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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 2015

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 2015 with comparative figures in 2014 were as follows:

### Consolidated Statement of Profit or Loss

	Note	For the year ended 31 December	
		2015 RMB'000	2014 RMB'000
<b>Revenue</b>	2	<b>10,660,452</b>	10,911,966
Cost of sales		<b>(8,829,048)</b>	(9,073,969)
<b>Gross profit</b>		<b>1,831,404</b>	1,837,997
Other revenue	3	<b>521,273</b>	503,057
Other net loss	4	<b>(29,347)</b>	(24,521)
Distribution and store operating costs		<b>(1,915,061)</b>	(1,913,760)
Administrative expenses		<b>(334,339)</b>	(350,051)
<b>Profit from operations</b>		<b>73,930</b>	52,722
Finance costs	5	<b>(73,777)</b>	(76,194)
<b>Profit/(loss) before taxation</b>	6	<b>153</b>	(23,472)
Income tax	7	<b>(18,224)</b>	(34,972)
<b>Loss for the year</b>		<b>(18,071)</b>	(58,444)
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(17,958)</b>	(58,428)
Non-controlling interests		<b>(113)</b>	(16)
		<b>(18,071)</b>	(58,444)
<b>Loss per share</b>	9		
- Basic		<b>(0.08) RMB cent</b>	(0.27) RMB cent
- Diluted		<b>(0.08) RMB cent</b>	(0.27) RMB cent

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December	
	2015	2014
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Loss for the year</b>	<b>(18,071)</b>	(58,444)
<b>Other comprehensive income for the year (after tax and reclassification adjustments)</b>		
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")	<u>5,956</u>	<u>(957)</u>
<b>Total comprehensive income for the year</b>	<b><u>(12,115)</u></b>	<b><u>(59,401)</u></b>
<b>Attributable to:</b>		
Equity shareholders of the Company	(12,002)	(59,385)
Non-controlling interests	<u>(113)</u>	<u>(16)</u>
	<b><u>(12,115)</u></b>	<b><u>(59,401)</u></b>

## Consolidated Statement of Financial Position

		As at 31 December	
		2015	2014
	Note	RMB'000	RMB'000
<b>Non-current assets</b>			
Property, plant and equipment		1,661,887	1,544,735
Interests in leasehold land held for own use under operating leases		135,358	141,652
		<u>1,797,245</u>	<u>1,686,387</u>
Intangible assets		166,481	181,147
Goodwill	10	2,911,778	2,911,778
Prepaid lease payments for premises		20,852	36,645
Other long-term prepayments		3,390	5,083
Deferred tax assets		31,262	25,329
		<u>4,931,008</u>	<u>4,846,369</u>
<b>Current assets</b>			
Prepaid lease payments for premises		12,849	12,859
Inventories		1,221,436	1,058,912
Trade and other receivables	11	737,066	815,081
Pledged bank deposits		59,436	71,881
Cash and cash equivalents		165,842	140,054
		<u>2,196,629</u>	<u>2,098,787</u>
<b>Current liabilities</b>			
Trade and other payables	12	3,764,731	3,557,155
Bank loans	13	267,118	121,497
Other loans		43,500	-
Obligations under finance leases		9,895	8,968
Current taxation		20,402	14,592
Provisions		1,101	471
		<u>4,106,747</u>	<u>3,702,683</u>
<b>Net current liabilities</b>		<u>(1,910,118)</u>	<u>(1,603,896)</u>
<b>Total assets less current liabilities</b>		<u>3,020,890</u>	<u>3,242,473</u>
<b>Non-current liabilities</b>			
Bank loans	13	774,860	981,768
Other loans		-	40,961
Obligations under finance leases		153,784	163,679
Deferred tax liabilities		42,225	45,950
		<u>970,869</u>	<u>1,232,358</u>
<b>NET ASSETS</b>		<u>2,050,021</u>	<u>2,010,115</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		405,726	396,093
Reserves		1,642,671	1,612,285
<b>Total equity attributable to equity shareholders of the Company</b>		<u>2,048,397</u>	<u>2,008,378</u>
<b>Non-controlling interests</b>		<u>1,624</u>	<u>1,737</u>
<b>TOTAL EQUITY</b>		<u>2,050,021</u>	<u>2,010,115</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 and the disclosure requirements of the Hong Kong Companies Ordinance. The 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 except that the derivative financial instruments are stated at their fair value.

(c) Change in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKAS 19, *Employee benefits: Defined benefit plans: Employee contributions*
- Annual improvements to HKFRSs 2010-2012 Cycle
- Annual improvements to HKFRSs 2011-2013 Cycle

These developments do not have an impact on the Group’s financial results or financial position.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### 2. REVENUE AND SEGMENT INFORMATION

The principal activity of the Group is the operation of hypermarket stores in the PRC. Revenue represents the net amounts received and receivable for goods sold by the Group to external customers, less returns, discounts and value added taxes.

The Group’s customer base is diversified and there is no customer with 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	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Leasing of store premises	432,125	413,500
Other promotion and service income	76,058	71,495
Interest income	4,490	5,090
Government grants (note)	8,600	12,972
	<u>521,273</u>	<u>503,057</u>

Note: Government grants represent subsidies received from local authorities.

### 4. OTHER NET LOSS

	For the year ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Net foreign exchange loss	(68,472)	(5,701)
Gain on the forward foreign exchange contracts (note 11)	72,765	-
Net loss from store project cancellations (note)	(8,055)	(1,560)
Net gain on disposal of seven stores to Whole Sino Limited (“WSL”) (note 14)	-	294
Impairment losses		
- property, plant and equipment	(11,192)	-
- intangible assets	(3,828)	-
Net loss on disposal of property, plant and equipment	(10,565)	(17,554)
	<u>(29,347)</u>	<u>(24,521)</u>

Note : This represents the losses incurred in relation to the cancellation of certain store-opening projects in 2015.

### 5. FINANCE COSTS

	For the year ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Finance costs:		
Interest on borrowings wholly-repayable within five years:		
- Bank loans	48,445	48,991
- Other loans	775	724
Finance charges on obligations under finance leases	16,653	17,478
Interest on issuance of bank accepted bills	4,361	4,553
Total interest expense on financial liabilities not at fair value through profit or loss	70,234	71,746
Loan arrangement and guarantee fees	3,543	4,448
	<u>73,777</u>	<u>76,194</u>

## 6. PROFIT / (LOSS) BEFORE TAXATION

Profit / (loss) before taxation is arrived at after charging:

	For the year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Depreciation of property, plant and equipment	181,129	170,179
Amortisation		
- land lease premium	6,294	6,294
- intangible assets	10,838	11,609
Operating lease charges		
- property rentals	485,997	479,617
Cost of inventories	8,829,048	9,073,969

## 7. INCOME TAX

	For the year ended 31 December	
	2015	2014
	RMB'000	RMB'000
<b>Current tax - PRC</b>		
Provision for the year	31,733	34,509
(Over)/under-provision in respect of prior years	(3,851)	1,402
	<u>27,882</u>	<u>35,911</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(9,658)	(939)
Taxation expense	<u>18,224</u>	<u>34,972</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 2015, 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 2015 and 2014, 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	
	2015	2014
	RMB'000	RMB'000
Loss for the year attributable to equity shareholders of the Company	<u>(17,958)</u>	<u>(58,428)</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	10,408,271,730
Effect of ordinary shares issued upon exercise of share options on 21 May 2015	376,520,955	-
Number of Series A convertible preference shares in issue	1,518,807,075	1,518,807,075
Number of Series B convertible preference shares in issue	3,897,110,334	3,897,110,334
Number of Series C convertible preference shares in issue	3,671,509,764	3,671,509,764
Number of Series D convertible preference shares in issue	<u>2,211,382,609</u>	<u>2,211,382,609</u>
Total	<u>22,083,602,467</u>	<u>21,707,081,512</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 2015 and 2014 are the same as the basic loss per share as all potential ordinary shares are anti-dilutive.

## 10. GOODWILL

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
<b>Cost:</b>		
At 1 January	2,962,782	3,205,282
Disposal to WSL (note 14)	-	(242,500)
At 31 December	<u>2,962,782</u>	<u>2,962,782</u>
<b>Accumulated impairment losses:</b>		
At 1 January and 31 December	<u>(51,004)</u>	<u>(51,004)</u>
<b>Carrying amount:</b>		
At 31 December	<u>2,911,778</u>	<u>2,911,778</u>

During the year ended 31 December 2014, goodwill of RMB242,500,000 previously included in the East China region was allocated to the subsidiaries and assets sold to WSL (note 14).

## 11. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Trade receivables	38,767	33,982
Other debtors	302,881	262,620
Derivative financial instruments	75,770	-
Amounts due from related companies	319,648	518,479
	<u>737,066</u>	<u>815,081</u>

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.

At 31 December 2015, the Group had a forward exchange contract with a net fair value of RMB75,770,000 (2014: nil) recognised as derivative financial instruments. The forward exchange contract has maturity of less than one year after the end of the reporting period, and the amount is expected to be recovered within one year.

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	
	2015	2014
	RMB'000	RMB'000
Within 30 days	144,177	167,658
31 to 60 days	94,117	95,022
61 to 90 days	479	1,662
Over 90 days	2,753	1,162
	<u>241,526</u>	<u>265,504</u>

Included in the Group's above trade receivables are debtors with aggregate carrying amount of RMB5,225,000 (2014: RMB5,685,000) which are past due at the reporting date with ageing analysis as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
1 to 30 days overdue	1,993	2,861
31 to 60 days overdue	479	1,662
61 to 90 days overdue	876	699
Over 90 days overdue	1,877	463
	<u>5,225</u>	<u>5,685</u>

The Directors consider no impairment provision is required in respect of the above trade debtors 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	
	2015	2014
	RMB'000	RMB'000
Notes payable	146,618	138,546
Trade creditors	2,322,090	2,259,093
Advanced receipts from customers	481,291	480,764
Other creditors and accrued charges	675,167	570,509
Amounts due to related companies	139,565	108,243
	<b>3,764,731</b>	<b>3,557,155</b>

Included in the Group's trade and other payables are trade creditors and notes payable of RMB2,468,708,000 (2014: RMB2,397,639,000) with the following ageing analysis, based on the invoice date, as at the reporting date:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Uninvoiced purchases	996,750	935,199
Within 30 days	1,220,070	1,267,956
31 to 60 days	83,436	69,056
61 to 90 days	55,535	61,049
More than 90 days	112,917	64,379
	<b>2,468,708</b>	<b>2,397,639</b>

## 13. BANK LOANS

At 31 December 2015, the bank loans were repayable as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Within 1 year	267,118	121,497
After 1 year but within 2 years	322,371	251,683
After 2 years but within 5 years	452,489	730,085
	<b>774,860</b>	<b>981,768</b>
	<b>1,041,978</b>	<b>1,103,265</b>

At 31 December 2015, the Group's bank loans are secured/guaranteed as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Secured bank loans		
- Secured by assets held by the Group	<b>1,041,978</b>	<b>1,103,265</b>

At 31 December 2015, the Group has drawn down floating rate bank loans of USD160,320,000 (equivalent to RMB1,041,978,000) (2014: USD180,160,000 (equivalent to RMB1,103,265,000)), bearing interest at three-month London Interbank Offered Rate ("LIBOR") plus 3.5% per annum (2014: three-month LIBOR plus 3.5% 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 IN 2014

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 to the Group's revenue and accounted for approximately RMB33.9 million of the Group's net loss.

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 were as follows:

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

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The Group recorded a net loss attributable to equity shareholders of the Company for the year ended 31 December 2015 (the "Reporting Period") of RMB18.0 million (2014: loss of RMB58.4 million).

**Revenue** fell by RMB251.6 million or 2.3% to RMB10,660.4 million. The reduction was due to the fact that the revenue generated by five new stores opened in 2015 was offset by the loss in revenue from the disposal of seven loss-making stores to WSL on 30 April 2014 and negative 3.6% growth in same store sales which was a result of the continued easing of the economy, the government's anti-waste campaign and intensified competition from online retailers. Apparel, electronics and hardline continued to be the worst performing categories.

**Gross profit margin** was 17.2% of sales (2014: 16.8%). 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 improved by 0.3 percentage point to 8.2% and back margin also improved from 8.9% to 9.0%. The improvement in front margin was mainly the result of enhancement of the merchandise mix. Overall margin in the fresh category was reduced due to online retailers stepping up their investment in grocery retailing. The back margin improved marginally as a result of lower sales, the actual amount reduced as a result of lower volume rebate received from suppliers. During the year under review, the Group organised five "50% off Thanks Giving" activities which helped boost sales. Gross profit margin was 18.9% if sales to WSL were excluded (2014: 18.6%).

**Other revenue and other net loss** was RMB491.9 million or 4.6% of sales (2014: RMB478.5 million or 4.4% of sales), comprised mainly lease income which is income received from the leasing of store space. Lease income increased by RMB18.6 million to RMB432.1 million as a result of contribution from the five new stores and a shopping mall opened during the year under review and higher rental charged upon lease renewal. An exchange loss of RMB68.5 million as a result of RMB depreciation since August 2015 was recorded against our US dollars ("USD") borrowing; however, such loss was completely offset by the gain from the USD non-deliverable forward contract entered on 20 July 2015. The contract matures on 22 July 2016.

**Distribution and store operating costs** was RMB1,915.1 million or 18.0% of sales (2014: RMB1,913.8 million or 17.5% of sales). It comprised mainly stores rental, personnel expenses, utilities and depreciation and amortisation for a total of RMB1,594.1 million and 4.9%, 6.5%, 1.8% or 1.7% of sales respectively. Personnel expenses increased by approximately RMB12.0 million only despite opening of five new stores and annual increase in statutory minimum wages as a result of continued refining of cost structure and improvement in productivity and work efficiency.

**Administrative expenses** was RMB334.3 million or 3.1% of sales compared to RMB350.0 million or 3.2% of sales in 2014. It mainly included personnel expenses of RMB260.7 million, depreciation and amortisation charge of RMB19.0 million, rental of RMB18.5 million and professional fee of RMB6.6 million. Savings mainly from reduction of personnel expenses amounted to RMB23.9 million.

**Financial costs** was RMB73.8 million, or 0.7% of sales, a reduction of RMB2.4 million from last year.

**Income tax** was RMB18.2 million (2014: RMB34.9 million).

**Net loss attributable to equity shareholders of the Company** was RMB18.0 million (2014: RMB58.4 million), the improvement was due to disciplined expenses management and increase from other net income which overcame the effect of negative growth in same store sales.

### Capital structure

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

### Liquidity and financial resources

During the year under review, the Group's sources of funds were generated primarily from operating activities and banking facilities. The increase in net cash and cash equivalents was mainly due to the cash generated from operation, cash proceeds from disposal of seven stores and net proceeds from exercise of share options exceeding the CAPEX and repayment of bank loans and interest. We expect we will continue to have sufficient cash to meet our business needs.

	<b>For the year ended 31 December</b>	
	<b>2015</b>	2014
Cash and cash equivalents (RMB million)	<b>165.8</b>	140.1
Bank and other loans (RMB million)	<b>1,085.5</b>	1,144.2
Net cash inflow/(outflow) after effect of foreign exchange rate changes (RMB million)	<b>25.7</b>	(126.1)
Current ratio (x)	<b>0.53</b>	0.57
Quick ratio (x)	<b>0.24</b>	0.28
Gearing ratio (x) (defined as bank and other loans divided by total equity)	<b>0.53</b>	0.57

During the year under review, bank loans bear interest at three-month LIBOR plus 3.5% 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 not exposed to significant currency risks in its retail operations.

The Group is exposed to foreign currency risk from bank loans and other loans which are denominated in USD. The Company entered into a USD non-deliverable forward contract with a notional amount of USD170.2 million on 20 July 2015 which expires on 22 July 2016. A gain of RMB72.8 million was recorded for the year ended 31 December 2015 from the forward contract as a result of the depreciation of the RMB. The Group does not enter into derivative transactions for speculative purposes.

### **Charge on assets**

As at 31 December 2015, the Group had outstanding the following charges, which had all been created in favour of Bangkok Bank Public Company Limited, Hong Kong Branch, as security agent for the USD200.0 million syndicated loan:-

- (i) share charge by the Company over all shares of its subsidiary, Prime Global Retail Management & Advisory Limited;
- (ii) equitable share mortgage by the Company over 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");
- (iii) equitable share mortgage by Union Growth over 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"); and
- (iv) equitable share mortgage by Lotus-CPF over 97,389,312 shares of its subsidiary, CT-Lotus.

The abovementioned share charge and equitable share mortgages were created to secure the Group's syndicated term loan facility of USD200.0 million which will finally mature on 31 December 2018, with instalment payments scheduled during its term. As at 31 December 2015, the total principal outstanding was USD160.3 million.

### **Employees, training and remuneration policy**

The Group employed approximately 14,330 employees as at 31 December 2015, of which approximately 1,560 were head office staff and approximately 12,770 were store employees. The Group remunerates its employees based on their performance and experience and prevailing market rate. Other employee benefits include insurance and medical cover, and subsidised training programs.

## **BUSINESS REVIEW**

### **Store network**

During the year under review, the Group opened five new stores, all of which are situated in the Guangdong Province. The five new stores have a total sales floor area of approximately 35,230 square meters. Four of them are located mostly in second and third tier cities such as Zhanjiang, Zhongshan and Shantou and one is located in Guangzhou. In addition, the Group opened a mall with 45,000 square meters, Lotus Center, in Shantou in which one of the new stores is located. The Group now owns and operates a total of 60 retail stores with a total sales floor area of over 129,800 square meters and a shopping mall which is a new business format for the Group.

### **Optimisation of merchandise and enhanced relationship with suppliers**

During the year under review, the Group continued to review and enhance its merchandise mix and offerings. The merchandise team had compiled a core assortment list and developed the buying and selling strategies and targets for 17 core product categories. We continued to expand our direct sourcing capabilities and identified more product supply origins. More direct purchases for fresh food were made providing our customers with better range and lower prices. In addition, the Group continued to invest in quality control to ensure freshness and food safety.

The Group continued to review its inventory level regularly, in particular the slow-moving items, and continued to strengthen inventory management, such as forecast and stock clearance plan after tab promotions end.

As disposable income continues to rise and customers look for more premium products, we have expanded our import team capability to bring in a wider range of imports products. Currently, we import mainly snacks, beverages and health supplements, to which we will add kitchenware and other groceries. Our objective is for import sales to account for over 10% of total sales. Our second bakery central kitchen was opened in one of the stores in Guangzhou which supplies bakery products to 20 stores in the area. The bakery central kitchen enabled us to broaden the product categories as well as better control the quality and consistency of our products on offer.

The abolishment of the one-child policy and allowing all couples to have two children is expected to further boost the consumption of maternal and baby products. We continued to refresh the designated areas for the “Mother and Baby Centre” in each store and we will continue to bring in a wider variety of leading products to increase our competitiveness.

The Group further enhanced the data-based approach for supplier selection and procurement. The Group selected suppliers in an open, fair and transparent manner and formed strategic alliance with the suppliers to carry out monitoring and assessment, so as to keep abreast with market trends and improve sales by bringing in new products. Meanwhile, the Group strictly performed its obligations under contracts and offered promotional display of products accordingly, gaining wide recognition among the suppliers. In a survey “Advantage Report Mirror” carried out by The Advantage Group International Inc., which interviewed over 100 major suppliers in China on their perceptions of 23 major retail operators in areas such as category/business development, logistics and retail execution, Lotus ranked 6<sup>th</sup>, one place up from 2014. We continued to work closely with our suppliers. The annual vendor conference held in June 2015 was attended by representatives of over 600 vendors. Our vendor service team continued to provide high quality service to our vendors with its own designated office and meeting space to receive vendors and answer enquiries.

### **Improvement of operation and system efficiency**

The Group continued to make use of systems and tools to improve operating efficiency. During the year under review, we continued to enhance the features/functions of our vendor platform system including early availability of performance reports and more flexible inquiry options. In addition, we introduced the new Certificate Authority function which allows platform service agreement to be executed online to reduce the use of paper, save space and make documentation and information sharing easier. We also completed the development of the “invoice-tracking” system with a delivery company. Both our suppliers and our operating subsidiaries would be able to track the status of the invoices online. This new system will go live in the first quarter of 2016.

All our shopping carts are now coin-operated, meaning that customers have to return the shopping cart to the designated area after use in order to get the coin back. We have started the use of electronic price-tag in our Fresh department which allows instant price changes to reflect the level of freshness of the products. This helps reduce shrinkage and ensure no price discrepancy at check-out. In addition, we also added information such as origin, specialties and recipe recommendation etc on the pricing board for our customers to better understand what they are buying and how they can be cooked.

During the year under review, we set up a nationwide invoice processing centre in Shantou. All invoices are now sent and processed by this centre for better invoice management and to reduce processing time.

During the Reporting Period, the Group upgraded the current e-contract system enabling the data on the e-contract to be shared with the Virtual Memory System. This helped remove the need for duplicate entry and eliminate human error in data-input and improve efficiency. In addition, the Group developed a report analysis system which is integrated with the Customer Relationship Management System; this enabled merchandising report, distribution centre (“DC”) report, lease area report etc to be downloaded and viewed on personal computer and on mobile equipment and these reports are updated every 10 to 15 minutes.

We continued our commitment to total quality management (“TQM”) to achieve operational excellence. Currently 48 of our retail stores and all DCs are ISO9001 certified. We will continue to work on improving and implementing our TQM.

### **Optimisation of supply chain management**

DCs are an integral part of our retail business and the Group 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 and continued to make use of tools and equipment to improve efficiency and lower human errors. Ear audio equipment was introduced to all floor staff in our DCs and they would follow the instructions issued by the computerised voice system rather than rely on a hand-held communication device.

We changed the compensation structure of our staff in our DCs. They are now paid based on the number of pieces handled rather than paid by hour. The change has resulted in a more efficient workforce while the Group was able to save on overtime expenses.

### **Strengthening of customer satisfaction and enhancement of brand awareness**

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

To encourage and reward our members to visit more frequently and spend more, we launched “Members’ spend week-by-week 會員尊享周周刷”: customers who visit our stores in consecutive weeks and spend over a certain amount of money each week will be rewarded with cash rebate based on the amount they spent.

Our performance depends on our ability to attract and retain customers and to service their demands. We continued to make sure our customer service centre in each store and also our call centre were operating effectively and there was sufficient capacity to handle volumes. In addition, we also conducted focus group survey to assess customer opinions and satisfaction levels to ensure that our staff remains focused on delivering excellent customer service.

### **Continued store innovation**

The Group continued its efforts to transform our stores into lifestyle model designed to provide one-stop shopping convenience and a more comfortable shopping environment. During the year under review, we completed the major renovation work of four stores.

The Group continued to improve the tenant mix in our lease areas adjacent to our stores to offer our customers diversified and well-known brands. We continued to renovate vacant or low-productivity areas into revenue generating leasable areas in order to increase our lease income and bring in more customers. We cooperated with Rucker Park China, the largest sports stadium chain in Shanghai, and converted the roof of one of our Shanghai stores into a Rucker Park.

### **People development**

Training and development is one of the strategic priorities in attracting, developing and retaining a knowledgeable and skilled workforce. We continued to work closely with C.P. Corporate University with an objective to develop a pool of high quality talents to support the continued development and expansion of our business; additional faculties were established such as Operation Faculty, Merchandise Faculty and Leadership Development Faculty during the year under review. We have put together a training team of over 100 trainers which offers over 200 courses to 337 chosen core talents. In addition, we continued to broaden cooperation with well-known academic organisation; our “Spring Pink” project has been selected by Harvard Business School as one of its Global FIELD projects in China.



Employees are the most valuable asset and resource of the Group and we are committed to improving the work environment and conditions for employees. During the year under review, the Group enhanced sanitary inspection across its headquarters building, stores and office premises; and we also installed direct-drinking water and disinfectant spray in the head office so as to ensure an improved work environment for its employees. In addition, the Group and the workers' union continued to send a variety of holiday gifts to employees during festivals such as Chinese New Year, Dragon Boat Festival and Mid-Autumn Festival. To enhance employees' physical and mental health, we organised "Sunlight Running 健康跑" with one of our suppliers in June; Shanghai Pudong Medical Women's Association offered free examination to our female employees in August and our medical consultant arranged free "Moxa-wool Moxibustion Lecture 艾灸保健講座" and "Cream Formula Clinic 膏方門診" in October.

The Human Resources department also underwent certain changes in 2015 as we continued to find ways to improve our work efficiency through the use of technology. The employee leave application and approval procedure is now being processed online and the successful launch of "Auto Recruiting and Approval Process" system had significantly shortened the recruiting and approval time and facilitates a paperless office.

In 2016, we will be working around the 7 Chinese characters principle of "Health, Innovation and Growth 健康、創新、促飛躍" to complete the optimisation of the organisation structure of each function. We will continue to make use of new technology to improve efficiency, reduce costs and further promote a paperless office. We will also continue to reinforce and improve the performance management process and performance bonus scheme to incentivise our workforce. In addition, the "Jiren Foundation 吉人基金會" which was set up in 2015 to reward outstanding performance will be giving out its first award.

### **Social responsibility**

Observing the business mission "For the Country, For the People and For the Company", the Group continued to be actively involved in the community, focusing on helping and developing people and at the same time placing great importance in protecting the environment. Our efforts in protecting the environment are discussed in the section "Safety, Occupational Health and Environmental Policy".

In March 2015, the Group launched its annual "Spring Pink" activities to promote love and care to help women in need. Journalists from 10 media outlets attended and over 100 articles about the event were printed.

We continued to focus on activities related to young people and children. We continued to work with primary schools in Shanghai on the "Lotus Heart: Smart Kid, Good Kid" program which was designed to nurture their sense of responsibilities towards the society and the family while enhancing their self-esteem and encourage them to be more adventurous. We celebrated Children Day with local communities and organised drawing activities and kids fashion shows in our stores. We also cooperated with the Shanghai Elderly Association to organise calligraphy activities for the elderly to celebrate Chinese New Year.

### **Legal and regulatory compliance**

The Group strives to comply in all material respects with the relevant laws and regulations which are regarded as having a significant impact on the Group, and has not come across incidence of material breach or non-compliance during the year under review.

### **SAFETY, OCCUPATIONAL HEALTH AND ENVIRONMENTAL (“SHE”) POLICY**

As a responsible employer and store operator, the Group pays great attention to the health and safety of our employees, our customers and our business partners. In addition, we also recognise we have a responsibility and an obligation to work to reduce the direct impact of our business operations on the natural environment. Our performance in SHE is an integral part of our business activities and a foundation for sustainable development. Our SHE commitment includes:-

- Promote SHE culture in the organisation and implement SHE policy and procedures to create a sustainable future;
- Improve the environmental quality and ensure that the safety and health of our employees is the top priority;
- Comply with all rules and regulations relating to our business operation;
- Prevention of pollution, disease, injury and accidents;
- Continuous training to employees to increase awareness and knowledge and encourage participation in SHE activities;
- Explore opportunities through research and new technology to promote energy saving, resource recovery, recycling and re-use of resources; and
- Establish effective communication channel to convey the SHE policy to employees, customers, business partners and the public.

We undertook the following energy saving and health and safety measures during the year under review:

We carried out the annual analysis on the store environments and identified the risk factors for management and control and issued the “Environmental factors identification table” 《環境因素識別表》. Measures taken include the installation of sound insulation facilities around Rucker Park and the use of environmental protective detergent in our laundry rooms. To support the promotion of energy saving, we participated in the Earth Hour 2015 organised by the World Wide Fund for Nature (WWF) by switching off non-essential lights at all our stores and regional head offices for an hour on 29 March 2015. All employees are called on to develop a habit of energy saving such as turning off the lights during lunch and switch off idle computers and equipment and print on both sides to save paper.

The SHE department identified a total of 48 policies relating to SHE matters promulgated by relevant government departments and ensured that the Group is in full compliance. The Group has not been found in material breach or non-compliance of any of these policies. We prepared and released a total of 18 documents and forms on SHE related matters such as “SHE objective, target KPIs and management proposal” 《SHE 方針目標指標和管理方案控制程序》, “Categorisation of wastes” 《廢棄物分類處置狀況檢查表》, and “Manual for emission of greenhouse gas and noise pollution” 《污水廢氣排放及噪聲控制作業指導書》 in order to help ensure all our employees follow the standard procedures and ensure they are aware of what is expected from them. We have engaged a qualified oil recycling vendor to collect and handle the waste/used oil (廢棄油脂) generated by the Fresh department. In addition, we clean the fresh lampblack pipelines (生鮮油煙管道) regularly and a third party vendor carry out testing to ensure the work is done properly and meet the relevant standards.

We have started putting in place in all our stores waste recycling and sorting bin to sort waste by category and recycle the waste as much as possible and to ensure that, hazardous waste will be isolated and processed separately.

## **LOOKING FORWARD**

We expect 2016 is going to be another challenging year with the growth of the Chinese economy expected to continue to ease. However, we see this as an opportunity as the growth becomes more driven by domestic consumption rather than export-or investment-driven. As disposal income continues to rise, thanks to the solid wage growth and the deflationary environment, contribution from domestic consumption to GDP will continue to eclipse contribution from investment. We continue to believe our business model is sustainable. In 2016, we plan to further expand our retail network by opening six to eight new stores and another Lotus Center in Xian. Whilst we expect competition from e-commerce to intensify, it is also our strong belief that shopping is for many people a pleasurable social experience that cannot be duplicated online. It is therefore important for us to be able to deliver a personal, seamless and differentiated shopping experience to attract and retain customers. Mobile commerce and online and offline integration will be some of the key aspects of the Group’s development to enhance the shopping 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 Reporting Period except that the Chairman did not attend the annual general meeting held on 16 June 2015 due to other important business engagement, which deviated from code provision E.1.2.

## **AUDIT COMMITTEE**

The Audit Committee comprises three Independent Non-Executive Directors of the Company. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the financial statements for the year ended 31 December 2015.

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

During the Reporting 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, 29 February 2016

*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.*