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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)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

The board of directors (the “Board”) of C.P. Lotus Corporation (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2014 with comparative figures in 2013 were as follows:

Consolidated Statement of Profit or Loss

	Note	For the year ended 31 December	
		2014 RMB'000	2013 RMB'000
Turnover	2	10,911,966	10,881,553
Cost of sales		<u>(9,073,969)</u>	<u>(9,088,212)</u>
Gross profit		1,837,997	1,793,341
Other revenue	3	503,057	503,058
Other net (loss)/ income	4	(24,521)	33,371
Distribution and store operating costs		(1,913,760)	(1,932,936)
Administrative expenses		<u>(350,051)</u>	<u>(335,873)</u>
Profit from operations		52,722	60,961
Finance costs	5	<u>(76,194)</u>	<u>(82,082)</u>
Loss before taxation	6	(23,472)	(21,121)
Income tax	7	<u>(34,972)</u>	<u>(75,801)</u>
Loss for the year		<u>(58,444)</u>	<u>(96,922)</u>
Attributable to:			
Equity shareholders of the Company		(58,428)	(96,837)
Non-controlling interests		<u>(16)</u>	<u>(85)</u>
		<u>(58,444)</u>	<u>(96,922)</u>
Loss per share	9		
- Basic		<u>(0.27) RMB cent</u>	<u>(0.46) RMB cent</u>
- Diluted		<u>(0.27) RMB cent</u>	<u>(0.46) RMB cent</u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December	
	2014	2013
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss for the year	(58,444)	(96,922)
Other comprehensive income for the year (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")	(957)	3,535
Total comprehensive income for the year	(59,401)	(93,387)
Attributable to:		
Equity shareholders of the Company	(59,385)	(93,302)
Non-controlling interests	(16)	(85)
	(59,401)	(93,387)

Consolidated Statement of Financial Position

		As at 31 December	
		2014	2013
	Note	RMB'000	RMB'000
Non-current assets			
Fixed assets			
- Property, plant and equipment		1,544,735	1,722,800
- Interests in leasehold land held for own use under operating leases		141,652	147,946
		<u>1,686,387</u>	<u>1,870,746</u>
Intangible assets		181,147	206,027
Goodwill	10	2,911,778	3,154,278
Prepaid lease payments for premises		36,645	30,159
Other long-term prepayments		5,083	7,162
Deferred tax assets		25,329	22,934
		<u>4,846,369</u>	<u>5,291,306</u>
Current assets			
Prepaid lease payments for premises		12,859	11,434
Inventories		1,058,912	1,105,598
Trade and other receivables	11	815,081	852,461
Pledged bank deposits		71,881	104,461
Cash and cash equivalents		140,054	266,156
		<u>2,098,787</u>	<u>2,340,110</u>
Current liabilities			
Trade and other payables	12	3,557,155	4,102,775
Bank loans	13	121,497	70,906
Other loans		-	40,822
Obligations under finance leases		8,968	7,783
Current taxation		14,592	19,009
Provisions		471	830
		<u>3,702,683</u>	<u>4,242,125</u>
Net current liabilities		<u>(1,603,896)</u>	<u>(1,902,015)</u>
Total assets less current liabilities		<u>3,242,473</u>	<u>3,389,291</u>
Non-current liabilities			
Bank loans	13	981,768	1,099,316
Other loans		40,961	-
Obligations under finance leases		163,679	172,647
Deferred tax liabilities		45,950	47,812
		<u>1,232,358</u>	<u>1,319,775</u>
NET ASSETS		<u>2,010,115</u>	<u>2,069,516</u>
CAPITAL AND RESERVES			
Share capital		396,093	396,093
Reserves		1,612,285	1,671,670
Total equity attributable to equity shareholders of the Company		<u>2,008,378</u>	<u>2,067,763</u>
Non-controlling interests		<u>1,737</u>	<u>1,753</u>
TOTAL EQUITY		<u>2,010,115</u>	<u>2,069,516</u>

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”).

(b) Basis of measurement

The measurement basis used in the preparation of the financial statements is the historical cost basis.

(c) Change in accounting policies

The HKICPA has issued a number of amendments to 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 HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*
- HK(IFRIC) 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by 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 unit whose recoverable amount is based on fair value less costs of disposal. The Group has followed the disclosure requirements of the amendments.

Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these financial statements as the Group has not novated any of its derivatives.

HK(IFRIC) 21, *Levies*

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

2. 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 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.

3. OTHER REVENUE

	For the year ended 31 December	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Leasing of store premises	413,500	405,089
Other promotion and service income	71,495	73,377
Interest income	5,090	7,554
Government grants (note)	12,972	17,038
	<u>503,057</u>	<u>503,058</u>

Note: Government grants represent subsidies received from local authorities.

4. OTHER NET (LOSS)/INCOME

	For the year ended 31 December	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Net foreign exchange (loss)/gain	(5,701)	35,719
Net (loss)/gain from store project cancellations	(1,560)	891
Net gain on disposal of seven stores to Whole Sino Limited (“WSL”) (note 14)	294	-
Net loss on disposal of fixed assets	(17,554)	(3,239)
	<u>(24,521)</u>	<u>33,371</u>

5. FINANCE COSTS

	For the year ended 31 December	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Finance costs:		
Interest on borrowings wholly-repayable within five years:		
- Bank loans	48,991	51,459
- Other loans	724	742
Finance charges on obligations under finance leases	17,478	18,181
Interest on issuance of bank accepted bills	4,553	7,192
Total interest expense on financial liabilities not at fair value through profit or loss	71,746	77,574
Loan arrangement and guarantee fees	4,448	4,508
	<u>76,194</u>	<u>82,082</u>

6. LOSS BEFORE TAXATION

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

	For the year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Depreciation of property, plant and equipment	170,179	164,625
Amortisation		
- land lease payments	6,294	6,294
- intangible assets	11,609	13,153
Operating lease charges		
- property rentals	479,617	519,891
Cost of inventories	9,073,969	9,088,212

7. INCOME TAX

	For the year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Current tax - PRC		
Provision for the year	34,509	23,842
Under-provision in respect of prior years	1,402	-
	<u>35,911</u>	<u>23,842</u>
Deferred tax		
Origination and reversal of temporary differences	(939)	51,959
Taxation expense	<u>34,972</u>	<u>75,801</u>

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 year.

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

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

Further, under the CIT law, 10% withholding tax is levied on the foreign investor in respect of dividend distributions arising from a foreign invested enterprise's profit earned after 1 January 2008. As at 31 December 2014, the PRC subsidiaries of the Group had accumulated losses and therefore no deferred tax liabilities were recognised in this regard.

8. DIVIDENDS

No dividend was paid or proposed during the years ended 31 December 2014 and 2013, nor has any dividend been proposed since the reporting date.

9. LOSS PER SHARE

(a) Basic

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

	For the year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Loss for the year attributable to equity shareholders of the Company	<u>(58,428)</u>	<u>(96,837)</u>

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

Number of ordinary shares in issue at 1 January	10,408,271,730	9,796,491,070
Effect of ordinary shares issued upon exercise of share options on 8 November 2013	-	90,365,029
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	3,672,489,764
Number of Series D convertible preference shares in issue	2,211,382,609	2,211,382,609
Total	<u>21,707,081,512</u>	<u>21,186,645,881</u>

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 years ended 31 December 2014 and 2013 are the same as the basic loss per share as all potential ordinary shares are anti-dilutive.

10. GOODWILL

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Cost:		
At 1 January	3,205,282	3,205,282
Disposal to WSL (note 14)	(242,500)	-
At 31 December	<u>2,962,782</u>	<u>3,205,282</u>
Accumulated impairment losses:		
At 1 January and 31 December	<u>(51,004)</u>	<u>(51,004)</u>
Carrying amount:		
At 31 December	<u>2,911,778</u>	<u>3,154,278</u>

During the year ended 31 December 2014, goodwill of RMB242,500,000 was allocated to the subsidiaries and assets sold to WSL in determining the gain on disposal.

11. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	33,982	36,351
Other debtors	262,620	232,671
Amounts due from related companies	518,479	583,439
	815,081	852,461

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

As of 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:

	As at 31 December	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	167,658	126,212
31 to 60 days	95,022	69,456
61 to 90 days	1,662	18,929
Over 90 days	1,162	1,956
	265,504	216,553

Included in the Group's above trade receivables are debtors with aggregate carrying amount of RMB5,685,000 (2013: RMB23,196,000) which are past due at the reporting date with ageing analysis as follows:

	As at 31 December	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
1 to 30 days overdue	2,861	19,575
31 to 60 days overdue	1,662	1,665
61 to 90 days overdue	699	1,426
Over 90 days overdue	463	530
	5,685	23,196

The directors consider no impairment provision is required in respect of these balances as they are due from either related companies controlled by the ultimate controlling shareholders or counterparties that have a good track record with the Group.

12. TRADE AND OTHER PAYABLES

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Notes payable	138,546	210,693
Trade creditors	2,259,093	2,463,430
Advanced receipts from customers	480,764	510,553
Other creditors and accrued charges	570,509	481,497
Amounts due to related companies	108,243	436,602
	<u>3,557,155</u>	<u>4,102,775</u>

Included in the Group's trade and other payables are trade creditors and notes payable of RMB2,397,639,000 (2013: RMB2,674,123,000) with the following ageing analysis, based on the invoice date, as at the reporting date:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Uninvoiced purchases	935,199	1,007,047
Within 30 days	1,365,022	1,592,713
31 to 60 days	45,904	64,217
61 to 90 days	22,017	6,426
More than 90 days	29,497	3,720
	<u>2,397,639</u>	<u>2,674,123</u>

13. BANK LOANS

At 31 December 2014, the bank loans were repayable as follows:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Within 1 year	121,497	70,906
After 1 year but within 2 years	251,683	121,062
After 2 years but within 5 years	730,085	978,254
	<u>981,768</u>	<u>1,099,316</u>
	<u>1,103,265</u>	<u>1,170,222</u>

At 31 December 2014, the Group's bank loans are secured/guaranteed as follows:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Secured bank loans		
- Secured by assets held by the Group	<u>1,103,265</u>	<u>1,170,222</u>

At 31 December 2014, the Group has drawn down floating rate bank loans of USD180,160,000 (equivalent to RMB1,103,265,000) (2013: USD191,780,000 (equivalent to RMB1,170,222,000)), bearing interest at three-month London Interbank Offered Rate (“LIBOR”) plus 3.50% per annum (2013: LIBOR plus 3.25%-3.50% 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 SEVEN STORES TO WSL

On 14 March 2014, the Company entered into an agreement to dispose of seven stores and the Group’s equity interest in certain wholly-owned subsidiaries in the PRC (collectively, the “Disposal Group”) to WSL, a related company of the Company, for a consideration of approximately RMB231.2 million. The disposal was completed on 30 April 2014.

For the year ended 31 December 2014, the above subsidiaries and stores in the Disposal Group contributed approximately RMB201.6 million (2013: RMB617.6 million) to the Group’s turnover and accounted for approximately RMB33.9 million (2013: RMB115.5 million) of the Group’s net loss for the year.

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 assets and liabilities in the Disposal Group as at the date of disposal are as follows:

	<i>RMB’000</i>
Property, plant and equipment	217,210
Intangible assets	13,271
Goodwill (note 10)	242,500
Inventories	63,151
Trade and other receivables	4,896
Cash and cash equivalents	5,198
Trade and other payables	(312,000)
Deferred tax liabilities	(3,318)
Net assets disposed of	230,908
Gain on disposal (note 4)	294
Cash consideration receivable	231,202

An analysis of the net inflow of cash and cash equivalents in respect of the disposal is as follows:

Consideration received, satisfied in cash	16,000
Cash and cash equivalents disposed of	(5,198)
Net inflow of cash and cash equivalents in respect of the disposal	10,802

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded net loss attributable to equity shareholders of the Company for the year ended 31 December 2014 (the "Year") of RMB58.4 million (2013: loss of RMB96.8 million).

Turnover increased by RMB30.4 million or 0.3% to RMB10,912.0 million. The increase was due to revenue generated by four new stores opened in 2014 but was offset by the disposal of seven loss-making stores to WSL on 30 April 2014 (the "Disposal"). Sales was also impacted by the slowdown of the economy in general, the government's anti-waste campaign which led to the reduction in the sales of pre-paid cards, alcohol, cigarette and gift-related spending, the lacking of new consumption stimulus policy and the unusual cool weather in the summer affected the sales of beverages. Despite the difficult trading environment, the Group recorded a same store sales growth of 1.1% resulting from the five "50% off Thanks Giving" held during the year and other promotional activities. Same store sale growth was calculated by comparing the turnover of 47 like-for-like stores which already opened as at 1 January 2013 from the Year to last correspondence period.

Gross profit margin was 16.8% of sales (2013: 16.5%). Gross 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 0.3 percentage point to 7.9% and back margin improved from 8.3% to 8.9%. The drop in front margin mainly a result of increased supply to stores held by WSL following the Disposal and continued investment in margin to boost sales and attract customers. During the Year under review, the Group organised five "50% off Thanks Giving" activities which helped boost sales. The drop in front margin was more than compensated by supplier's income.

Other revenue and other net (loss)/income was RMB478.5 million or 4.4% of sales (2013: RMB536.5 million or 4.9% of sales), comprised mainly lease income which is income received from leasing of store space. Lease income increased by RMB8.4 million to RMB413.5 million as a result of contribution from new stores and higher rental charged upon lease renewal. The increase was partly offset by the loss in rental income lost from the Disposal. Loss on disposal of fixed assets was RMB17.6 million compared to a loss of RMB3.2 million in 2013. An exchange loss of RMB5.7 million (2013: gain of RMB35.7 million) was recorded against our US dollar ("USD") borrowings as RMB deteriorated during the Year.

Distribution and store operating costs was RMB1,913.8 million or 17.5% of sales (2013: RMB1,932.9 million or 17.8% of sales). It comprised mainly stores rental, personnel expenses, utilities and depreciation and amortisation for a total of RMB1,596.8 million and 5.0%, 6.2%, 1.9% or 1.5% of sales respectively. Personnel expenses increased by approximately RMB48.5 million from new stores opening and annual increase in statutory minimum wages.

Administrative expenses was RMB350.0 million or 3.2% of sales compared to RMB335.9 million or 3.1% of sales in 2013. It mainly included personnel expenses of RMB284.6 million, depreciation and amortisation charge of RMB19.8 million, rental of RMB17.1 million and professional fee of RMB11.5 million.

Financial costs were RMB76.2 million, or 0.7% of sales, a reduction of RMB5.9 million from last year.

Income tax was RMB34.9 million (2013: RMB75.8 million). The decrease of RMB40.9 million mainly due to a reversal of deferred tax assets for the expiration/utilisation of tax loss carried forward of certain PRC subsidiaries of RMB52.9 million in 2013.

Net loss attributable to equity shareholders of the Company was RMB58.4 million (2013: RMB96.8 million), the improvement was due to increase in gross margin, and disciplined expenses management which negated the effect of falling in other net income.

Capital Structure

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

Liquidity and finance resources

During the Year under review, the Group's sources of funds were generated primarily from operating activities and banking facilities. The decrease in net cash and cash equivalents was mainly due to the purchase of fixed assets for the four new stores opened in 2014 and store renovation and repayment of bank loans and interest. We expect we will continue to have sufficient cash to meet our business needs.

	For the year ended 31 December	
	2014	2013
Cash and cash equivalents (RMB million)	140.1	266.2
Bank and other loans (RMB million)	1,144.2	1,211.0
Net cash outflow after effect of foreign exchange rate changes (RMB million)	(126.1)	(149.8)
Current ratio (x)	0.57	0.55
Quick ratio (x)	0.28	0.29
Gearing ratio (x) (defined as bank and other loans divided by total equity)	0.57	0.59

During the Year under review, bank loans bear interest at three-month LIBOR plus 3.25%-3.50% per annum and other loans bear interest at three-month LIBOR plus 1.5% per annum.

Foreign currency exposure

The directors consider that as the Group's retail operations are all based in the PRC, the Group is therefore not exposed to significant currency risk in its retail 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 approximately 0.5% against the US dollars during the Year under review following the decision by China's central bank to widen the spread in RMB/USD buying and selling prices, the weakening of China's exports and the strengthening of USD. 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 31 December 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 31 December 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 31 December 2014, the Company had a share charge created in favour of Bangkok Bank 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 31 December 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 31 December 2014, the total principal outstanding was USD180.2 million.

Employees, training and remuneration policy

The Group employed approximately 13,790 employees as at 31 December 2014, of which approximately 1,505 were head office staff and approximately 12,285 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 Year under review, the Group opened four new stores, all of which are situated in the Guangdong Province. The four new stores have a total sales floor of approximately 27,400 square meters and are located in third-/fourth-tier cities such as Meizhou, Puning and Zhanjiang. One store in Shanghai was closed in February as a result of landlord’s re-development plan, we expect the store will be re-opened in approximately 3 years’ time. In addition, we disposed of seven loss-making stores to a connected party on 30 April 2014. The Group now owns and operates a total of 55 retail stores with a total sales floor of over 470,000 square meters.

Optimisation of merchandise

During the Year under review, the Group continued to review and enhance its merchandise mix and offerings. More direct purchases for fresh food had been made providing our customers with better range and lower prices. In addition, the Group had been more involved in quality control to ensure freshness and food safety. The increased investment in fresh food and gradually moved towards direct operation in vegetables, meat and seafood from the consignment model also reduced procurement prices and increased gross margin. We have also increased our range of self-produced products such as delicatessen, snacks and bakery.

We continued to work closely with our suppliers. We had formed strategic alliance with 43 major suppliers in 2014 to organise promotion activities to boost sales and also introduce new products and improve offerings. The annual vendor conference held in June 2014, attended by representatives of over 640 vendors, provided an opportunity for the Group to learn more about market trends and new product information from the vendors directly which helped the Group to fine-tune our merchandise and marketing strategy. 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.

As the disposable income continued to rise and customers look for more premium products, we will be expanding our import team capability to bring in a wider range of imports products. Currently, we import mainly snacks, beverages and health supplements and we will add kitchenware and other groceries.

In addition, the relaxation of the one-child policy is expected to boost the consumption of maternal and baby products. We will have designated area for the “Mother and Baby Centre” in each store and we will be bringing in a wider variety of leading products to increase our competitiveness.

Improvement of operation and system efficiency

The Group continued to make use of systems and tools to improve operating efficiency. We completed adding the off-invoice function to our vendor platform system, this new function helps reduce the overall cost of both the Group and the suppliers. In addition, we extended the usage of a virtual account system to nationwide to improve our lease income collection efficiency.

To protect the environment while reducing the utilities expenses, we have started to upgrade the light tubes with LED in our existing stores. All new stores will be fitted with LED.

To better serve our suppliers, a vendor service team had been set up with its own designated office and meeting space to receive the vendors and answer any enquiry. This is another measure we undertake to improve our relationship with vendors and improve overall invoice management efficiency.

We continued our commitment to total quality management (“TQM”) to achieve operational excellence. Currently, 45 of our retail stores and all distribution centres (“DCs”) are ISO9001 certified. We will continue to work on improving and implementing our TQM.

The quality and safety of our products remain the highest priority. With the support of the Shanghai Pudong authority which granted subsidies, we set up four food testing laboratories in four stores in the Pudong area. These on-site labs would allow speedy test results and enable any sub-standard products are immediately re-called/destroyed.

Optimisation of supply chain management

DC is an integral part of our retail business and the Group had continued to strengthen its network and improved functionality and efficiency. During the Year under review, the Group continued to strengthen its supply chain process and procedures especially in cold chain logistics such as shortening the length or using the correct types of storages in order to reduce damages or shrinkages during and after the delivery.

A new DC had been opened in Shantou in December last year. The new DC has a capacity to support the business expansion in the East of Guangzhou for the next five years.

Major marketing activities to enhance brand awareness and customer loyalty

The Group continued our very successful “50% off Thanks Giving” activities throughout the Year. The activities were held in March, May, July, August and November with over 40 carefully selected products were sold at 50% off each time. The activities were not only well-received by our customers, but we received very positive support from our vendors too as this creates a platform/opportunity for vendors not only to be able to sell more but also a platform for them to introduce new products.

We successfully launched our new CRM system in August last year. The new CRM system is at the heart of our unique relationship with our customers and we need to use this system to personalise how we communicate with and serve our customers, providing them with offers and services that are relevant and tailored to their personal taste and preferences. We are using the new system to deliver more value for our customers while improving our sales/marketing efficiency.

Continued store innovation

The Group continued its efforts to transform our stores into lifestyle model to provide one-stop shopping convenience and a more comfortable shopping environment. During the Year under review, we completed the major renovation work of six stores and plan to renovate at least seven stores in 2015.

During the Year under review, the Group continued to improve tenant mix in our lease area to offer our customers with diversified and well-known brands. To improve our lease income and also a strategy to attract customers, we leased out a large area which was previously used as training centre of one of our stores in Shanghai to a car maintenance and repair shop. The drivers and their companions can visit our store while waiting for their vehicles to be serviced.

Social responsibility

Observing the business mission – “For the Country, For the People and For the Company”, the Group continued to be actively involved in community, focusing on helping and developing people and at the same time place great importance in protecting the environment. The Group continued to take part in “Earth Hour”, a global charity event organised by World Wildlife Fund to support a greener planet.

In March 2014, the Group launched its annual “Pink Spring” activities. Partnered with Oriental Morning Post in Shanghai, we published the first Pink Spring issue and invited women of different ages and professions to share their experiences in care and love, the objective is to convey a healthy and loving life.

We continued to focus more on activity related to young people and children. The “Lotus Heart: Smart Kid, Good Kid” was organised in cooperation with the primary schools in Shanghai to nurture their sense of responsibilities towards the society and the family while enhancing their self-esteem and encourage them to be more adventurous.

In September, we launched the “Lotus Love Foundation” to help employees or their families who are in desperate financial need either caused by illness, death or natural disasters. Over 5,500 employees participated who either made one-time donation or regular monthly donation. In addition, our employees donated over RMB150,000 to help those affected by the earthquake in Ludian County, Shaotong City, Yunnan Province.

People development

Training and development is one of the strategic priorities in attracting, developing and retaining a knowledgeable and skilled workforce. During the Year under review, in various training courses were held at regional head offices and at stores level across China respectively to improve their professional capability, learn various management tools, understand the business, the company culture and at the same time make them more aware of the changes in the market environment and more than 23,000 person-time participated. The Group also works closely with C.P. Corporate University which forms alliances with a number of leading universities. The objective is to develop a pool of high quality talents to support the continued development and expansion of the business.

Effective communication is an important factor in the success of an organisation. We opened two communication channels “Lotus Listen and Care” and “Frontline Employee Meeting” to encourage suggestions from employees on how to optimise work process. We received almost 600 suggestions via the two channels and some of the suggestions had since been put in place.

In 2015, the Group will continue optimising the organisational structure of each function to improve work efficiency and strengthen core competencies. We will also continue to reinforce the performance management process and refine the performance bonus scheme. We have formulated the 2015 Chinese New Year special bonus plan to motivate store employees and buyers to create bigger sales.

LOOKING FORWARD

While the speed of China’s growth is projected to become slower, the continuous reform and opening-up of China’s economy will help the country transition into a more sustainable and market-driven economy. Consumption level will keep rising in China, as the country is transitioning from an investment-driven and export-driven economy into one supported by domestic consumption. We have seen for the first time contribution from domestic consumption to GDP eclipsed the contribution from investment, indicating an increasingly stronger presence of consumption in China’s total economic output.

We are confident in the long term development of China’s economy and we are confident that our business model is sustainable. We will continue to expand our retail network by opening at least 5 new stores in 2015, most of which are located in the lower-tier cities where the disposable income is rising and competition is less intense. The presence of e-commerce will continue to grow while the market place will become more competitive, it is therefore important for us to able to look for more innovative ideas and solutions to better meet customer expectations for service levels, choice, convenience and overall experience.

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 Year 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 financial statements for the year ended 31 December 2014.

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

During the Year, 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, 27 February 2015

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.