
Total non-current assets	**4,262,636**	4,323,912	8,586,548
Trade and other receivables (current)	**1,009,760**	(111,794)	897,966
Current assets	**2,848,099**	(111,794)	2,736,305
Trade and other payables	**3,856,125**	(34,067)	3,822,058
Lease liabilities (current)	**14,243**	225,091	239,334
Current liabilities	**4,571,318**	191,024	4,762,342
Net current liabilities	**(1,723,219)**	(302,818)	(2,026,037)
Total assets less current liabilities	**2,539,417**	4,021,094	6,560,511
Lease liabilities (non-current)	**115,287**	4,088,191	4,203,478
Total non-current liabilities	**1,132,248**	4,088,191	5,220,439
Net assets	**1,407,169**	(67,097)	1,340,072

As at 1 January 2019, right-of-use assets of certain under-performing stores were stated net of impairment losses of RMB67,097,000 to write down the carrying amount of these assets to their recoverable amount of approximately RMB61,835,000.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) Transitional impact (continued)

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the Reporting Period and at the date of transition to HKFRS 16 is as follows:

	At 30 June 2019	At 1 January2019
	RMB'000	*RMB'000*
Included in "Other property, plant and equipment":		
Ownership interests in leasehold land held for own use	**95,824**	99,215
Other properties leased for own use	**2,681,391**	2,798,040
	2,777,215	2,897,255
Ownership interests in leasehold investment properties	**1,603,468**	1,673,554
	4,380,683	4,570,809

(d) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the Reporting Period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments RMB'000	*Total minimum lease payments RMB'000*	*Present value of the minimum lease payments RMB'000*	*Total minimum lease payments RMB'000*
Within 1 year	250,312	567,084	239,334	563,205
After 1 year but within 2 years	284,453	581,274	262,718	567,798
After 2 years but within 5 years	977,598	1,725,056	963,457	1,742,235
After 5 years	2,842,648	4,214,438	2,977,303	4,448,484
	4,104,699	6,520,768	4,203,478	6,758,517
	4,355,011	7,087,852	4,442,812	7,321,722
Less: Total future interest expenses		(2,732,841)		(2,878,910)
Present value of lease liabilities		4,355,011		4,442,812

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(e) Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities at 1 January 2019, the Group as a lessee is required to 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 positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 results in a significant change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under HKFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	Six months ended 30 June				
	2019				*2018*
	Amounts reported under HKFRS 16 (A)	*Add back: HKFRS 16 depreciation, interest expense and income tax (B)*	*Deduct: Estimated amounts related to operating lease as if under HKAS 17 (C)*	*Hypothetical amount for 2019 as if under HKAS 17 (D=A+B-C)*	*Compared to amount reported for 2018 under HKAS 17*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial result for the six months ended 30 June 2019 impacted by the adoption of HKFRS16:					
Profit from operations	267,156	203,440	(270,085)	200,511	214,700
Finance costs	(218,075)	158,152	-	(59,923)	(54,778)
Profit before taxation	49,081	361,592	(270,085)	140,588	159,922
Profit for the period	40,065	312,910	(233,556)	119,419	137,690

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(e) Impact on the financial result and cash flows of the Group (continued)

	Six months ended 30 June			
	2019			*2018*
	Amounts reporter under HKFRS 16 (A)	*Estimated amounts related to operating lease as if under HKAS 17 (B)*	*Hypothetical amount for 2019 as if under HKAS 17 (C=A+B)*	*Compared to amount reported for 2018 under HKAS 17*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS16:				
Cash generated from operations	236,770	(270,084)	(33,314)	226,850
Net cash generated from operating activities	197,735	(270,084)	(72,349)	189,064
Capital element of lease rentals paid	(118,879)	111,932	(6,947)	(6,296)
Interest element of lease rentals paid	(164,421)	158,152	(6,269)	(6,906)
Net cash used in financing activities	(239,056)	270,084	31,028	(95,850)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019.

Note 2: In the table above, cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

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 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	
	2019	2018
	RMB'000	*RMB'000*
Leasing of store premises	**330,220**	282,682
Other promotion and service income	**46,290**	46,300
Interest income on financial assets measured at amortised costs	**2,877**	1,708
Government grants	**1,851**	94
	381,238	330,784

5. OTHER NET GAIN/(LOSS)

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Net foreign exchange loss	**(1,428)**	(16,252)
(Loss)/gain on the forward foreign exchange contracts	**(3,764)**	5,001
Net gain/(loss) on disposal of other property, plant and equipment	**7,765**	(1,788)
	2,573	(13,039)

6. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Interest on borrowings:		
- Bank loans	**9,160**	4,978
- Other loans and loans from controlling shareholder	**39,646**	38,052
Interest rate swap	**1,410**	-
Interest on leases liabilities	**164,421**	6,906
Total interest expense on financial liabilities not at fair value through profit or loss	**214,637**	49,936
Loan arrangement and guarantee fees	**3,438**	4,842
	218,075	54,778

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Depreciation		
- owned property, plant and equipment	**93,040**	91,288
- right-of-use assets	**217,636**	5,924
Amortisation		
- land lease premium	**-**	3,147
- intangible assets	**-**	4,057
Operating lease charges		
- property rentals (note)	**28,749**	267,742
Cost of inventories	**4,334,351**	4,331,250

Note: Operating lease charges are payments for lease contracts with variable leases payment terms, short-term leases and low value leases.

8. INCOME TAX

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current tax - PRC		
Over-provision in respect of prior year	**2,499**	(3,431)
Provision for the period	**19,573**	26,767
Deferred tax		
Origination and reversal of temporary differences	**(13,056)**	(1,104)
	9,016	22,232

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 Reporting 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 of the PRC ("**CIT Law**"), subsidiaries within the Group established in the PRC are subject to PRC income tax at 25% (1H2018: 25%) on their assessable profits as determined in accordance with the CIT Law.

Further, under the CIT Law, 10% withholding tax is levied on foreign investor in respect of dividend distributions arising from a foreign invested enterprise's profit earned after 1 January 2008. As at 30 June 2019, the PRC subsidiaries within 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 Reporting Period (1H2018: 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	
	2019	2018
	RMB'000	*RMB'000*
Profit for the period attributable to shareholders equity of the Company	**40,065**	137,690

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 2019 and 2018 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 2019 *RMB'000*	31 December 2018 *RMB'000* *(Note)*
Non-current		
Prepaid lease payments for premises	**-**	6,804
Rental deposits	**60,455**	-
	60,455	6,804
Current		
Trade receivables	**164,230**	82,589
Amounts due from related companies	**725,207**	591,524
Value-added tax recoverable	**97,811**	125,924
Rental deposits	**23,871**	131,576
Other debtors	**167,009**	66,960
Prepaid lease payments for premises	**-**	4,089
Derivative financial assets	**3,291**	7,098
	1,181,419	1,009,760
Total	**1,241,874**	1,016,564

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details are disclosed in note 2 of this announcement.

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 2019 *RMB'000*	31 December 2018 *RMB'000*
Within 30 days	**238,469**	177,916
31 to 60 days	**65,651**	47,301
61 to 90 days	**35,544**	62,620
Over 90 days (note)	**463,322**	301,786
	802,986	589,623

Note : Subsequent to the end of the Reporting Period, approximately RMB466,360,000 trade receivables due from related companies were received, of which RMB3,038,000 belonged to the 61 to 90 days category and RMB463,322,000 belong to the over 90 days category in the above ageing analysis.

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

At 30 June 2019, the Group had a USD dollars ("**USD**") non-delivered forward exchange contract with a notional amount of approximately USD139,770,000 (31 December 2018: approximately USD139,770,000) (the "**USD Forward Contract**"). At 30 June 2019, the fair value of the derivative financial assets in respect of the USD Forward Contract was approximately RMB3,291,000 (31 December 2018: approximately RMB7,098,000). The USD Forward Contract has maturity of less than one year after the end of the Reporting Period, and the amount is expected to be receivable within one year.

12. TRADE AND OTHER PAYABLES

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000* *(Note)*
Notes payable	**131,764**	93,610
Trade creditors	**2,287,223**	2,677,113
Construction costs payable	**202,609**	238,985
Other creditors and accrued charges	**613,200**	657,526
Amounts due to related companies	**187,336**	188,867
Derivative financial instruments	**-**	24
	3,422,132	3,856,125

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details are disclosed in note 2 of this announcement.

Included in the Group's trade and other payables are trade creditors and notes payables of approximately RMB2,418,987,000 (31 December 2018: approximately RMB2,770,723,000), with the following ageing analysis, based on the invoice date as at the end of Reporting Period:

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Uninvoiced purchases	**658,970**	943,246
Within 30 days	**1,130,688**	1,382,145
31 to 60 days	**200,378**	143,936
61 to 90 days	**134,457**	53,952
More than 90 days	**294,494**	247,444
	2,418,987	2,770,723

13. CONTRACT LIABILITIES

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
Contract liabilities	**328,251**	357,819

Revenue is recognised when customers accept the products, so revenue from prepaid cards is recognised when the prepaid cards are redeemed by customers or when the likelihood of future utilisation can be determined with sufficiently high degree of probability that the usage of such prepaid cards is remote. Based on recent trends in redemption by customers of the prepaid cards, it is expected that most of prepaid cards will be redeemed within one year from the date of purchase.

14. BANK LOANS

As at 30 June 2019 and 31 December 2018, all bank loans provided to the Group were unsecured and repayable within one year.

As at 30 June 2019, the Group had drawn down bank loans in the amount of approximately RMB406,098,000, bearing interest at one year People's Bank of China Rate ("**PBOC Rate**") multiplied by 1.10 to 1.23, i.e. ranging from 4.785% to 5.34% per annum.

As at 31 December 2018, the Group had drawn down bank loans in the amount of approximately RMB311,595,000, bearing interest at six-month PBOC Rate multiplied by 1.20, i.e. at 5.22% per annum, or fixed interest rates ranging from 4.79% to 5.31% per annum.

15. LOANS FROM CONTROLLING SHAREHOLDER

At 30 June 2019, the Group had borrowed floating rate loans amounting to approximately USD139,770,000 (equivalent to approximately RMB960,120,000) from its controlling shareholder CPH, bearing interest at three-month London Interbank Offered Rate ("**LIBOR**") plus 4.40% to 5.65% per annum, which was 6.71% per annum as at 30 June 2019 (31 December 2018: approximately USD139,770,000, equivalent to approximately RMB958,356,000, bearing interest at three-month LIBOR plus 4.40% to 5.65% per annum, which was 7.21% per annum as at 31 December 2018). The amount of loans from controlling shareholders was presented after being offset by an unamortised loan arrangement fee amounting to approximately RMB10,049,000 (31 December 2018: approximately RMB13,391,000). In addition, the Group still had unused loan facilities from the controlling shareholder amounting to USD48,000,000 (equivalent to approximately RMB329,346,000), which would expire in December 2020. The loans from the controlling shareholder were unsecured and repayable in 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 2019 of approximately RMB 40.1 million (1H2018: approximately RMB137.7 million).

Revenue increased by approximately RMB8.6 million, or 0.2%, as compared to the corresponding period in 2018, to approximately RMB5,265.5 million (1H2018: approximately RMB5,256.9 million). The like-for-like store sales decreased by 5.3% but the effect of such decrease was evened out overall by the revenue generated from the eight new stores which had opened in the second half of 2018 and another eight new stores which opened in the first half of 2019.

Gross profit margin was 17.7% (1H2018: 17.6%). Gross profit amounted to approximately RMB931.1 million (1H2018: approximately RMB925.6 million), increasing approximately RMB5.5 million or 0.6%. 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. While optimising and adjusting the product mix, the Group continued to source products from the originating locations, import quality goods and establish self-owned brands. The mix of gross profit margin changed in light of the latest strategy with the front margin increasing by 0.7% to 8.4% and the back margin decreasing by 0.6% to 9.3%.

Other revenue and other net gain / (loss) was approximately RMB383.8 million, equivalent to 7.3% of sales (1H2018: approximately RMB317.7 million, equivalent to 6.0% of sales), comprising mainly additional lease income received from leasing of store space. Lease income increased by approximately RMB47.5 million to approximately RMB330.2 million (1H2018: approximately RMB282.7 million), equivalent to 6.3% of sales, as a result of contribution from additional leasing space in eight new stores opened in the second half of 2018 and eight new stores opened during the Reporting Period. An exchange loss and loss on USD Forward Contract of approximately RMB5.2 million in aggregate was recorded as a result of depreciation in the RMB/USD exchange rate during the Reporting Period. After the Reporting Period, the USD Forward Contract expired on 23 July 2019 and 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 2019.

Distribution and store operating costs was approximately RMB904.8 million, equivalent to 17.2% of sales (1H2018: approximately RMB892.2 million, equivalent to 17.0% of sales), comprised mainly rental expenses, personnel expenses, utility expenses and depreciation and amortisation together account for approximately RMB770.2 million, equivalent to 14.6% of sales. With regard to the impact of the adjustments arising on transition to HKFRS 16, the store rental expenses decreased by approximately RMB270.1 million compared to the corresponding period in 2018 while depreciation and amortisation increased by approximately RMB203.4 million. There was an increase of approximately RMB71.2 million in other distribution and store operating expense, which was attributable to eight new stores opened in the second half of 2018 and the opening of another eight new stores during the Reporting Period. Comparing to the corresponding period in 2018, the like-for-like store expenses decreased by 7.1% mainly due to the impact from the adoption of HKFRS 16.

Administrative expenses was approximately RMB143.0 million, equivalent to 2.7% of sales (1H2018: approximately RMB136.4 million, equivalent to 2.6% of sales). It mainly comprised personnel expenses of approximately RMB118.6 million, depreciation and amortisation charge of approximately RMB7.5 million, rental expenses of approximately RMB10.7 million and professional fee of approximately RMB7.6 million.

Financial costs were approximately RMB218.1 million, equivalent to 4.1% of sales (1H2018: approximately RMB54.8 million, equivalent to 1.0% of sales). The increase in financial costs of approximately RMB158.2 million was mainly due to the impact from the adoption of HKFRS 16.

Income tax was approximately RMB9.0 million (1H2018: approximately RMB22.2 million), decreasing approximately RMB12.2 million mainly due to the impact from the adoption of HKFRS 16.

Net profit attributable to the shareholders of the Company was approximately RMB40.1 million (1H2018: approximately RMB137.7 million). The decrease was mainly due to the impact from the adoption of HKFRS 16, which reduced the total profit by approximately RMB79.4 million, and also because sales and merchandise profits brought in by the opening of new stores were less than the operating costs of these new stores.

Capital expenditure was approximately RMB127.2 million, mainly arisen from the purchase of equipment and machinery for new stores and during store renovations.

Capital structure
The Group obtained its working capital through a combination of funds generated from operations, shareholder loans and bank and other borrowings.

Liquidity and finance resources
During the Reporting Period, the Group's sources of funds were primarily from operating activities, loans from 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 exceeding the amount of cash generated from operations.

	30 June 2019	31 December 2018
Cash and cash equivalents (RMB million)	**286.7**	461.4
Loans from controlling shareholder, bank loans and other loans (RMB million)	**1,401.8**	1,302.1
Current ratio (x)	**0.57**	0.62
Quick ratio (x)	**0.35**	0.34
Gearing ratio (x) (defined as loans from controlling shareholder, bank loans and other loans divided by total equity)	**1.02**	0.93

	Six months ended 30 June	
	2019	2018
Net cash outflow after effect of foreign exchange rate changes (RMB million)	**(174.7)**	(27.8)

During the Reporting Period, bank loans provided to the Group bore floating interest at one-year PBOC Rate multiplied by 1.10 to 1.23, i.e. ranging from 4.785% to 5.34% per annum. Loans from the Company's controlling shareholder bore interest at three-month LIBOR plus 4.40% to 5.65% per annum and other loans bore interest at three-month LIBOR plus 1.5% per annum.

Foreign currency exposure

The Directors considered that, as the Group's retail operations were all based in the PRC, the Group was not exposed to significant currency risks in its operations.

The Group was exposed to foreign currency risk under the controlling shareholder's loans and other loans which were denominated in currencies other than Renminbi. To manage our currency risk exposure in respect of the USD borrowings, the Company entered into the USD Forward Contract which, following the end of the Reporting Period, expired on 23 July 2019. On 19 July 2019, the Company entered into a new non-delivered forward exchange contract with a notional amount of USD139.8 million. In addition, the Company also entered into an interest rate swap contract expiring on 24 December 2020 with the same notional amount on 16 July 2018 to manage its exposure to interest rate risk. The Group did not enter into derivative transactions for speculative purposes.

Employees, training and remuneration policy

The Group employed approximately 10,130 employees as at 30 June 2019, of whom approximately 1,390 were head office staff and approximately 8,740 were stores and distribution centre employees. The Group remunerates its employees based on their performance, experience and the prevailing market rate. The Group also provided other employee benefits to employees including insurance, medical cover and subsidised training programs.

BUSINESS REVIEW

Expansion of areas and sectors

The Group opened a total of eight new stores during the Reporting Period, including five hypermarkets in Shandong Province, bringing the Group's total number of hypermarkets in Shangdong Province to six stores. Moreover, in order to explore and develop new business sectors, the Group opened a neighborhood community store in Beijing, a boutique supermarket in Xi'an and a fresh food supermarket in Guangdong. As at 30 June 2019, the Group owned and operated 87 retail stores and three shopping centres in the PRC, including 79 hypermarkets, 4 boutique supermarkets, 1 fresh food supermarket and 3 neighborhood community stores.

Optimise product mix, sale space and maintain collaboration with suppliers

In accordance with the product strategy developed by the Board at the beginning of 2019, the Group committed to promote optimisation of product mix focusing on fresh products and food as core products during the Reporting Period.

The Group continued to focus on direct sourcing of imported products. During the Reporting Period, the types of fresh products directly imported from the originating place of production increased to 149 and the product categories expanded from fruits and vegetables to whole grains, poultry and seafood also. The Group also expanded the varieties of imported goods by introducing an additional 4,000 different types of imported products as compared to the corresponding period in 2018, selling approximately 14,000 imported products from 82 countries and regions in total. To increase market competitiveness and product variety, the Group also developed its own brands, bringing the number of SKUs to 335 in total as at 30 June 2019 and covering categories such as cooked food, seafood, frozen food, edible oil, canned food, laundry products, puffed grain food, brewed products and household goods.

The Group continued to improve and optimise store sales space focusing on fresh products and food, as we re-allocated additional space to fresh products, quality food and household products with a view to promote community-based and customer friendly experience.

The Group continued to maintain good relationship with suppliers through regular meetings, during which the suppliers shared and discussed product strategy and industry trends. The Group conducted surveys to obtain opinions from our suppliers to further collaborate and foster our business relationships.

Improvement of operation and system efficiency

The Group continued to adjust and optimise our workforce structure in stores, utilising the latest technologies to boost operating efficiency and allocating resources at storefront to provide face to face customer services. The installation of additional self-serving registers has not only effectively increased settlement efficiency and shortened customer queuing time but also reduced our overall labour costs.

The Group also continued to improve the efficiency of our online-to-offline ("O2O") services. Responding to changing customer preference, the Group attached great importance to strengthen the utilisation and efficiency of the O2O services and developed and expanded the coverage of the O2O services to communities near our stores. We allocated warehouse space at the entrance of a number of stores to facilitate the provision of O2O one-hour delivery service for customers located within 3 kilometers from the store. In addition to the O2O services, we also collaborated with a number of e-commerce platform vendors to provide customers with a variety of other high-quality services and products.

The Group continued to optimise the information technology system during the Reporting Period. A new information technology system is scheduled to go online later this year, which would integrate various businesses and retail categories to enhance flexibility of the system and support our business operations. At the same time, the Group has completed the auction process for a new OA collaborative office system, which aims to effectively improve the productivity of employee through the integration of operation system and office application system.

Strengthening of customer satisfaction and enhancing brand awareness
During the Reporting Period, the Group continued the successful "50% off Thanks-giving Activity" and "Uniform Pricing Activity". By offering high quality products at fair prices and customer friendly shopping experience, we seek to enhance customer satisfaction and brand awareness.

To develop a younger brand image and boost brand awareness to customers located in the neighbourhood of each store, the Group interacted with and marketed to target customers through live-streaming and video-sharing features on mobile applications such as "WeChat public number" and "WeChat moments".

We also continued to conduct focus group studies to assess customer opinions and satisfaction levels.

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

PROSPECT

During the Reporting Period, the Group had been successful in optimising product mix in line with the development strategy implemented by the Board. The Group plans to expand its marketing channels and mediums, together with the opening of new stores and optimising of store layouts. The Board remains cautious about the Group's performance in the second half of 2019 as we are facing pressure from increasing rental costs and labor costs and the competitive environment.

SIGNIFICANT EVENTS AFFECTING THE GROUP

On 18 June 2019, CPH and the Company issued an joint announcement (the "**Joint Announcement**"), under which CPH requested the Board to put forward a proposal for the privatisation of the Company, involving (i) the ordinary share scheme to cancel the scheme ordinary shares and the payment of the cancellation price of HK$0.11 in cash for each scheme ordinary share to scheme ordinary shareholders, and the withdrawal of the listing of the ordinary shares of the Company on the Stock Exchange; and (ii) the CPS scheme to cancel the scheme convertible preference shares and the payment of the cancellation price of HK$0.11 in cash for each Scheme convertible preference shares to scheme convertible preference share holders. Please refer to the Joint Announcement for further details.

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, 21 August 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.