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LOTUS 卜蜂蓮花

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 2016

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 2016 with comparative figures in 2015 were as follows:

Consolidated Statement of Profit or Loss

		For the year ended 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Revenue	*2*	**10,085,679**	10,660,452
Cost of sales		**(8,347,148)**	(8,829,048)
Gross profit		**1,738,531**	1,831,404
Other revenue	*3*	**539,608**	521,273
Other net loss	*4*	**(415,507)**	(29,347)
Distribution and store operating costs		**(1,892,055)**	(1,915,061)
Administrative expenses		**(402,505)**	(334,339)
(Loss)/profit from operations		**(431,928)**	73,930
Finance costs	*5*	**(82,783)**	(73,777)
(Loss)/profit before taxation	*6*	**(514,711)**	153
Income tax	*7*	**(22,889)**	(18,224)
Loss for the year		**(537,600)**	(18,071)
Attributable to:			
Equity shareholders of the Company		**(537,587)**	(17,958)
Non-controlling interests		**(13)**	(113)
		(537,600)	(18,071)
Loss per share	*9*		
- Basic (RMB cents)		**(2.41)**	(0.08)
- Diluted (RMB cents)		**(2.41)**	(0.08)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	For the year ended 31 December	
		2016	2015
		RMB'000	*RMB'000*
Loss for the year		**(537,600)**	(18,071)
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")		**12,118**	5,956
Total comprehensive income for the year		**(525,482)**	(12,115)
Attributable to:			
Equity shareholders of the Company		**(525,469)**	(12,002)
Non-controlling interests		**(13)**	(113)
		(525,482)	(12,115)

Consolidated Statement of Financial Position

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment		**1,560,671**	1,661,887
Interests in leasehold land held for own use under operating leases		**129,064**	135,358
		1,689,735	1,797,245
Intangible assets		**145,568**	166,481
Goodwill	*10*	**2,654,252**	2,911,778
Prepaid lease payments for premises		**10,851**	20,852
Other long-term prepayments		**9,461**	3,390
Deferred tax assets		**35,647**	31,262
		4,545,514	4,931,008
Current assets			
Prepaid lease payments for premises		**5,388**	12,849
Inventories		**1,240,544**	1,221,436
Trade and other receivables	*11*	**830,302**	737,066
Pledged bank deposits		**59,545**	59,436
Cash and cash equivalents		**204,920**	165,842
		2,340,699	2,196,629
Current liabilities			
Trade and other payables	*12*	**3,885,544**	3,764,731
Bank loans and overdrafts	*13*	**222,900**	267,118
Other loans		**-**	43,500
Obligations under finance leases		**11,345**	9,895
Current taxation		**17,823**	20,402
Provisions		**28,069**	1,101
		4,165,681	4,106,747
Net current liabilities		**(1,824,982)**	(1,910,118)
Total assets less current liabilities		**2,720,532**	3,020,890
Non-current liabilities			
Bank loans	*13*	**-**	774,860
Loans from controlling shareholder	*14*	**971,877**	-
Other loans		**46,446**	-
Obligations under finance leases		**142,439**	153,784
Deferred tax liabilities		**36,842**	42,225
		1,197,604	970,869
NET ASSETS		**1,522,928**	2,050,021
CAPITAL AND RESERVES			
Share capital		**405,726**	405,726
Reserves		**1,117,202**	1,642,671
Total equity attributable to equity shareholders of the Company		**1,522,928**	2,048,397
Non-controlling interests		**-**	1,624
TOTAL EQUITY		**1,522,928**	2,050,021

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. 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 preparation

These financial statements are reviewed by the Audit Committee of the Company and approved for issue by the Board of Directors on 23 February 2017.

The Group incurred a loss of approximately RMB537.6 million for the year ended 31 December 2016 (2015: RMB18.1 million). As at 31 December 2016, the Group had net current liabilities of approximately RMB1,825.0 million (2015: RMB1,910.1 million).

In view of these circumstances, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The directors note that despite the loss from operations of RMB431.9 million for the year ended 31 December 2016, the Group generated net cash from operating activities of approximately RMB211.6 million during the year (2015 : RMB306.1 million). In December 2016, the Group has implemented a restructuring plan to streamline its organisation structure and to reduce operating costs. Although this organisational restructuring resulted in a significant amount of termination benefits in 2016, the directors believe this will improve the performance and operating cash flows of the Group in future periods.

The Group had borrowed loans from its controlling shareholder amounting to approximately USD139.8 million (equivalent to RMB971.9 million), with maturities in December 2018. These loans from controlling shareholder were fully used to repay the syndicated bank loans led by The Siam Commercial Bank Public Company Limited, which were originally repayable with instalment repayments scheduled through December 2018.

Based on the Group's 2017 business plan and cash flow forecast and unused bank facilities on hand, the directors believe the Group will generate sufficient cash flows to meet its liabilities as and when they fall due in the next twelve months. In preparing the cash flow forecast, the directors also consider the Group's ultimate holding company will continue to support the Group to the extent necessary.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation (Continued)

In view of the above, the directors consider that the Group will generate sufficient financial resources for its working capital and capital expenditure requirements and that it will be able to meet its financial obligations as when they fall due. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

(c) 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.

(d) Change in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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	
	2016	2015
	RMB'000	*RMB'000*
Leasing of store premises	**481,154**	432,125
Other promotion and service income	**51,829**	76,058
Interest income	**2,633**	4,490
Government grants (note)	**3,992**	8,600
	539,608	521,273

Note: Government grants represent subsidies received from local authorities.

4. OTHER NET LOSS

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net foreign exchange loss	**(75,861)**	(68,472)
Gain on the forward foreign exchange contracts (note 11)	**37,849**	72,765
Net loss from store project cancellations (note)	**-**	(8,055)
Net gain on disposal of two subsidiaries (note 15)	**148**	-
Impairment losses		
- property, plant and equipment	**(83,017)**	(11,192)
- intangible assets	**(10,663)**	(3,828)
- goodwill (note 10)	**(257,526)**	-
Net loss on disposal of property, plant and equipment	**(26,437)**	(10,565)
	(415,507)	(29,347)

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	
	2016	2015
	RMB'000	*RMB'000*
Finance costs:		
Interest on borrowings wholly-repayable within five years:		
- Bank loans	**48,848**	48,445
- Other loans	**1,083**	775
Finance charges on obligations under finance leases	**15,725**	16,653
Interest on issuance of bank accepted bills	**8,869**	4,361
Total interest expense on financial liabilities not at fair value through profit or loss	**74,525**	70,234
Loan arrangement and guarantee fees	**8,258**	3,543
	82,783	73,777

6. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Depreciation	**185,656**	181,129
Amortisation		
- land lease premium	**6,294**	6,294
- intangible assets	**10,250**	10,838
Operating lease charges		
- property rentals	**498,387**	485,997
Termination benefits (note)	**44,640**	-
Cost of inventories	**8,347,148**	8,829,048

Note : During the year ended 31 December 2016, the Group has implemented a restructuring plan to streamline the organisation structure, which has resulted to the termination of certain employees' services. Accordingly, the Group has made provision for the related termination benefits at the end of the reporting period.

7. INCOME TAX

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current tax - PRC		
Provision for the year	**28,097**	31,733
Under/(over) -provision in respect of prior years	**4,560**	(3,851)
	32,657	27,882
Deferred tax		
Origination and reversal of temporary differences	**(9,768)**	(9,658)
	22,889	18,224

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% (2015: 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 2016, 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 2016 and 2015, nor has any dividend been proposed since the reporting date.

9. LOSS PER SHARE

(a)Basic loss per share

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

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Loss for the year attributable to equity shareholders of the Company	**(537,587)**	(17,958)

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

Number of ordinary shares in issue at 1 January	**11,019,072,390**	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	**2,211,382,609**	2,211,382,609
	22,317,882,172	22,083,602,467

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

(b)Diluted loss per share

The diluted loss per share for the year ended 31 December 2016 is the same as the basic loss per share as there were no dilutive potential ordinary or convertible preference shares outstanding during the year.

The diluted loss per share for the year ended 31 December 2015 is the same as the basic loss per share as all the potential ordinary or convertible preference shares outstanding during the year are anti-dilutive.

10. GOODWILL

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cost:		
At 1 January and 31 December	**2,962,782**	2,962,782
Accumulated impairment losses:		
At 1 January	**(51,004)**	(51,004)
Impairment losses (note)	**(257,526)**	-
At 31 December	**(308,530)**	(51,004)
Carrying amount:		
At 31 December	**2,654,252**	2,911,778

Note : Impairment losses recognised during the year ended 31 December 2016 relates to the Group's operations located in the East China Region. (Further details are given in the "Other revenue and other net loss" paragraph in the "Financial Review" section under "Management Discussion and Analysis".)

11. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**86,498**	38,767
Other receivables	**315,359**	302,881
Amounts due from related companies	**387,206**	319,648
Derivative financial instruments	**41,239**	75,770
	830,302	737,066

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

At the end of the reporting period, the ageing analysis of trade receivables due from third parties and related companies, based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 30 days	**174,641**	144,177
31 to 60 days	**54,597**	94,117
61 to 90 days	**50,928**	479
Over 90 days (note)	**110,948**	2,753
	391,114	241,526

Note : Subsequent to the end of the reporting period, RMB89,300,000 trade receivables due from related companies had been received, which was all included in over 90 days category in the above ageing analysis.

At 31 December 2016, the Group had a USD non-delivered forward exchange contract with a notional amount of USD139,770,000. (2015: USD170,200,000). The forward exchange contract is recognised as "derivative financial instruments" at its net fair value of RMB41,239,000 (2015: RMB75,770,000). 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.

12. TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Notes payable	**128,369**	146,618
Trade creditors	**2,374,897**	2,322,090
Advanced receipts from customers	**458,165**	481,291
Other creditors and accrued charges	**783,694**	675,167
Amounts due to related companies	**140,419**	139,565
	3,885,544	3,764,731

Included in the Group's trade and other payables are trade creditors and notes payable of RMB2,503,266,000 (2015: RMB2,468,708,000) with the following ageing analysis, based on the invoice date as at the end of reporting period:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Uninvoiced purchases	**1,008,634**	996,750
Within 30 days	**1,149,138**	1,220,070
31 to 60 days	**98,280**	83,436
61 to 90 days	**52,861**	55,535
More than 90 days	**194,353**	112,917
	2,503,266	2,468,708

13. BANK LOANS AND OVERDRAFTS

At 31 December 2016, the bank loans and overdrafts were repayable as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 1 year	**222,900**	267,118
After 1 year but within 2 years	**-**	322,371
After 2 years but within 5 years	**-**	452,489
	-	774,860
	222,900	1,041,978

At 31 December 2016, the Group's bank loans and overdrafts are unsecured and secured/guaranteed as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Bank loans		
- Unsecured	**204,900**	-
- Secured by assets held by the Group	**-**	1,041,978
Unsecured overdrafts	**18,000**	-
	222,900	1,041,978

As at 31 December 2016, the Group had drawn down floating rate bank loans and overdrafts of RMB204,900,000 and RMB18,000,000, respectively, bearing interest at six to twelve-month People's Bank of China Rate ("PBOC" Rate) multiplied by 1.10 to 1.13, being 4.35% to 4.92% per annum.

At 31 December 2015, the Group had drawn down floating rate syndicated bank loans led by The Siam Commercial Bank Public Company Limited of USD160,320,000 (equivalent to RMB1,041,978,000), bearing interest at three-month London Interbank Offered Rate ("LIBOR") plus 3.50% per annum, which were secured by the share capital of certain subsidiaries of the Company. These bank loans were originally repayable with instalment repayments scheduled through December 2018. In December 2016, these loans were fully repaid.

14. LOANS FROM CONTROLLING SHAREHOLDER

At 31 December 2016, the Group had borrowed floating rate loans of USD139,770,000 (equivalent to RMB971,877,000) from its controlling shareholder, C.P. Holding (BVI) Investment Company Limited ("CPH"), bearing interest at three-month LIBOR plus 4.50% to 5.65% per annum. The loans from controlling shareholder are unsecured and repayable in December 2018.

15. DISPOSAL OF TWO SUBSIDIARIES

(a) Disposal of Shanghai CP Xi Duo Wu Foods Co., Ltd. ("CP Xi Duo Wu")

The Group entered into an agreement to dispose of its equity interest in CP Xi Duo Wu to a related company, Chia Tai Land Company Limited, for a consideration of approximately RMB6.5 million. The disposal was completed on 14 September 2016.

For the year ended 31 December 2016, CP Xi Duo Wu contributed approximately RMB1.6 million (2015: RMB2.8 million) to the Group's revenue and accounted for approximately RMB0.1 million of the Groups' net loss (2015: RMB0.5 million).

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

(b) Disposal of Xian Delian Trading Co., Ltd. ("Xian Delian")

On 24 May 2016, the Group entered into an agreement to dispose of its equity interest in Xian Delian to an independent third party for a consideration of approximately RMB1.0 million. The disposal was completed on 6 July 2016.

For the year ended 31 December 2016, Xian Delian contributed approximately RMB4.5 million (2015: RMB14.6 million) to the Group's revenue and accounted for approximately RMB0.4 million of the Group's net loss (2015: net profit of RMB0.4 million).

15. DISPOSAL OF TWO SUBSIDIARIES (CONTINUED)

(c) The major classes of assets and liabilities in CP Xi Duo Wu and Xian Delian as at the date of disposal were as follows:-

	CP Xi Duo Wu ***RMB'000***	**Xian Delian** ***RMB'000***
Property, plant and equipment	**10**	**20**
Inventories	**1,523**	**591**
Trade and other receivables	**7,064**	**97**
Cash and cash equivalents	**2,564**	**209**
Trade and other payables	**(3,104)**	**-**
	8,057	**917**
Shareholding percentage	**80%**	**100%**
Net assets disposed of	**6,446**	**917**
Gain on disposal	**54**	**94**
Cash consideration receivable	**6,500**	**1,011**

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

	CP Xi Duo Wu ***RMB'000***	**Xian Delian** ***RMB'000***
Consideration received, satisfied in cash	**6,500**	**1,011**
Cash and cash equivalents disposed of	**(2,564)**	**(209)**
Net inflow of cash and cash equivalents in respect of the disposal	**3,936**	**802**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

C.P. Lotus Corporation (the "Company") and its subsidiaries (together the "Group") recorded a net loss attributable to equity shareholders of the Company for the year ended 31 December 2016(the "Reporting Period") of RMB537.6 million (2015: loss of RMB18.0 million).

Revenue fell by RMB574.7 million or 5.4% to RMB10,085.7 million. The reduction was due to the fact that the revenue generated by three new stores opened in 2016 was not enough to offset the 8.2% reduction in same store sales which was a result of the continued easing of the economy, the government's anti-waste campaign and the intensified competition from online retailers. All categories recorded a reduction in sales compared to the previous year.

Gross profit margin was 17.2% of sales (2015: 17.2%). 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 8.5% and back margin down 0.3 percentage point from 9.0% to 8.7%. The front margin amount remained relatively stable but the improvement in front margin percentage was mainly the result of lower sales. The drop in sales led to lower volume rebates received from suppliers and hence a reduced back margin.

Other revenue and other net loss was RMB124.1 million or 1.2% of sales (2015: RMB491.9 million or 4.6% of sales), comprised mainly lease income which is income received from the leasing of store space and impairment loss of goodwill, intangible assets and property, plant and equipment. Lease income increased by RMB49.0 million to RMB481.2 million as a result of contribution from the three new stores during the year under review and higher rental charged upon lease renewal. An exchange loss of RMB75.9 million as a result of depreciation in RMB/US dollars exchange rate of approximately of 6.8% during the year was recorded against our US dollars ("USD") borrowing; however, such loss was partially offset by the gain from the USD forward foreign exchange contracts of approximately RMB37.8 million which however was reduced from RMB72.8 million in 2015. Those contracts mature on 21 July 2017. In addition, as the performance of the Group's business operation in the East China region did not meet the target for the year, an impairment loss of approximately RMB268.2 million was made on the goodwill and intangible assets which arose from the acquisition of Shanghai Lotus Supermarket Co. Ltd in 2008. A further impairment loss of RMB72.3 million was made in respect of the property, plant and equipment of some of the stores in the East China region comprised in the 2008 acquisition. A RMB10.7 million impairment loss was made over the relevant leasehold improvements and furniture, fixtures and equipment in respect of certain stores closed in 2016 due to the redevelopment plan initiated by the landlords for the sites where these stores were located. These impairment losses are non-cash in nature.

Distribution and store operating costs was RMB1,892.0 million or 18.8% of sales (2015: RMB1,915.1 million or 18.0% of sales). It comprised mainly personnel expenses, rental, utilities and depreciation and amortisation for a total of RMB1,626.8 million and represented 7.3%, 5.2%, 1.8% or 1.8% of sales respectively. Personnel expenses increased by approximately RMB45.6 million was mainly attributable to the opening of three new stores and annual increase in statutory minimum wages. Rental expenses reduced by RMB6.4 million due to the closure of two stores, one in April 2016 and one in October 2016, while two of the three new stores opened in the month of December. Total distribution and store operating costs reduced by RMB23.1 million as a result of the continued refining of cost structure and improvement in productivity and work efficiency leading to a reduction in controllable expenses such as cleaning, security, sales promotion and transportation expenses.

Administrative expenses was RMB402.5 million or 4.0% of sales compared to RMB334.3 million or 3.1% of sales in 2015. It mainly included personnel expenses of RMB304.0 million, depreciation and amortisation charge of RMB17.2 million, rental of RMB16.7 million and professional fee of RMB9.9 million. The increase was mainly from the increase in personnel expenses of RMB43.3 million, largely being the restructuring cost relating to the organisational restructuring to align with the Company's new development and operation strategy going forward.

Financial costs was RMB82.8 million, or 0.8% of sales, an increase of RMB9.0 million from last year.

Income tax was RMB22.9 million (2015: RMB18.2 million).

Net loss attributable to equity shareholders of the Company was RMB537.6 million (2015: RMB18.0 million). The significant increase was largely due to the increase in impairment loss of RMB336.2 million, the reduced gain on the forward foreign exchange contracts and the exchange loss of RMB42.3 million and a termination benefits of approximately RMB44.6 million.

Capital structure

The Group finances its own working capital requirement through a combination of funds generated from operations, loans from controlling shareholder and 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, loans from controlling shareholder and banking facilities. The increase in net cash and cash equivalents was mainly due to the cash generated from operation and additional borrowings exceeding the CAPEX payments 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	
	2016	2015
Cash and cash equivalents (RMB million)	**204.9**	165.8
Loans from controlling shareholder, bank loans, overdrafts and other loans (RMB million)	**1,241.2**	1,085.5
Net cash inflow after effect of foreign exchange rate changes (RMB million)	**21.1**	25.7
Current ratio (x)	**0.56**	0.53
Quick ratio (x)	**0.26**	0.24
Gearing ratio (x) (defined as Loans from controlling shareholder, bank loans, overdrafts and other loans divided by total equity)	**0.82**	0.53

During the year under review, bank loans and overdrafts bear floating interest at six to twelve-month PBOC rate multiplied by 1.10 to 1.13, being 4.35% to 4.92% per annum. The loans from the Company's controlling shareholder bear interest at three-month LIBOR plus 4.50% to 5.65% 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 loans from controlling shareholder and other loans which are denominated in USD. The Company entered into USD forward foreign contracts with a combined notional amount of USD139.77 million which expire on 21 July 2017. A gain of RMB37.8 million was recorded as of 31 December 2016 from these forward contracts 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 2016, the Company had a share charge created in favour of Bangkok Bank Company Limited, Hong Kong Branch ("BBL") on 16 December 2011 whereby, all the shares of its subsidiary, Prime Global Retail Management & Advisory Limited, were pledged. Equitable share mortgages were also 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").

As at 31 December 2016, there was also outstanding an equitable share mortgage which 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"). Additionally, an equitable share mortgage was 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.

All the above mentioned share charge and equitable share charges in favour of BBL were created to secure the Group's term loan facility of USD200.0 million in 2011. Following the full prepayment of the facility on 30 December 2016, all of these share charge and equitable share charges were fully released on 4 January 2017. No security over any of the Group's assets was created for the USD139.77 million facility provided by CPH.

Employees, training and remuneration policy
The Group employed approximately 13,970 employees as at 31 December 2016, of whom approximately 1,260 were head office staff and approximately 12,710 were store and distribution centre 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 three new stores, all of which are situated in the Guangdong Province. The three new stores have a total sales area of approximately 18,600 square meters and all of which are located in the second and third tier cities of Yangjiang, Foshan and Shantou. The Group also closed a store in Hefei in April 2016 and one store in Xian in October 2016 due to the landlord's decision to redevelop the sites where the stores were located. The Group expects to reopen the Hefei store in the fourth quarter of 2018 and the Xian store in the fourth quarter of 2017. As of 31 December 2016, the Group owned and operated a total of 61 retail stores with a total sales area of over 519,400 square meters and a shopping mall LOTUS CENTER.

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. We continued to expand our direct sourcing capabilities and more product supply origins were identified. More direct purchases for fresh food had been made providing our customers with better range and lower prices through the elimination of middlemen and agents. In addition, the Group continued to invest in quality control to ensure freshness and food safety, strictly adhered to the laws and regulations of food and production 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 promotion ends.

As the disposable income continued 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 directly from overseas vendors. Currently, we import mainly snacks, beverages and health supplements and we will continue to add other categories such as kitchenware and other groceries. Our objective is to for import sales to account for over 10% of total sales. The two bakery central-kitchen enabled us to broaden the product categories as well as better control of quality and consistency of our products on offer.

The Group continued its review of the allocation of sales space among different categories in response to the relaxation of China's one-child policy and the impact of online retail to the demand of particular categories of merchandise. More space has been allocated to mother and baby care section as a wider range of products were brought in to satisfy the growing demand while sales space for electronics and apparel has been reduced. In addition, our house brand team continued to work closely with the merchandise and marketing team to develop competitively priced house brand products to enhance the Group's differentiation and 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. We continued to work closely with our suppliers and strictly performed our obligations under supply contracts and offered promotional display of products accordingly, gaining wide recognition among the suppliers. Our vendor service team continued to provide high quality service to our vendors with designated office and meeting space to receive the vendors and answer any enquiry.

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 and functions of our vendor platform system including early availability of performance reports and more flexible inquiry options. We also completed the development of the "invoice-tracking" system with a delivery company. Both our suppliers and our operating subsidiaries are now able to track the status of the invoices online. This new system went live in the first quarter of 2016.

All our shopping carts are now coin-operated, so that customers have to return the shopping cart to the designated area after use in order to get the coin back. We continued to change the price-tag from traditional paper to the use of electronic price-tag in our Fresh department which allows instant price change to reflect the level of freshness of the products. This helps reduce shrinkage and ensure no price discrepancy at check-out. The Group reduced energy costs by imposing control on the use of electricity at stores in different periods, adjusting the calculation of electricity charges and installing energy-saving equipment.

Our nationwide invoice processing team in Shantou continued to receive and process all merchandise invoices of the Group for better invoice management and reduce processing time.

During the Reporting Period, the Group continued the enhancement of the upgraded E-contract system enabling the data on the e-contract to be shared with the VMS system. This helped remove the need for duplicate entry and eliminate human error in data-input and improve efficiency.

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

Optimisation of supply chain management

The distribution centre 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 and continued to make use of tools and equipment to improve efficiency and lower human errors. During the year under review, the Group launched a number of research projects of which some had been put in practice including adjustment of workflow of the receiving and quality control departments, and using a new equipment management method thereby effectively reducing the cost of equipment leasing.

Strengthening of customer satisfaction and enhancement of brand awareness
The Group continued our very successful "50% thanks-giving activity" throughout the year with a number of carefully selected products sold at a 50% discount and certain other products also sold at a hefty discount. The activity was 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. The Group also held a couple of "midnight bonanza" in the Shanghai region to further boast sales.

To encourage and reward our members to frequent and spend more, we continued the "Members' spend week-by-week": customers who visit our stores in consecutive weeks and spend over a certain amount of money each week will be rewarded with a cash rebate based on the amount they spent.

We continued to raise awareness of women's welfare through our widely recognized "Spring Pink" theme; activities include mobile games where customers receive red packet and messages about love and care when they follow the Lotus account on WeChat. We also cooperated with Deslon and Disney and our customers were able to use the coupons earned to redeem knifes and rucksacks respectively.

Our performance depends on our ability to attract and retain customers and to service their demand. We continued to make sure our customer service centre in each store and also our call centre are operating effectively and there is sufficient capacity to handle volumes. In addition, we also conducted focus group surveys to assess customer opinions and satisfaction levels to ensure that our staff remains focused on delivering excellent customer service. The Group's customer base is diversified and excluding the wholesale sales to the subsidiaries of Whole Sino Limited ("WSL"), a related party, there is no customer with whom transactions have exceeded 1% of the Group's revenue. The subsidiaries of WSL own and operate certain Lotus retail stores in China, and in 2016, merchandise sold by the Group to these stores amounted to approximately RMB749.1 million or 7.4% of sales (2015: RMB991.4 million or 9.3%). Prices offered to WSL were determined based on prevailing market prices and no less favourable than those available to the Group from independent third parties.

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

During the year under review, the Group continued to improve the tenant mix in our lease area to offer our customers with diversified and well-known brands and continued to renovate the vacant or low-productivity areas into revenue generating leasable areas in order to increase our lease income and bring in more customers.

Legal and regulatory compliance
The Group strives to comply in all material aspects 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.

LOOKING FORWARD

We expect 2017 to be another challenging year with the growth of the Chinese economy continuing to ease. The Group will continue to maintain a stable pace in new store expansion in leveraging on the opportunities arising from urbanisation and selecting the location of new stores in a more prudent manner to ensure their quality and profitability. At the same time, we will continue to optimise our process, and improve our logistics and distribution and IT systems to enhance the productivity of our staff and effectiveness of the supply chain. We will continue the restructuring of the head offices including streamlining the administrative process to reduce the office overheads and headcounts; and we have been having active negotiations with a number of landlords to restructure the rental payment structure. We will continue to capture new consumer trend, improve product mix, increase direct procurement and step up our house brand development capability. We are confident of improvement in our operating performance in 2017.

CORPORATE GOVERNANCE CODE

The Company 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 7 June 2016 due to another 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 2016.

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, 23 February 2017

As at the date of this announcement, the Board comprises nine 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 and Mr. Umroong Sanphasitvong, and five independent non-executive directors, namely Mr. Viroj Sangsnit, Mr. Songkitti Jaggabatara, Mr. Itthaporn Subhawong, Mr. Prasobsook Boondech and Mr. Cheng Yuk Wo.