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 2014

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the "Board") of C.P. Lotus Corporation (the "Company") announces the unaudited condensed consolidated results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2014 (the "Period") together with the comparative figures in 2013 were as follows:

Condensed Consolidated Statement of Profit or Loss

		Unaudited	
		Six months ended 30 June	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
			(note 15)
Turnover	*3*	**5,506,911**	5,408,196
Cost of sales		**(4,609,493)**	(4,513,064)
Gross profit		**897,418**	895,132
Other revenue	*4*	**268,508**	245,813
Other net (loss)/income	*5*	**(11,904)**	18,739
Distribution and store operating costs		**(974,481)**	(951,685)
Administrative expenses		**(172,001)**	(210,138)
Profit/(loss) from operations		**7,540**	(2,139)
Finance costs	*6*	**(39,939)**	(43,123)
Loss before taxation	*7*	**(32,399)**	(45,262)
Income tax	*8*	**(6,601)**	(1,498)
Loss for the period		**(39,000)**	(46,760)

Condensed Consolidated Statement of Profit or Loss (Continued)

		Unaudited Six months ended 30 June	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
Attributable to:			
Equity shareholders of the Company		**(38,987)**	(46,747)
Non-controlling interests		**(13)**	(13)
Loss for the period		**(39,000)**	(46,760)
Loss per share	*10*		
- Basic		**(0.18) RMB cent**	(0.22) RMB cent
- Diluted		**(0.18) RMB cent**	(0.22) RMB cent

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Loss for the period	**(39,000)**	(46,760)
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that may be reclassified subsequently to profit or loss:		
Release of exchange reserve upon disposal of subsidiaries (note 14)	**131**	-
Exchange differences on translation of financial statements of entities outside the People's Republic of China ("PRC")	**(1,120)**	2,321
Total comprehensive income for the period	**(39,989)**	(44,439)
Attributable to:		
Equity shareholders of the Company	**(39,976)**	(44,426)
Non-controlling interests	**(13)**	(13)
Total comprehensive income for the period	**(39,989)**	(44,439)

Condensed Consolidated Statement of Financial Position

	Notes	**Unaudited 30 June 2014** *RMB'000*	Audited 31 December 2013 *RMB'000*
Non-current assets			
Fixed assets			
- Property, plant and equipment		**1,523,558**	1,722,800
- Interests in leasehold land held for own use under operating leases		**144,799**	147,946
		1,668,357	1,870,746
Intangible assets		**186,566**	206,027
Goodwill		**2,911,778**	3,154,278
Prepaid lease payments for premises		**37,120**	30,159
Other long-term prepayments		**6,255**	7,162
Deferred tax assets		**22,934**	22,934
		4,833,010	5,291,306
Current assets			
Prepaid lease payments for premises		**11,429**	11,434
Inventories		**802,251**	1,105,598
Trade and other receivables	*11*	**1,163,425**	852,461
Pledged bank deposits		**131,836**	104,461
Cash and cash equivalents		**211,840**	266,156
		2,320,781	2,340,110
Current liabilities			
Trade and other payables	*12*	**3,716,136**	4,102,775
Bank loans	*13*	**96,870**	70,906
Other loans		**41,214**	40,822
Obligations under finance leases		**7,783**	7,783
Current taxation		**1,727**	19,009
Provisions		**269**	830
		3,863,999	4,242,125
Net current liabilities		**(1,543,218)**	(1,902,015)
Total assets less current liabilities		**3,289,792**	3,389,291
Non-current liabilities			
Bank loans	*13*	**1,048,373**	1,099,316
Obligations under finance leases		**168,923**	172,647
Deferred tax liabilities		**42,969**	47,812
		1,260,265	1,319,775
NET ASSETS		**2,029,527**	2,069,516
CAPITAL AND RESERVES			
Share capital		**396,093**	396,093
Reserves		**1,631,694**	1,671,670
Total equity attributable to equity shareholders of the Company		**2,027,787**	2,067,763
Non-controlling interests		**1,740**	1,753
TOTAL EQUITY		**2,029,527**	2,069,516

Notes to Condensed Consolidated Financial Statements

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements are unaudited and have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited.

The interim financial statements does not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the 2013 annual financial statements.

The condensed financial statements have been prepared in accordance with the same accounting policies in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of any changes in accounting policies are set out in note 2.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and one new interpretation that are first effective for the current accounting Period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- HK(IFRIC) 21, *Levies*

The Group has not applied any new standard, interpretation and amendments to HKFRSs that is not yet effective for the current accounting Period.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria such as the meaning of "currently has a legally enforceable right to set-off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria for some gross settlement systems which may be considered equivalent to net settlement system. The adoption of this amendment does not have material impact on the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating units whose recoverable amount is based on fair value less costs of disposal. The adoption of this amendment does not have any impact on the Group.

HK(IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The adoption of this amendment does not have material impact on the Group.

3. TURNOVER AND SEGMENT INFORMATION

The principal activity of the Group is the operation of hypermarket stores in the PRC. Turnover 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 whom transactions have exceeded 10% of the Group's revenue.

All revenue from external customers is 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

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Leasing income of store premises	**211,076**	197,514
Other promotion and services income	**41,701**	36,627
Interest income	**2,270**	3,522
Government grants	**13,461**	8,150
	268,508	245,813

5. OTHER NET (LOSS)/INCOME

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Foreign exchange (loss)/gain	**(10,977)**	19,672
Net income from store lease cancellations	**-**	728
Net loss on disposal of fixed assets	**(1,221)**	(1,661)
Gain on disposal of fixed assets, inventories and and subsidiaries to Whole Sino Limited ("WSL") (note 14)	**294**	-
	(11,904)	18,739

6. FINANCE COSTS

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
		(note 15)
Finance costs:		
Interest on borrowings wholly-repayable within five years:		
- Bank loans	**23,835**	-
- Other loans and charges	**358**	603
Interest on bank loan repayable after five years	**-**	25,990
Finance charges on obligations under finance leases	**8,835**	9,172
Interest on issuance of bank accepted bills	**4,688**	5,163
Total interest expense on financial liabilities not at fair value through profit or loss	**37,716**	40,928
Loan arrangement, guarantee and other fees	**2,223**	2,195
	39,939	43,123

7. LOSS BEFORE TAXATION

The Group's loss before taxation is arrived at after charging:

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**86,059**	81,022
Amortisation		
- land lease premium	**3,147**	3,147
- intangible assets	**6,190**	6,577
Operating lease charges		
- property rental	**247,495**	257,517
Cost of inventories sold	**4,609,493**	4,513,064

8. INCOME TAX

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Current tax – PRC		
Provision for the period	**8,128**	3,298
Deferred tax		
Reversal and origination of temporary differences	**(1,527)**	(1,800)
Taxation expense	**6,601**	1,498

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits which were earned in or derived from Hong Kong during the Period.

Taxes on the profits assessable elsewhere have been calculated at the rates of tax prevailing in the areas in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

9. DIVIDEND

The Directors do not recommend the payment of any dividend in respect of the Period (Six months ended 30 June 2013: Nil).

10. LOSS PER SHARE

(a) Basic

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

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Loss for the period attributable to equity shareholders of the Company	**(38,987)**	(46,747)

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

Number of ordinary shares in issue	**10,408,271,730**	9,797,454,827
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**	3,671,526,007
Number of Series D convertible preference shares in issue	**2,211,382,609**	2,211,382,609
Total	**21,707,081,512**	21,096,280,852

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

(b) Diluted

The diluted loss per share for the current accounting Period was the same as the basic loss per share as all potential ordinary shares are anti-dilutive.

11. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2014	Audited 31 December 2013
	RMB'000	*RMB'000*
Trade receivables, other receivables and deposits	**262,112**	269,022
Amounts due from related companies	**901,313**	583,439
	1,163,425	852,461

Sales to retail customers are mainly made in cash or via major credit cards.

Included in the Group's trade and other receivables are trade debtors (net of allowance for bad and doubtful debts) of approximately RMB14,753,000 (At 31 December 2013: approximately RMB36,351,000) with the following ageing analysis:

	Unaudited 30 June 2014	Audited 31 December 2013
	RMB'000	*RMB'000*
Current	**11,106**	30,419
1 to 30 days overdue	**2,065**	2,311
31 to 60 days overdue	**240**	1,665
61 to 90 days overdue	**597**	1,426
Over 90 days	**745**	530
	14,753	36,351

12. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2014	Audited 31 December 2013
	RMB'000	*RMB'000*
Notes payable	**235,335**	210,693
Creditors and accrued charges	**2,942,640**	3,455,480
Amounts due to related companies	**538,161**	436,602
	3,716,136	4,102,775

Included in the Group's trade and other payables are trade creditors and notes payable of approximately RMB2,267,989,000 (At 31 December 2013: approximately RMB2,674,123,000) with the following ageing analysis:

	Unaudited 30 June 2014 *RMB'000*	Audited 31 December 2013 *RMB'000*
Uninvoiced purchases	**727,367**	1,007,047
Within 30 days of invoice date	**1,450,157**	1,592,713
31 to 60 days after invoice date	**38,973**	64,217
61 to 90 days after invoice date	**16,564**	6,426
More than 90 days after invoice date	**34,928**	3,720
	2,267,989	2,674,123

13. BANK LOANS

At 30 June 2014, the bank loans were repayable as follows:

	Unaudited 30 June 2014 *RMB'000*	Audited 31 December 2013 *RMB'000*
Within 1 year	**96,870**	70,906
After 1 year but within 2 years	**187,638**	121,062
After 2 years but within 5 years	**860,735**	978,254
	1,048,373	1,099,316
	1,145,243	1,170,222

As at 30 June 2014, the Group's bank loans are secured/guaranteed as follows:

	Unaudited 30 June 2014 *RMB'000*	Audited 31 December 2013 *RMB'000*
Secured bank loans		
- Secured by assets held by the Group	**1,145,243**	1,170,222

At 30 June 2014, the Group has drawn down floating rate bank loans of USD185,970,000 (equivalent to RMB1,145,243,000) (At 31 December 2013: USD191,780,000 (equivalent to RMB1,170,222,000)), bearing interest at three-month London Interbank Offered Rate ("LIBOR") plus 3.25% per annum, which are secured by the share capital of certain of its subsidiaries. These bank loans were drawn from term loan facilities which expire on 31 December 2018 with instalment repayments scheduled during their terms.

14. DISPOSAL OF FIXED ASSETS, INVENTORIES AND SUBSIDIARIES TO WSL

On 14 March 2014, the Company entered into an agreement with WSL, a related company wholly-owned by the Company's controlling shareholders, to dispose conditionally by its subsidiaries (collectively the "Disposal"):

(i) The equity interest of Shanghai Xinlian Supermarket Co., Ltd. ("Shanghai Xinlian"), the owner and operator of supermarket SC82 at the consideration of RMB13,000,000 plus USD2 (or approximately RMB12), being equal to the total investment cost made by the Group in Shanghai Xinlian;

(ii) The equity interest of a new company ("New Company") split from Guangdong Huanantong Trading Development Co., Ltd. ("GDHNT Company Split") by which supermarket SC71 will be owned and operated upon the completion of the GDHNT Company Split at the consideration of RMB3,000,000, being an amount equal to the total investment made by the Group in the New Company; and

(iii) The fixed assets and inventory of five stores at the consideration equal to their net book value and carrying amount as at the end of month on which completion took place, subject to condition that the total amount should not exceed RMB234,691,000.

Accordingly, the aggregate consideration should not exceed the amount of RMB250,691,000 plus USD2 (or approximately RMB12).

The Disposal was completed on 30 April 2014 at a total consideration equivalent to RMB231,202,000, resulting a gain on Disposal of RMB294,000. The combined revenue and loss after taxation of Shanghai Xinlian, supermarket SC71 and five stores attributable to the Group for the Period was RMB201,551,000 and RMB33,873,000 respectively (Six months ended 30 June 2013 : RMB310,597,000 and RMB53,881,000 respectively).

This transaction constituted a connected transaction as defined in Chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The major classes of the assets and liabilities of the Disposal as at the completion date and the gain on Disposal are as follows:

	Unaudited
	RMB'000
Property, plant and equipment	**217,210**
Intangible assets	**13,271**
Goodwill	**242,500**
Inventories	**63,151**
Trade and other receivables	**4,896**
Cash and cash equivalents	**5,198**
Trade and other payables	**(312,131)**
Deferred tax liabilities	**(3,318)**
Release of exchange reserve upon Disposal	**131**
Gain on Disposal	**294**
	231,202
Satisfied by:	
Cash consideration receivable	**231,202**

An analysis of the net outflow of cash and cash equivalents in respect of the Disposal is as follows:

Cash and cash equivalents disposed of	**(5,198)**
Net outflow of cash and cash equivalents in respect of the Disposal	**(5,198)**

15. COMPARATIVE FIGURES

Interest on issuance of bank accepted bills amounting to RMB5,163,000, which was recorded in administrative expenses in the 2013 interim financial statements are now presented as finance costs to reflect more appropriately the nature of the expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded net loss attributable to equity shareholders of the Company for the Period of RMB39.0 million (2013: loss of RMB46.7 million).

Turnover increased by RMB98.7 million or 1.8% to RMB5,506.9 million. The increase was mainly due to the revenue generated by the six new stores opened in during the second half of 2013 and first half of 2014, five of which are in Guangdong Province and one in Xuzhou, Jiangsu Province. Some of the revenue increase was offset by the disposal of seven loss-making stores on 30 April 2014. Continued to be affected by the government's austerity measures and the general slowdown of the economy and intensified competition from both the traditional and online retailers, same store sales fell 0.5%, however, an improvement from -1.4% for the same period last year contributed from large scale nationwide promotional activities.

Gross profit margin was 16.3% of sales (2013: 16.6%). Gross profit margin is comprised of front and back margin. Front margin is sales minus direct cost of sales; back margin represents income from suppliers such as discounts and allowances. Front margin dropped by 0.7 percentage point to 7.6% and back margin improved from 8.3% to 8.7%. The drop in front margin mainly a result of increased supply to stores held by WSL following the disposal of seven loss-making stores to WSL on 30 April 2014 and continued investment in margin to boost sales and attract customers. The merchandise sold to WSL stores are sold at cost thereby lowering the overall gross profit margin. Gross profit margin was 17.5% if excludes sales to WSL (2013: 17.6%).

Other revenue and other net (loss)/income was RMB256.6 million (2013: RMB264.6 million), comprised mainly lease income which is income received from leasing of store space. Lease income increased by RMB13.6 million to RMB211.1 million, or 3.8% of sales (2013: 3.7%), as a result of contribution from new stores and higher rental charged upon lease renewal. Government grants increased by RMB5.3 million compared to the same period last year. An exchange loss of RMB11.0 million (2013: gain of RMB19.7 million) was recorded against our US dollar ("USD") borrowings as RMB deteriorated during the Period.

Distribution and store operating costs were RMB974.5 million or 17.7% of sales (2013: RMB951.7 million or 17.6% of sales). It comprised mainly stores rental, personnel expenses, utilities and depreciation and amortisation for a total of RMB816.3 million and 5.1%, 6.5%, 1.7% and 1.5% of sales respectively.

Administrative expenses were RMB172.0 million or 3.1% of sales compared to RMB210.0 million or 3.9% of sales in 2013. It mainly included personnel expenses of RMB140.8 million, depreciation and amortisation charge of RMB10.1 million, rental of RMB8.7 million and professional fee of RMB5.4 million. Savings mainly from personnel expenses of RMB10.9 million, withholding tax on professional service fee payment of RMB7.7 million and others of RMB17.2 million.

Financial costs were RMB39.9 million or 0.7% of sales, a decrease of RMB3.2 million (2013: RMB43.1 million).

Capital expenditure was RMB128.3 million for the Period under review, mainly in respect of payment for the new stores, store renovations and replacement of equipment.

Capital structure
The Group finances its own working capital requirements through a combination of funds generated from operations, bank and other borrowings.

Liquidity and finance resources
During the Period, the Group's sources of funds were generated primarily from operating activities and bank borrowings. As of June 2014, the Group had net current liabilities of approximately RMB1,543.2 million (31 December 2013: RMB1,902.0 million). The net cash and cash equivalents decrease was mainly due to cash outflow of RMB188.3 million for the purchase of fixed assets for new stores, payment for store renovation and equipment replacement; and repayment of term loan in accordance with the instalment repayments schedule and bank loans interest. We expect we will continue to have sufficient cash to meet our business needs.

	30 June 2014	31 December 2013
Cash and cash equivalents (RMB million)	**211.8**	266.2
Bank and other loans (RMB million)	**1,186.5**	1,211.0
Current ratio (x)	**0.60**	0.55
Quick ratio (x)	**0.39**	0.29
Gearing ratio (x) (defined as bank and other loans divided by total equity)	**0.58**	0.59

	Six months ended 30 June	
	2014	2013
Net cash outflow after effect of foreign exchange rate changes (RMB million)	**(54.4)**	(151.6)

During the Period under review, bank and other loans are denominated in USD and bank loans bear interest at three-month LIBOR plus 3.25% per annum and other loan bear interest at three-month LIBOR plus 1.50% per annum.

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

The Group is exposed to foreign currency risk from bank loans and other loan which are denominated in USD. After periods of steady and constrained appreciation, RMB had fallen almost 3.5% against the USD from the beginning of the year to May following the decision by China's central bank to widen the spread in RMB/USD buying and selling prices. The exchange rate had since regained some of its value with a 2.4% drop by end of the Period after the publication of positive export data. The Group still expects long term steady growth of the China economy and therefore has not undertaken any foreign currency hedging activities despite the recent fluctuations. The Group, however, will continue to monitor closely the USD/RMB exchange rate movements and will consider hedging the currency risk as and when necessary.

Contingent liabilities
As at 30 June 2014, the Company had issued two guarantees to an independent third party which expire in 2025 and two guarantees to a bank which expire in April 2015 and July 2015 respectively in respect of finance lease arrangements entered into by its subsidiaries. The Directors do not consider it probable that claims will be made against the Company under any of the guarantees. The maximum liability of the Company at 30 June 2014 under the guarantees issued was 100% of the future minimum lease payments under the lease arrangements entered into by the subsidiaries of RMB100.0 million.

Charge on assets
As at 30 June 2014, the Company had a share charge created in favour of Bangkok Bank Public Company Limited, Hong Kong Branch ("BBL") on 16 December 2011 whereby the Company agreed to pledge all shares of its subsidiary, Prime Global Retail Management & Advisory Limited to BBL. An equitable share mortgage had been created by the Company in favour of BBL on 16 December 2011 whereby the Company agreed to pledge all shares of its subsidiaries, Chia Tai Trading (Beijing) Company Limited, Chia Tai Trading (Qingdao) Company Limited, Chia Tai Trading (Xian) Company Limited, Chia Tai Trading (Zhengzhou) Company Limited, Chia Tai Distribution Investment Company Limited, Yangtze Supermarket Investment Co. Limited and Union Growth Investments Limited ("Union Growth") to BBL.

As at 30 June 2014, an equitable share mortgage had been created by Union Growth in favour of BBL on 16 December 2011 whereby Union Growth agreed to pledge all shares of its subsidiary, Lotus-CPF (PRC) Investment Company Limited ("Lotus-CPF") and 10,821,033 shares of Chia Tai-Lotus (Guangdong) Investment Co. Ltd. ("CT-Lotus") to BBL. An equitable share mortgage had been created by Lotus-CPF in favour of BBL on 16 December 2011 whereby Lotus-CPF agreed to pledge 97,389,312 shares of its subsidiary, CT-Lotus to BBL.

The abovementioned share charge and equitable share charges in favour of BBL were created to secure the Group's term loan facility of USD200.0 million which will expire on 31 December 2018 with instalment payments scheduled during its term. As at 30 June 2014, the total principal outstanding was USD186.0 million.

Employees, training and remuneration policy
The Group employed approximately 15,200 employees as at 30 June 2014, of which approximately 1,500 were head offices staff and approximately 13,700 were store employees. The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical cover, subsidised training programs as well as share option scheme for directors and senior management.

BUSINESS REVIEW

Store network
During the Period under review, the Group opened two new stores in Guangdong Province. In addition, the Group opened four new stores, of which three in Guangdong Province and one in Xuzhou, Jiangsu Province in the second half of 2013. The six new stores have a total sales floor of approximately 44,800 square meters and are located in third/fourth tier cities such as Lecong, Meizhou, Puning and Zhanjiang. The Group now owns and operates a total of 53 retail stores including 52 hypermarkets and one supermarket after the disposal of seven loss-making stores to a connected party on 30 April 2014.

Optimisation of merchandise
During the Period under review, the Group continued to review and enhance its merchandise mix and offerings. The Group continued its investment in fresh food and gradually moved towards direct operation in vegetables/meat and seafood from the consignment model to increase the gross margin. Meanwhile, more direct sourcing from farms/manufacturers to obtain better procurement prices.

The Group had been constantly reviewing its inventory level in particular the slow-moving items and is working on detailed action plans to maintain a healthy and optimised level.

The Group held its annual vendor conference on 24 June 2014 with representatives of over 630 vendors attended the conference. The conference not only gave an opportunity for the Group to share its vision, merchandise strategy, business plan with the vendors, but also a platform for the Group to learn about market trends and new products information directly from the vendors.

Improvement of operation efficiency
The Group continued to make use of systems and tools to improve operating efficiency. We continued our active discussion with Holytax, our vendor platform supplier, to enhance its functionality including off-invoice arrangement in addition to its current functions such as invoice matching, VAT invoice certification online etc. The added function, once implemented, will reduce the overall cost of both the Group and the suppliers. In addition, we are also in discussion with various banks on ways to improve our lease income collection efficiency.

The new CRM system will be rolled out to all Lotus stores in August and the new system, with many added new features, also allows Lotus membership card to be used nationwide, removing the restrictions to use only locally/regionally under the old system, giving our members added convenience.

Distribution centre is an integral part of our retail business and the Group had continued to strengthen its network and improved functionality and efficiency. A new distribution centre will be opened in the second half of the year, serving the stores in Shantou and in East Guangdong.

Continued store innovations
During the Period under review, we continued our store refresh program of our older stores to provide a better shopping environment to our customers and we plan to carry out major renovations on five stores of which three in Shanghai and two in Jiangsu Province in the second half of the year.

People development
We continued to strengthen the knowledge and skills of our workforce through various training programs. In May 2014, 120 potential section-manager candidates were selected from our Shanghai and East Region stores to attend a 9-day full-time training program in the Shanghai head office followed by a 4-day on-the-job practice. The objective is to help them improve their on-site operation and management ability and at the same time make more aware of the changes in the market environment. To further enhance communication, we opened two new communication channels "Lotus Listen and Care" ("建議箱") and "Frontline Employee Meeting" ("傾聽會議") to encourage suggestions from employees on how to optimise work process, improve sales and reduce operation costs etc.

PROSPECT

With the various strategies focusing on operational excellence, disciplined expenses management and emphasis on staff support and enhancing the relationship and communications with vendors and governments put in place by the new management team, we have seen improvement in certain areas such as reduction in headquarter expenses and store productivity. We will continue to improve overall staff productivity to mitigate cost increase pressure and we will continue to seek ways to improve our sales and the gross profit margin. We will continue to enhance our merchandise offerings, in particular investment in fresh food, and the overall shopping environment to increase foot traffic.

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 Period except that the Chairman did not attend the annual general meeting held on 30 April 2014 due to other important business engagement, which deviated from code provision E.1.2.

AUDIT COMMITTEE

The Audit Committee comprises the 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.

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, 13 August 2014

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