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北京京客隆商業集團股份有限公司
BEIJING JINGKELONG COMPANY LIMITED*
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 814)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board of directors (the “**Board**”) of Beijing Jingkelong Company Limited (the “**Company**” or “**Jingkelong**”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2018 (the “**Reporting Period**”). The unaudited consolidated results have been reviewed by the auditors, Ruihua Certified Public Accountants LLP and the audit committee of the Company.

(Important notice: This announcement is published in Chinese and English versions. In case of inconsistency, the Chinese version shall prevail.)

* For identification purpose only

FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEETS

Item	<i>Note</i>	2018.6.30 RMB (unaudited)	2017.12.31 RMB (audited)
Current assets:			
Cash and bank balances		1,193,297,843	1,068,203,328
Notes receivable and accounts receivable	3	1,352,129,706	1,360,971,297
Prepayments		830,018,899	662,157,731
Other receivables		178,595,339	169,933,613
Inventories		1,616,182,006	1,789,719,995
Other current assets		235,749,015	215,668,600
Total current assets		<u>5,405,972,808</u>	<u>5,266,654,564</u>
Non-current assets:			
Available-for-sale financial assets		–	11,398,000
Other non-current financial assets		13,768,917	–
Investment properties		191,952,591	196,314,596
Fixed assets		1,000,471,641	1,043,875,757
Construction in progress		115,358,776	108,751,566
Intangible assets		310,569,721	318,169,810
Goodwill		86,673,788	86,673,788
Long-term prepaid expenses		426,219,142	465,880,487
Deferred tax assets		21,637,667	22,813,175
Other non-current assets		173,546,676	179,720,029
Total Non-current Assets		<u>2,340,198,919</u>	<u>2,433,597,208</u>
TOTAL ASSETS		<u>7,746,171,727</u>	<u>7,700,251,772</u>

Item	Notes	2018.6.30 RMB (unaudited)	2017.12.31 RMB (audited)
Current liabilities:			
Short-term borrowings		2,564,886,074	2,716,210,442
Notes payable and accounts payable	4	1,424,899,526	1,335,455,767
Advance from customers		-	379,071,193
Contract liabilities		327,430,574	-
Payroll payable		1,904,852	1,649,123
Taxes payable		85,943,887	65,970,300
Other payables		311,715,391	179,566,241
Non-current liabilities due within one year		749,839,311	749,068,225
Other current liabilities		99,077,200	59,429,262
Total current liabilities		5,565,696,815	5,486,420,553
Non-current liabilities:			
Long-term payables		800,000	-
Deferred income		29,410,695	33,351,013
Deferred tax liabilities		1,346,683	3,612,252
Other non-current liabilities		26,908,956	25,241,705
Total non-current liabilities		58,466,334	62,204,970
TOTAL LIABILITIES		5,624,163,149	5,548,625,523
SHAREHOLDERS' EQUITY			
Share capital		412,220,000	412,220,000
Capital reserves		605,008,846	605,008,846
Other comprehensive income		100,256	6,625,801
Surplus reserves		147,748,597	147,748,597
Undistributed profits	5	509,005,316	498,085,598
Total equity attributable to shareholders of the parent company		1,674,083,015	1,669,688,842
Minority interests		447,925,563	481,937,407
TOTAL SHAREHOLDERS' EQUITY		2,122,008,578	2,151,626,249
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		7,746,171,727	7,700,251,772

CONSOLIDATED INCOME STATEMENT

Item	Notes	Six months ended	Six months ended
		30 June 2018	30 June 2017
		RMB	RMB
		(unaudited)	(unaudited)
I. Total operating income	6	5,726,292,192	6,210,704,356
Including: operating income		5,726,292,192	6,210,704,356
II. Total operating costs	6	5,657,889,447	6,129,941,614
Including: Operating costs		4,404,951,437	4,859,652,391
Tax and surcharges		25,592,449	26,061,653
Selling expenses		984,201,023	1,014,367,933
Administrative expenses		153,718,096	148,742,678
Financial expenses		87,955,119	81,116,959
Including: Interest expense		85,568,619	80,502,295
Interest income		(5,539,492)	(8,275,364)
Impairment losses on credits		1,471,323	–
Add: Other income		8,706,198	7,649,114
Investment income		11,891,593	332,960
Gains or losses on changes in fair value		(8,949,083)	–
Gains or losses on disposal of assets		(1,226,928)	(27,120)
III. Operating profit		78,824,525	88,717,696
Add: non-operating income		9,710,675	2,469,021
Less: non-operating expenses		9,761,353	6,512,719
IV. Total profit		78,773,847	84,673,998
Less: income tax expense	7	31,067,302	30,351,536

Item	Notes	Six months ended	Six months ended
		30 June 2018	30 June 2017
		RMB	RMB
		(unaudited)	(unaudited)
V. Net profit		47,706,545	54,322,462
(I) Classified by business continuity			
1. Net profit from continuing operations		47,706,545	54,322,462
2. Net profit from discontinued operations		–	–
(II) Classified by ownership			
1. Profit or loss attributable to minority interests		18,669,998	27,832,416
2. Net profit attributable to shareholders of the parent company		29,036,547	26,490,046
VI. Net value of other comprehensive income after tax		174,993	1,639,436
Net value of other comprehensive income attributable to shareholders of the parent company after tax		90,826	1,295,273
Other comprehensive income which can be reclassified into profit or loss subsequently		90,826	1,295,273
1. Gains or losses from changes in fair value of available-for-sale financial assets		–	1,269,615
2. Balancing arising from the translation of foreign currency financial statements		90,826	25,658
Net value of other comprehensive income attributable to minority of interests after tax		84,167	344,163
VII. Total comprehensive income		47,881,538	55,961,898
Total comprehensive income attributable to shareholders of the parent company		29,127,373	27,785,319
Total comprehensive income attributable to minority interests		18,754,165	28,176,579
VIII. Earnings per share			
(I) Basic earnings per share	8	0.07	0.06
(II) Dilutive earnings per share		–	–

NOTES:

1. GENERAL INFORMATION

Beijing Jingkelong Company Limited (the “**Company**”) is a joint stock limited company incorporated in the Peoples Republic of China (the “**PRC**”). On 1 November 2004, with the approval by Beijing Administration for Industry and Commerce (北京市工商局), the Company was transformed from Beijing Jingkelong Supermarket Chain Group Limited (“**Beijing Jingkelong Supermarket Chain Company Limited**” before renamed). The registered capital of the Company is RMB412,220,000. The company’s unified social credit code is 91110000101782670P. The registered office and the principal place of business of the Company are located at Block No. 45, Xinyuan Street, Chaoyang District, Beijing. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the retail and wholesale distribution of daily consumer products.

On 25 September 2006, the H shares issued by the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. On 26 February 2008, all the H shares were transferred to the Main Board for listed trading. The Company issued a total of 412,220,000 ordinary shares on 30 June 2018.

The controlling shareholder of the Company is Beijing Chaoyang Auxiliary Food Company (the “**Chaoyang Auxiliary**”).

2. BASIS OF PREPARATION OF INTERIM FINANCIAL STATEMENTS

The Company’s and consolidated interim financial statements have been prepared in accordance with China Accounting Standard 32 “*Interim Financial Reporting*”. In addition, the Group also discloses relevant information required by the Companies Ordinance of Hong Kong and the Listing Rules of the Stock Exchange of Hong Kong Limited.

3. ACCOUNTS RECEIVABLE

Presentation of accounts receivable according to aging analysis on the basis of the date when revenue is recognized:

Aging	Carrying amount	Proportion %	2018.6.30	
			Bad debt provision	Net book value
			<i>RMB</i>	
			(unaudited)	
Within 1 year	1,273,197,525	94	–	1,273,197,525
1-2 years	53,524,565	4	1,605,737	51,918,828
2-3 years	15,711,002	1	1,571,100	14,139,902
3-4 years	16,490,540	1	4,122,635	12,367,905
4-5 years	1,011,092	–	505,546	505,546
Over 5 years	–	–	–	–
Total	<u>1,359,934,724</u>	<u>100</u>	<u>7,805,018</u>	<u>1,352,129,706</u>

4. NOTES PAYABLE AND ACCOUNTS PAYABLE

Item	2018.6.30 <i>RMB</i> (unaudited)	2017.12.31 <i>RMB</i> (audited)
Notes Payable	490,597,831	264,839,684
Accounts Payable	934,301,695	1,070,616,083
Total	<u>1,424,899,526</u>	<u>1,335,455,767</u>

As at 30 June 2018, security deposit for the issuance of bank acceptances above amounted to RMB99,468,103 (31 December 2017: RMB122,714,742).

All of the bank acceptances of the Group will be due within one year.

The aging of accounts payable based on the date of pick-up is as follows:

Item	2018.6.30 <i>RMB</i> (unaudited)	2017.12.31 <i>RMB</i> (audited)
Within 1 year	918,405,630	1,051,560,123
1 to 2 years	6,725,002	9,033,806
2 to 3 years	3,005,584	2,809,359
Above 3 years	6,165,479	7,212,795
Total	<u>934,301,695</u>	<u>1,070,616,083</u>

The majority of accounts payable aging over one year consist of the final payments for suppliers.

5. UNDISTRIBUTED PROFITS

Item	Six months ended 30 June 2018 <i>RMB</i> (unaudited)	Six months ended 30 June 2017 <i>RMB</i> (unaudited)
Before adjustment: Undistributed profits at the end of prior period	498,085,598	476,230,980
Adjustment: Total undistributed profits at the beginning of the period	6,616,371	–
After Adjustment: Undistributed profits at the beginning of the period	504,701,969	476,230,980
Add: Net profit attributable to the shareholders of the parent company for the period	29,036,547	26,490,046
Less: Ordinary shares' dividends payable	24,733,200	20,611,000
Undistributed profits at the end of the period	<u>509,005,316</u>	<u>482,110,026</u>

Dividend

A final dividend of RMB0.06 per share, in respect of year ended at 31 December 2017 (the previous corresponding period: RMB0.05 per share in respect of the year ended at 31 December 2016) was declared and paid to the shareholders of the Company. The aggregated amount of the final dividend declared and paid was RMB24,733,200 (Prior period: RMB20,611,000).

Board of directors do not suggest distributing interim dividend in the period (Prior period: 0).

6. OPERATING INCOME AND OPERATING COSTS

(1) Operating income and operating costs

Item	Six months ended 30 June 2018 RMB (unaudited)		Six months ended 30 June 2017 RMB (unaudited)	
	Income	Cost	Income	Cost
Principal operating	5,137,604,291	4,399,629,238	5,638,638,757	4,856,214,405
Other operating	588,687,901	5,322,199	572,065,599	3,437,986
Total	<u>5,726,292,192</u>	<u>4,404,951,437</u>	<u>6,210,704,356</u>	<u>4,859,652,391</u>

(2) Principal operating activities (classified by industry segments)

Item	Six months ended 30 June 2018 RMB (unaudited)		Six months ended 30 June 2017 RMB (unaudited)	
	Principal operating income	Principal operating costs	Principal operating income	Principal operating costs
Retail	2,242,625,542	1,866,386,559	2,305,692,617	1,922,545,369
Wholesale	2,875,400,409	2,518,176,084	3,303,398,164	2,908,305,338
Others	19,578,340	15,066,595	29,547,976	25,363,698
Total	<u>5,137,604,291</u>	<u>4,399,629,238</u>	<u>5,638,638,757</u>	<u>4,856,214,405</u>

The principal operating income mainly consists of selling food, non-staple food, daily consumer goods, beverages and wines etc.

7. INCOME TAX EXPENSE

Item	Six months ended 30 June 2018 RMB (unaudited)	Six months ended 30 June 2017 RMB (unaudited)
Current income tax expense	32,157,363	28,929,795
Deferred income tax expense	(1,090,061)	1,421,741
Total	<u>31,067,302</u>	<u>30,351,536</u>

Reconciliation between income tax expense and accounting profit is as follows:

Item	Six months ended 30 June 2018 RMB (unaudited)
Total profit	78,773,847
Income tax expense calculated at tax rate of 25%	19,693,462
Effect of subsidiary companies to adapt different tax rates	7,281
Effect of adjusting the previous years' income tax	670,174
Effect of non-taxable income	2,635,340
Effect of non-deductible costs, expenses and losses	1,548,223
Effect of using deductible losses of previously unrecognized deferred tax assets	(315,862)
Effect of deductible losses recover of previously recognized deferred tax assets	–
Effect of deductible temporary difference or deductible losses of unrecognized deferred tax assets in the period	6,828,684
Income tax expense	<u>31,067,302</u>

8. EARNINGS PER SHARE

Item	Six months ended 30 June 2018 RMB (unaudited)	Six months ended 30 June 2017 RMB (unaudited)
Net profit for the period attributable to shareholders of the parent company	29,036,547	26,490,046
Number of ordinary shares used in the calculation of basic earnings per share	<u>412,220,000</u>	<u>412,220,000</u>

Item	Six months ended 30 June 2018 RMB (unaudited)	Six months ended 30 June 2017 RMB (unaudited)
Calculated based on the net profit attributable to ordinary shareholders of the parent company: Basic earnings per share	<u>0.07</u>	<u>0.06</u>

9. NET CURRENT ASSETS

Item	2018.6.30 RMB (unaudited)	2017.12.31 RMB (audited)
Current assets	5,405,972,808	5,266,654,564
Less: Current liabilities	<u>5,565,696,815</u>	<u>5,486,420,553</u>
Net current assets	<u>(159,724,007)</u>	<u>(219,765,989)</u>

10. TOTAL ASSETS LESS CURRENT LIABILITIES

Item	2018.6.30 RMB (unaudited)	2017.12.31 RMB (audited)
Total assets	7,746,171,727	7,700,251,772
Less: Current liabilities	<u>5,565,696,815</u>	<u>5,486,420,553</u>
Total assets less current liabilities	<u>2,180,474,912</u>	<u>2,213,831,219</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2018, China's economic operation remained steady overall. While seeing a stable growth in consumption generally, the consumption structure had evolved substantially, consumption habits, consumption methods, consumption concepts and consumption cognitive abilities had all experienced notable changes, and certain characteristics of consumption demand, including stratification, personalization, de-commoditization, facilitation and socialization became more prominent. In this connection, methods to adapt to the changes above became a main factor in driving retail reform. In response to this, the Group actively adapted to the new changes, remained closely focused on [commodity+service], worked to perceive and satisfy the changing consumer demand in terms of product category, quality, cost-effectiveness and consumer shopping experience, throughout all respects of offline process ranging from supply chain management, product category management, display management, sanitation safety management, marketing management to logistics management; at the same time, also sped up the introduction, integration and application of intelligent technology, enhanced accurate and effective offline chain management through data analysis, created innovative scenarios and improved the consumer experience by using self-service facilities and equipments, upgraded the mobile e-commerce functions of its own App and improved the third-party platform business for better integration of online and offline operations.

Retail Business

Actively exploring the upgrading of the operation segment

During the Reporting Period, the Group upgraded its operations through technological advancement, by continuously introducing intelligent technology and combining it with the interior design and renovation of traditional stores, the Group successively commenced the decoration and renovation of four comprehensive supermarkets and three convenience stores, of which three "Joy&Joy" (京捷) community live and fresh produce convenience stores were opened as scheduled. The Group also attempted to transform its traditional physical stores into technology-based stores through digital upgrade, and opened Jingkelong's first round-the-clock self-service store, accordingly, providing consumers with new options of convenient shopping according to their own needs. Additionally, the Group also accelerated the promotion and use of self-service cash devices in stores, which reduced customers' on-site waiting time, and reshaped the offline shopping experience for customers through application of new technology.

Building the consumer-centred operation system

During the Reporting Period, the Group built its consumer-centered digital operation system using the data information and data analysis technology gathered through the information management system.

The Group gained insight into changes to consumer demand and responded quickly in respect of the introduction and elimination of commodities as follows: the Group continued to promote the development of healthy, green, fashionable and specialty products and the introduction of ready-to-eat commodities to meet convenient needs of customers and needs of younger and fashionable customers; screened representative key product categories through the analysis of major backbone categories and conducted special analysis on them, of which in-depth analysis was given for food, non-staple food, cold food and beer based on their total sales, comprehensive gross profit, sales volume, pin variety, transaction frequency, per customer transaction, unit price per piece, connective sales and other specific indicators, providing decision-making basis for the analysis and adjustment of the products selected. The Group carried out operation by means of buyout in batches or customization for the key backbone commodities and the backbone commodities for festival purposes based on the analysis of consumers' purchase preference, purchase frequency, purchase habits and other data, which helped enhance the products' sales contribution while meeting the consumers' requirements for cost-effectiveness.

By applying data technology and category management technology, the Group focused on its target consumers and accurately positioned their demand scenarios, refined the classification of store segments, reviewed and valued the business category for every type of segments, and improved its operations and categorization of products which was carried out through the store layout adjustments. Besides, the Group also strengthened store supervision management, introduced service allowances for store staff and intensified appraisals, raised employees' awareness of active service consciousness, gave rein to the advantages of face-to-face direct interaction between offline stores and consumers so as to improve the service levels for customers.

Centered around the actual needs of the target consumers and combined with the Group's operating advantages and characteristics, we added emotive marketing hint into the daily marketing and promotion activities such as: warm New Year's gifts, advocating family reunion for the new year, care for Women's Day, Mother's Day, family day, Father's Day, and more, to increase the interaction between the site and consumers and trigger the consumers' purchase motivation through stronger scene interaction.

Promoting the online and offline integrated development

During the reporting period, the Group continued to optimize the structure and functions of its self-owned APP system, improved the selection process of the third-party platform to enhance the products selection efficiency, further enriched the coverage of online product categories and replaced products in a timely manner to increase the online pin rate of products. The Group conducted online marketing activities and launched an online-only commodity promotion to effectively increase the volume of online orders, continued to channel customers to use its APP via WeChat graphics, coupons and other forms, which contributed to the rising proportion of online sales.

The Group further strengthened the basis of the trend of online and offline integrated development by transplanting the operational advantages of offline operations in respect of live and fresh goods to the online platform and by speeding up the upgrading of technologies and methods of offline operations in respect of live and fresh commodity through the application of the online view. Live and fresh goods are major commodities used by offline stores to attract the customer flow, and introducing the advantages of live and fresh commodities also serves as an important factor for the Group to attract online customers and further boost online sales. The standardization required by online operation of live and fresh produce in turn drove the Group to upgrade technology throughout the whole supply chain management, including procurement, selection, initial processing, packaging materials and packing methods, logistics distribution of live and fresh commodities. The simultaneous attainment of standardized and professional operation of live and fresh commodities on both online and offline retail platforms not only reduced costs and improving efficiency but also enhanced the consumer experience.

Highly valuing food safety management

During the Reporting Period, the Group continued to improve food safety responsibilities, through formulating and improving various systems such as the Stock-in Inspection Record System, the Inspection System for Edible Agricultural Products and the Plan for Food Safety Emergencies, the Group was able to strictly control the quality of goods and ensure the quality of the goods in the service. The Group continuously strengthened the employees' awareness on food safety management and provided food safety training for employees through various means. Along with the Consumer Rights Day on 15 March, the Group launched the Jingkelong Product Quality Month event to promote commodity quality knowledge among consumers through the use of media such as leaflets and display boards, so as to raise consumers' awareness for and the ability to uphold their legitimate rights and interests. The Group continuously strengthened safety management on edible agricultural products such as meat, eggs and milk, required providers to manage pesticide use and increase supply sampling. At present, the Group has three stores approved as the first "Reliable Meat and Vegetable Demonstration Supermarkets" in Beijing.

Promoting logistics to improve quality and efficiency

During the Reporting Period, the Group improved its automatic replenishment parameters of normal temperature goods and shortened the supplier's order delivery duration from four days to two days, which significantly improved the efficiency of the supply chain, enabled the stores to maintain reasonable inventory level and enhanced the commodity turnover rate. The Group further advanced the efforts in disassembly, making store orders more precise and accurate. The Group also enhanced its efforts in transit and distribution of daily cooked food, enriched product varieties of small and medium-sized stores and reduced the scarcity of goods so as to meet diverse needs of customers and boost both its sales and gross profit. By leveraging on data analysis, the Group strengthened the standardized management of commodity inventory and early warning management of the commodity shelf life to reduce losses and improve the turnover rate of the goods in stock.

Prudent development of retail network

During the Reporting Period, the Group focused on improving the operational capability of its stores. During the Reporting Period, nine convenience stores were opened. Due to reasons including the expiration of tenancy and modifications to the loss-making stores, two supermarkets and 15 convenience stores, including six directly-operated convenience stores and nine franchise-operated convenience stores, were closed during the Reporting Period. In addition, the Group renovated and upgraded two supermarkets and three convenience stores.

The Group had 212 retail outlets as at 30 June 2018, including 170 directly-operated outlets and 42 franchise-operated outlets, with a total net operating area of 283,412 square metres. The following table sets out the number and net operating area of the Group's retail outlets as at 30 June 2018:

	Department stores	Hypermarkets	Supermarkets	Convenience stores	Total
Number of retail outlets:					
Directly-operated	2	11	59	98	170
Franchise-operated	–	–	1	41	42
	<u>–</u>	<u>–</u>	<u>1</u>	<u>41</u>	<u>42</u>
Total	<u>2</u>	<u>11</u>	<u>60</u>	<u>139</u>	<u>212</u>
Net operating area (square metres):					
Directly-operated	39,742	78,817	134,573	19,185	272,317
Franchise-operated	–	–	880	10,215	11,095
	<u>–</u>	<u>–</u>	<u>880</u>	<u>10,215</u>	<u>11,095</u>
Total	<u>39,742</u>	<u>78,817</u>	<u>135,453</u>	<u>29,400</u>	<u>283,412</u>

RETAIL OPERATING RESULTS

An analysis of the principal operating income contributed by the Group's directly-operated hypermarkets, supermarkets, convenience stores and department stores is set out as follows:

	For the six months ended 30 June		
	2018	2017	Variance
	RMB'000	RMB'000	
Directly-operated retail outlets:			
Hypermarkets	627,775	644,743	(2.6%)
Supermarkets	1,408,576	1,444,557	(2.5%)
Convenience stores	186,260	175,521	6.1%
Department stores	20,014	20,693	(3.3%)
(including commissions)	16,939	17,519	(3.3%)
Online retail business	—	20,179	—
Total retail principal operating income	<u>2,242,625</u>	<u>2,305,693</u>	<u>(2.7%)</u>
Gross profit margin of directly-operated hypermarkets, supermarkets and convenience stores (%)	<u>16.2</u>	<u>15.9</u>	<u>0.3p.p</u>

During the Reporting Period, the retail principal operating income of the Group decreased by approximately 2.7% mainly due to the following reasons: (i) an overall same-store sales increase of approximately 2.16% during the Reporting Period; (ii) the impact of continuously adjusting the layout of stores and government removal and development by closing three stores in the second half year of 2017 and eight directly-operated stores in the first half year of 2018, and renovating and upgrading five stores during the Reporting Period which caused the retail principal operating income decreased.

During the Reporting Period, gross profit margin of the directly-operated retail business (excluding department stores) increased from 15.9% of the last corresponding period to 16.2%, mainly because of: (i) the adjustment and optimization of the product mix by gradually increasing the proportion of high value-added and high gross profit margin products during the Reporting Period; and (ii) the re-adjustment of the layout of stores by closing those unprofitable and low gross profit stores.

WHOLESALE BUSINESS

Strengthening channel expansion and accelerating the integration of online and offline channels

During the Reporting Period, the Group carried out specific follow-up works to resolve current problems relating to sales, operations, logistics and other procedure arising from its business operation with the existing sales clients. Through improving the quality and standard of its sales services, the Group enhanced customer satisfaction and further consolidated the cooperative relationship with the existing sales channels. The Group worked to accelerate the integration of business with new types of retail businesses and reinforced marketing opportunities, also continued to over forward in-depth cooperation with major e-commerce mainstream platforms, steadily developed its own e-commerce platform, strengthened its services and support for e-commerce especially in areas such as document processing, transportation monitoring and delivery control, in order to provide customers with better services and enhance customer loyalty. Relying on its mature brand resources, marketing technology and logistics system, the Group continued to expanded offline sales channels and increased the market share.

Further strengthening the brand development strategy

During the Reporting Period, the Group continuously enriched its brand resources, introduced a rising number of superior brands, introduced new suppliers and producers, and expanded categories and varieties of the commodities. The Group continued to expand its own brand business and currently has had 10 self-owned brand products, including Shangzhen (尚珍), Moshifu (魔師傅), Miaoshaoye (喵少爺), Zhaoxixiangchu (朝夕相廚) and Yinya (銀雅). The Group also participated in the 19th International Food & Beverage Expo with a variety of its own brand products with a view to expanding brand publicity and opening up the sales network of its own brand products. Further, the Group also continued to introduce imported goods, leveraging on the advantages of its sales channels, the Group completed the introduction of imported goods to the market, and at the same time strengthened the targeted tracking and analysis of the operation of imported goods, locked target customer groups and carried out marketing and promotion among customers.

Facilitating the development of logistics operation

During the Reporting Period, on the basis of gradually realizing unified planning of logistics development, unified allocation of logistics resources and unified management of logistics business, the Group continuously accelerated the construction of sub-logistics warehouses and the strategic layout of collaborative warehouses to further enhanced the professional and standardized operation level of the logistics business. The Group continued to expand the third-party logistics business, and by consolidating its existing business, the Group continued to improve logistics chains, reduced costs, actively develop new third-party customers, and expand the scale of the third-party business. The Group continued to strengthen the cooperation with the upstream suppliers in terms of the third-party logistics and co-logistics warehouses, significantly increasing the revenue of the third-party logistics business.

WHOLESALE OPERATING RESULTS

The wholesale principal operating income and gross profit margin are set out as follows:

	For the six months ended 30 June		Variance
	2018 RMB'000	2017 RMB'000	
Wholesale principal operating income recognised by Chaopi Group*	3,153,369	3,549,231	(11.2%)
Less: Intersegment Sales	(279,641)	(247,273)	13.1%
Sales to franchisees	<u>1,673</u>	<u>1,440</u>	<u>16.2%</u>
Consolidated Wholesale principal operating income	<u>2,875,401</u>	<u>3,303,398</u>	<u>(13.0%)</u>
Gross profit margin ^{**}(%)	<u>11.3</u>	<u>11.1</u>	<u>0.2p.p</u>

* *Chaopi Group represents Beijing Chaopi Trading Company Limited (“**Chaopi Trading**”) and its subsidiaries.*

** *This represents gross profit margin recognised by Chaopi Trading and its subsidiaries including intersegment sales.*

During the Reporting Period, the wholesale principal operating income recognized by Chaopi Group decreased by approximately 11.2%, which was mainly due to the following reasons: (i) by adjusting the composition of e-commerce commodities; (ii) by terminating the cooperation with suppliers of small market space and low profit products.

During the Reporting Period, the gross profit margin of wholesale business recognized by Chaopi Trading and its subsidiary increased slightly from 11.1% of the last corresponding period to 11.3%, as a result of the adjusting relating to commodities mix mentioned above.

FINANCIAL RESULTS

	For the six months ended 30 June		Variance
	2018	2017	
	<i>RMB'000</i>	<i>RMB'000</i>	
Principal operating income	5,137,604	5,638,639	(8.9%)
Gross profit	737,975	782,424	(5.7%)
Gross profit margin (%)	14.4%	13.9%	0.5p.p
Earnings before interest and tax	164,342	165,176	(0.5%)
Net profit	47,707	54,322	(12.2%)
Net profit margin (%)	0.9%	1.0%	(0.1p.p)
Net profit attributable to shareholders of the parent company	29,037	26,490	9.6%
Net profit margin attributable to shareholders of the parent company (%)	0.6%	0.5%	0.1p.p

PRINCIPAL OPERATING INCOME

During the Reporting Period, the Group's principal operating income decreased by approximately 8.9%, of which retail principal operating income decreased by approximately 2.7%, and wholesale principal operating income decreased by approximately 13.0%.

GROSS PROFIT AND GROSS PROFIT MARGIN

During the Reporting Period, the gross profit of the Group decreased by approximately 5.7% compared with the last corresponding period. During the Reporting Period, the gross profit margin was 14.4% (last corresponding period: 13.9%).

NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY

During the Reporting Period, net profit attributable to shareholders of the parent company increased by approximately 9.6% compared with the last corresponding period. The earnings before interest and tax amounted to RMB164,342,466, representing a decrease of RMB833,827 compared with the last corresponding period, and the net profit attributable to shareholders of the parent company increased from RMB26,490,046 of the last corresponding period to RMB29,036,547.

LIQUIDITY AND FINANCIAL RESOURCES

During the Reporting Period, the Group mainly financed its operations through internally generated cash flows, bank borrowings and debentures.

As at 30 June 2018, the Group had non-current assets of RMB2,340,198,919 (comprising mainly fixed assets, investment property, and land use right for a total of RMB1,461,041,926), and non-current liabilities of RMB58,466,334.

As at 30 June 2018, the Group had current assets of RMB5,405,972,808. Current assets mainly comprised of cash and cash equivalents of RMB1,093,829,740, inventories of RMB1,616,182,006, notes receivable and accounts receivable of RMB1,352,129,706 and prepayments and other receivables of RMB1,008,614,238. The Group had current liabilities of RMB5,565,696,815. Current liabilities mainly comprised of notes payable and accounts payable of RMB1,424,899,526, short term bank loans of RMB2,564,886,074 and non-current liabilities due within one year of RMB749,839,311, contract liabilities of RMB327,430,574.

INDEBTEDNESS AND PLEDGE OF ASSETS

As at 30 June 2018, the Group had bank loans of RMB2,564,886,074, which consisted of accounts receivable factored bank loans of RMB131,836,074 and unsecured bank loans of RMB2,433,050,000. All the Group's bank loans bear interest rates ranging from 4.35% to 5.87% per annum.

Certain of the Group's margin deposit of RMB99,468,103 were pledged for notes payable of RMB490,597,831 as at 30 June 2018.

The Group's gearing ratio* was approximately 72.6% as at 30 June 2018, which was slightly lower than approximately 73.6% in the previous corresponding period.

* *Represented by: Total Liabilities/Total Assets*

FOREIGN CURRENCY RISK

The Group's operating revenues and expenditures are principally denominated in Renminbi.

During the Reporting Period, the Group did not encounter any material effect on its operations or liquidity as a result of fluctuation in currency exchange rates.

EMPLOYEES

As at 30 June 2018, the Group employed 6,730 employees domestically (as at 30 June 2017: 7,206 employees). The total staffing costs (including directors' and supervisors' remunerations) of the Group for Reporting Period amounted to RMB396,064,492 (corresponding period of 2017: RMB377,967,121). The staff emolument (including directors' and supervisors' emoluments) of the Group are based on duty (position), experience, performance and market rates, in order to maintain their remunerations at a competitive level.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any significant contingent liabilities.

CAPITAL INCREASE IN RESPECT OF A NON-WHOLLY OWNED SUBSIDIARY

On 27 February 2018, Chaopi Trading contributed an additional capital injection of RMB4,800,000, which has been fully paid up, into a non-wholly-owned subsidiary of the Company, Chaopi International Trading (Shanghai) Company (the “**Chaopi International Trading**”), increasing the registered capital of Chaopi International Trading from RMB5,000,000 to RMB9,800,000. After the increase of registered capital, the Company will become a holder of an indirect equity interest of approximately 79.85% in Chaopi International Trading.

OUTLOOK

In the second half of 2018, with the online and offline integration and the omni-channel rule rising as the consensus of retail business upgrading and innovation, the Group will continue to use data and intelligent technology to achieve the integration of online and offline involving commodities, members, transactions, marketing and other data to provide consumers with cross-channel shopping experience. As far as retail business is concerned, the Group will further transform offline stores by means of data application, use electronic price tags more extensively, and enhance the operational efficiency of stores through intelligent transformation; while doing so, the Group will, keeping to focus on changing consumer demand, continued to introduce new products, such as healthy, fashionable and green commodities to improve high-quality shopping experience. And as for wholesale business, the Group will deepen the cooperation with upstream manufacturers and downstream customers, accelerate paces in brand introduction and sales channel expansion, and work to realize interconnection and exchange of data between upstream and downstream, between customers and products and between goods by displaying and sharing commodity information such as commodity experience, order fulfillment, logistics distribution and after-sales service, to provide intelligent business services for customers, thereby further consolidating the competitive advantages of the Group's wholesale business.

EVENTS AFTER THE REPORTING PERIOD

Pursuant to the “Approval on Issuance of Corporate Bonds of Beijing Jingkelong Company Limited” (證監許可 [2013] No. 791) issued by the CSRC, on 15 August 2013, the Company issued the corporate bonds aggregated to RMB750,000,000 with a term of maturity of 5 years, embedded with the option to increase the coupon rate by the issuer and puttable option by the investor at the end of the third year. The corporate bonds were jointly secured by Beijing Chaoyang District National Capital Operating Management Center, a state-owned enterprise, bearing coupon rate at 5.48% per annum. On 8 August 2018, such bonds payable and interest payable have been paid.

OTHER INFORMATION

Corporate Governance

In the opinion of the directors, the Company has applied the principles of and complied with all the code provisions of the Corporate Governance Code (the “**Corporate Governance Code**”) set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) during the Reporting Period, save for the directors’ retirement by rotation as set out below.

Provision A4.2 of the Corporate Governance Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The Company’s Articles of Association stipulates that each director shall be elected by the general meeting of the Company for a term of not more than three years, and eligible for re-election upon the expiry of the term. Having taken into account of the continuity of the Group’s operation and management policies, the Company’s Articles of Association contains no express provision for the directors’ retirement by rotation and thus deviate from the aforementioned provision of the Corporate Governance Code.

Director’s Securities Transactions

The Company has adopted a code of conduct regarding directors’ securities transactions on terms no less exacting than the required standard of dealings as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 of the Listing Rules. Having made specific enquiries with all directors, all the directors have confirmed that they have complied with the required standard of dealings as set out in the Model Code and the code of conduct regarding their securities transactions throughout the Reporting Period.

Audit Committee

The Audit Committee together with the management of the Company and the independent auditor have considered and reviewed the accounting principles and practices adopted by the Group and discussed matters in relation to internal control and financial reporting, including the review of the Group’s 2018 unaudited interim consolidated results. The Audit Committee considered that the interim financial report for the six months ended 30 June 2018 was in compliance with the relevant accounting standards, requirements of the Stock Exchange and the Laws of Hong Kong, and appropriate disclosures have been made.

Disclosure of Interests

Directors', Supervisors' and Chief Executives' Interests in Shares, Underlying Shares and Debentures

As at 30 June 2018, the interests and positions of the directors, supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 of the Listing Rules, were as follows:

Long positions in the domestic shares of the Company

Name	Capacity	Number of domestic shares held	Approximate percentage of total issued domestic shares (%)	Approximate percentage of total issued shares (%)
Li Jianwen	Personal	2,022,579	0.88	0.49
Shang Yongtian	Personal	989,451	0.43	0.24
Li Chunyan	Personal	505,992	0.22	0.12
Liu Yuejin	Personal	375,151	0.16	0.09
Li Shunxiang	Personal	5,210,428	2.26	1.26
Yang Baoqun	Personal	1,042,086	0.45	0.25
Liu Wenyu	Personal	365,151	0.16	0.09
Niu Hongyan	Personal	70,000	0.03	0.02
Li Chunyi	Personal	50,000	0.02	0.01

Save as disclosed above, as at 30 June 2018, none of the directors, supervisors or chief executive of the Company nor any of their associates had any interest and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 of the Listing Rules.

Substantial Shareholders

As at 30 June 2018, so far as is known to the directors, supervisors or chief executive of the Company, the persons (other than a director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in the domestic shares of the Company

Name	Capacity	Number of domestic shares held	Approximate percentage of total issued domestic shares (%)	Approximate percentage of total issued shares (%)
Beijing Chaoyang Auxiliary Food Company	Beneficial owner	167,409,808	72.77	40.61

Long positions in the H shares of the Company

Name	Total number of H shares held	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
China Galaxy International Asset Management (Hong Kong) Co., Limited (<i>Note 1</i>)	18,080,000(L)	9.92	4.39
China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP) (<i>Note 2</i>)	16,690,000(L)	9.16	4.05
Citigroup Inc. (<i>Note 3</i>)	15,710,000(L)	8.62	3.81
ICBC International Asset Management Limited (<i>Note 4</i>)	14,599,000(L)	8.01	3.54

(L) – Long Position

Note:

1. These 18,080,000 H shares were held by China Galaxy International Asset Management (Hong Kong) Co., Limited in its capacity as an investment manager.
2. These 16,690,000 H shares were held by China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP) in its capacity as an investment manager.
3. These 15,710,000 H shares were held by Citigroup Inc. in its capacity as an investment manager.
4. These 14,599,000 H shares were held by ICBC International Asset Management Limited in its capacity as an investment manager.

Save as disclosed above, as far as is known to the directors, supervisors or chief executive of the Company, as at 30 June 2018, no other persons (not being a director, supervisor or chief executive of the Company) had, or were deemed or taken to have any interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Reporting Period.

By Order of the Board
Beijing Jingkelong Company Limited
Li Jianwen
Chairman

Beijing, PRC
24 August 2018

As at the date of this announcement, the executive directors of the Company are Mr. Li Jianwen, Mr. Shang Yongtian, Ms. Li Chunyan and Mr. Liu Yuejin; the non-executive directors are Mr. Wang Weilin and Mr. Li Shunxiang; and the independent non-executive directors are Mr. Wang Liping, Mr. Chen Liping and Mr. Choi Onward.