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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 2018

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 2018 (the "Reporting Period") with comparative figures in 2017, as follows:

Consolidated Statement of Profit or Loss

		For the year ended 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Revenue	*2*	**10,122,022**	9,655,191
Cost of sales		**(8,339,802)**	(7,918,689)
Gross profit		**1,782,220**	1,736,502
Other revenue	*3*	**672,440**	605,349
Other net loss	*4*	**(448,118)**	(41,531)
Distribution and store operating costs		**(1,850,939)**	(1,707,119)
Administrative expenses		**(260,874)**	(266,395)
(Loss)/profit from operations		**(105,271)**	326,806
Finance costs	*5*	**(117,228)**	(101,554)
(Loss)/profit before taxation	*6*	**(222,499)**	225,252
Income tax	*7*	**(65,860)**	(46,212)
(Loss)/profit for the year attributable to the equity shareholders of the Company		**(288,359)**	179,040
(Loss)/earnings per share	*9*		
- Basic (RMB cents)		**(1.29)**	0.80
- Diluted (RMB cents)		**(1.29)**	0.80

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
(Loss)/profit for the year attributable to the equity shareholders of the Company	**(288,359)**	179,040
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")	**5,958**	(12,398)
Total comprehensive income for the year attributable to equity shareholders of the Company	**(282,401)**	166,642

Consolidated Statement of Financial Position

	Note	As at 31 December 2018 RMB'000	2017 RMB'000 (Note)
Non-current assets			
Property, plant and equipment		**1,738,851**	1,690,445
Interests in leasehold land held for own use under operating leases		**116,476**	122,771
		1,855,327	1,813,216
Intangible assets		**111,934**	137,455
Goodwill	*10*	**2,268,814**	2,654,252
Trade and other receivables	*11*	**6,804**	10,303
Deferred tax assets		**19,757**	34,972
		4,262,636	4,650,198
Current assets			
Inventories		**1,315,011**	1,144,710
Trade and other receivables	*11*	**1,009,760**	853,183
Pledged bank deposits		**61,922**	59,865
Cash and cash equivalents		**461,406**	166,115
		2,848,099	2,223,873
Current liabilities			
Trade and other payables	*12*	**3,856,125**	3,786,001
Contract liabilities	*13*	**357,819**	-
Bank loans	*14*	**311,595**	229,946
Loans from controlling shareholder	*15*	**-**	913,009
Other loans		**-**	43,402
Obligations under finance leases		**14,243**	12,909
Current taxation		**24,241**	27,237
Provisions		**7,295**	7,978
		4,571,318	5,020,482
Net current liabilities		**(1,723,219)**	(2,796,609)
Total assets less current liabilities		**2,539,417**	1,853,589

Consolidated Statement of Financial Position (Continued)

		As at 31 December	
		2018	2017
		RMB'000	*RMB'000*
			(Note)
Non-current liabilities			
Loans from controlling shareholder	*15*	**944,965**	-
Other loans		**45,494**	-
Obligations under finance leases		**115,287**	129,530
Deferred tax liabilities		**26,502**	34,489
		1,132,248	164,019
NET ASSETS		**1,407,169**	1,689,570
CAPITAL AND RESERVES			
Share capital		**405,726**	405,726
Reserves		**1,001,443**	1,283,844
TOTAL EQUITY		**1,407,169**	1,689,570

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition method chosen, comparative information is not restated. Further details are disclosed in note 1(d) of this announcement.

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 of the financial statements

These financial statements are reviewed by the Audit Committee of the Company and approved for issue by the Board on 27 February 2019.

The Group incurred a loss of approximately RMB288.4 million for the year ended 31 December 2018 (2017: net profit of approximately RMB179.0 million). As at 31 December 2018, the Group had net current liabilities of approximately RMB1,723.2 million (2017: approximately RMB2,796.6 million).

In view of this circumstance, the directors of the Company (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 approximately RMB105.3 million for the year ended 31 December 2018 which includes impairment losses over intangible assets and goodwill of approximately RMB401.5 million, the Group generated net cash from operating activities of approximately RMB646.9 million during the year (2017: approximately RMB303.8 million). With the continuing efforts taken to expand store network, optimize merchandise and sales space, enhance relationship with suppliers and improve operation efficiency, the Directors believe this will improve the performance and operating cash flows of the Group in future periods.

As at 31 December 2018, the Group has loans from its controlling shareholder, C.P. Holding (BVI) Investment Company Limited ("CPH"), amounting to approximately USD139.8 million (equivalent to approximately RMB958.4 million), which are repayable in December 2020. In addition, the Group still has unused loan facilities from the controlling shareholder amounting to USD48.0 million (equivalent to RMB329.4 million), which will expire in December 2020.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (Continued)

Based on the Group's 2019 business plan and cash flow forecast and unused shareholder loan 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.

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 and 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) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK (IFRIC) 22, *Foreign currency transactions and advance consideration*

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

(I) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The adoption of HKFRS 9 does not have any material impact on the financial position or the financial results of the Group.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Changes in accounting policies (Continued)

(I) HKFRS 9, *Financial instruments* (Continued)

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

Because the significant financial assets of the Group subject to HKFRS 9 at 1 January 2018 were cash and cash equivalents and trade and other receivables, there is no material impact on the carrying amounts of the assets on adoption of HKFRS 9.

The measurement categories for all financial liabilities remain the same, except for financial guarantee contracts, if any. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables). As the Group's credit risk is limited by the nature of its retail sales model, this change in accounting policy does not have a significant impact to the financial position or the financial results of the Group.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Changes in accounting policies (Continued)

(II) HKFRS 15*, Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method. Comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Changes in accounting policies (Continued)

(II) HKFRS 15, *Revenue from contracts with customers* (Continued)

(i) Timing of revenue recognition (Continued)

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue.

(ii) Presentation of contract assets and contract liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Changes in accounting policies (Continued)

(II) HKFRS 15, *Revenue from contracts with customers* (Continued)

(ii) Presentation of contract assets and contract liabilities (Continued)

To reflect these changes in presentation, the Group classified "Advance receipts from customers" amounting to approximately RMB341.5 million as at 1 January 2018, which were mainly related to sales of prepaid cards and previously included in trade and other payables as a separate line item as contract liabilities on the face of the consolidated statement of financial position. The estimated related VAT payable of approximately RMB54.6 million is classified under other creditors and accrued charges.

Except for the disclosures above related to redemptions of prepaid cards, the Group applies the practical expedient in paragraph 121 of HKFRS 15 for other sales contracts and does not disclose information about remaining performance obligations that have original expected duration of one year or less.

(iii) Other impacts

The Group's assessment is that the impact of HKFRS 15 in other areas including customer rights of return, principle vs agent arrangements, customer financing is not significant as the respective volume of transactions are either not material or the new standard has not led to a change in accounting treatment.

(III) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

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	
	2018	2017
	RMB'000	*RMB'000*
Leasing of store premises	**572,100**	522,828
Other promotion and service income	**88,664**	68,131
Interest income on financial assets measured at amortised cost	**3,945**	2,273
Government grants	**7,731**	12,117
	672,440	605,349

4. OTHER NET LOSS

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net foreign exchange (loss)/gain	**(60,707)**	73,049
Gain/(loss) on the forward foreign exchange contracts	**20,940**	(103,678)
Impairment losses		
- intangible assets	**(16,102)**	-
- goodwill (note 10)	**(385,438)**	-
Net loss on disposal of property, plant and equipment	**(6,811)**	(10,902)
	(448,118)	(41,531)

5. FINANCE COSTS

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interest on borrowings:		
- Bank loans	**10,878**	10,268
- Other loans and loans from controlling shareholder	**77,226**	66,084
Interest rate swap	**2,775**	-
Finance charges on obligations under finance leases	**13,496**	14,690
Interest on issuance of bank accepted bills	**395**	495
Total interest expense on financial liabilities not at fair value through profit or loss	**104,770**	91,537
Loan arrangement and guarantee fees	**12,458**	10,017
	117,228	101,554

6. (LOSS)/PROFIT BEFORE TAXATION

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

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Depreciation	**195,645**	187,614
Operating lease charges		
- minimum lease payments	**556,388**	491,227
Amortisation		
- land lease premium	**6,295**	6,293
- intangible assets	**9,419**	8,113
Donations	**14**	11
Cost of inventories	**8,339,802**	7,918,689

7. INCOME TAX

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current tax - PRC		
Provision for the year	**61,367**	53,657
Over-provision in respect of prior year	**(2,735)**	(5,767)
	58,632	47,890
Deferred tax		
Origination and reversal of temporary differences	**7,228**	(1,678)
	65,860	46,212

7. INCOME TAX (CONTINUED)

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% (2017: 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 2018, 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 2018 and 2017, nor has any dividend been proposed since the reporting date.

9. (LOSS)/EARNINGS PER SHARE

(a)Basic (loss)/earnings per share

The calculation of the basic (loss)/earnings per share is based on the following data:

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
(Loss)/profit for the year attributable to equity shareholders of the Company	**(288,359)**	179,040

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

At 1 January and 31 December		
Number of ordinary shares in issue	**11,019,072,390**	11,019,072,390
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
Total	**22,317,882,172**	22,317,882,172

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

9. (LOSS)/EARNINGS PER SHARE (CONTINUED)

(b)Diluted (loss)/earnings per share

The diluted (loss)/earnings per share for the year ended 31 December 2018 and 2017 were the same as the basic (loss)/earnings per share, respectively, and there were no dilutive potential ordinary or convertible preference shares outstanding during the years.

10. GOODWILL

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cost:		
At 1 January and 31 December	**2,962,782**	2,962,782
Accumulated impairment losses:		
At 1 January	**(308,530)**	(308,530)
Impairment losses (Note)	**(385,438)**	-
At 31 December	**(693,968)**	(308,530)
Carrying amount:		
At 31 December	**2,268,814**	2,654,252

Note: Impairment loss recognised during the year ended 31 December 2018 relates to the Group's operations located in the East China Region. The performance did not meet management's expectation, which was attributable to the challenging market conditions and the lease termination caused by the landlord in breach of the lease agreement for one of the stores in Shanghai.

11. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Non-current		
Prepaid lease payments for premises	**6,804**	10,303
Current		
Trade receivables	**82,589**	80,333
Amounts due from related companies	**591,524**	465,782
Value-added tax recoverable	**125,924**	114,908
Rental deposits	**131,576**	125,547
Other debtors	**66,960**	62,514
Prepaid lease payments for premises	**4,089**	4,099
Derivative financial assets	**7,098**	-
	1,009,760	853,183
Total	**1,016,564**	863,486

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

Sales to retail customers are mainly paid for 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	
	2018	2017
	RMB'000	*RMB'000*
Within 30 days	**177,916**	177,742
31 to 60 days	**47,301**	59,646
61 to 90 days	**62,620**	58,942
Over 90 days (Note)	**301,786**	148,059
	589,623	444,389

Note : Subsequent to 31 December 2018, the Group has received approximately RMB315,000,000 trade receivables due from related companies, of which approximately RMB14,679,000 was included in 61 to 90 days category and approximately RMB300,321,000 was included in over 90 days category in the above ageing analysis.

At 31 December 2018, the Group had a US dollars ("USD") non-delivered forward exchange contract with a notional amount of approximately USD139,770,000 (2017: approximately USD139,770,000) (the "USD Forward Contract"). At 31 December 2018, the fair value of the derivative financial assets in respect of the USD Forward Contract was approximately RMB7,098,000 (2017: derivative financial liabilities of approximately RMB40,084,000). The USD Forward Contract will expire on 23 July 2019.

12. TRADE AND OTHER PAYABLES

	31 December 2018	1 January 2018	31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
Notes payable	**93,610**	97,668	97,668
Trade creditors	**2,677,113**	2,209,069	2,209,069
Advanced receipts from customers (Note)	**-**	-	396,141
Construction costs payable	**238,985**	266,881	266,881
Other creditors and accrued charges	**657,526**	658,895	604,255
Amounts due to related companies	**188,867**	171,903	171,903
Derivative financial liabilities (Note 11)	**24**	40,084	40,084
	3,856,125	3,444,500	3,786,001

Note : Advance receipts from customers mainly represented the unutilised balance of prepaid cards sold by the Group. As a result of the adoption of HKFRS 15, these balances are classified as contract liabilities and are shown as a separate line on the consolidated statement of financial position.

12. TRADE AND OTHER PAYABLES (CONTINUED)

Included in the Group's trade and other payables are trade creditors and notes payables of approximately RMB2,770,723,000 (2017: approximately RMB2,306,737,000), with the following ageing analysis, based on the invoice date as at the end of Reporting Period:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Uninvoiced purchases	**943,246**	877,391
Within 30 days	**1,382,145**	1,073,575
31 to 60 days	**143,936**	180,619
61 to 90 days	**53,952**	32,394
More than 90 days	**247,444**	142,758
	2,770,723	2,306,737

13. CONTRACT LIABILITIES

	31 December	1 January	31 December
	2018	2018	2017
	RMB'000	*RMB'000*	*RMB'000*
Advance receipts from customers	**357,819**	341,501	-

The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

Upon the adoption of HKFRS 15, sales of prepaid cards previously included as "Advance receipts from customers" under "Trade and other payables" (note 12) were reclassified to contract liabilities.

Revenue is recognised when customers accept the products, so revenue from prepaid cards is recognised when the prepaid cards are redeemed by customers or when the likelihood of future utilisation can be determined with sufficiently high degree of probability as being remote. Based on recent trends in redemption by customers of the prepaid cards, it is expected that most of prepaid cards will be redeemed within one year from purchase.

14. BANK LOANS

At 31 December 2018 and 2017, all bank loans were unsecured and repayable within one year.

As at 31 December 2018, the Group had drawn down bank loans of approximately RMB311,595,000 (2017: approximately RMB229,946,000), bearing interest at six-month rate of People's Bank of China ("PBOC Rate") multiplied by 1.20, being 5.22% per annum (2017: six-month PBOC Rate multiplied by 1.20, being 5.22% per annum), or bearing fixed interest at 4.79% to 5.31% per annum (2017: 4.70% to 5.22% per annum).

15. LOANS FROM CONTROLLING SHAREHOLDER

At 31 December 2018, the Group had borrowed floating rate loans amounting to approximately USD139,770,000 (equivalent to approximately RMB958,356,000) (2017: approximately USD139,770,000, equivalent to approximately RMB913,009,000) from its controlling shareholder, CPH, bearing interest at three-month London Interbank Offered Rate ("LIBOR") plus 4.40% to 5.65% per annum, being 7.21% per annum (2017: three-month LIBOR plus 4.40% to 5.65% per annum, being 6.02% per annum). The amount of loans from controlling shareholders was presented after being offset by an unamortised loan arrangement fee amounting to approximately RMB13,391,000 (2017: nil). In addition, the Group still has unused loan facilities from the controlling shareholder amounting to USD48,000,000 (equivalent to RMB329,433,000), which will expire in December 2020. The loans from the controlling shareholder are unsecured and repayable in December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

C.P. Lotus Corporation and its subsidiaries recorded a net loss attributable to equity shareholders of the Company for the year ended 31 December 2018 of approximately RMB288.4 million (2017: profit of approximately RMB179.0 million).

Revenue increased by approximately RMB466.8 million, or 4.8%, to approximately RMB10,122.0 million (2017: approximately RMB9,655.2 million). The increase was mainly due to additional revenue from eight hypermarkets, two boutique supermarkets and one neighbourhood store opened in 2018, in addition to an increase of 0.6% in same stores sales when compared with last year, with such increase mainly attributable to growth in sales from fresh food and dry grocery categories.

Gross profit margin was 17.6% of sales (2017: 18.0%). Gross profit increased by approximately RMB45.7 million or 2.6%. Gross profit margin comprised front and back margin. Front margin is sales minus direct cost of sales; whereas back margin represents discounts, rebates and other fees the Group receives from suppliers. Front margin dropped by 0.6% to 8.4%, and back margin increased by 0.2% to 9.2%. The decline in gross margin was mainly due to the opening of eleven new stores and the development of business-to-business sector, each of which had a relatively lower front margin.

Other revenue and other net loss was approximately RMB224.3 million, or 2.2% of sales (2017: approximately RMB563.8 million or 5.8% of sales), comprised mainly lease income received from the leasing of store space. Lease income increased by approximately RMB49.3 million to approximately RMB572.1 million as a result of contribution received from additional leasing space in eight hypermarkets opened during the Reporting Period and higher rental charged by the Group upon lease renewal. An exchange loss of approximately RMB60.7 million was recorded as a result of depreciation in the RMB/USD exchange rate of approximately 5.04% during the year in our USD borrowing; however, such loss was partially offset by a gain of approximately RMB20.9 million from the USD Forward Contract, which contract will expire on 23 July 2019. Furthermore, impairment losses of approximately RMB401.5 million was recorded in 2018 with respect to intangible assets and goodwill from the acquisition of Shanghai Lotus Supermarket Chain Store Co., Ltd. in 2008 as the performance did not meet the management's expectation, which was attributable to the challenging market conditions and the lease termination caused by the landlord in breach of the lease agreement for one of the stores in Shanghai.

Distribution and store operating costs was approximately RMB1,850.9 million or 18.3% of sales (2017: approximately RMB1,707.1 million or 17.7% of sales), and comprised mainly personnel expenses, rental expenses, utility expenses and depreciation and amortization amounting to approximately RMB1,626.4 million or 6.7%, 5.6%, 1.8% and 2.0% of sales respectively. Personnel expenses increased by approximately RMB9.5 million mainly due to the opening of new stores during the year and the annual increase in statutory minimum wage. Rental expenses increased by approximately RMB63.7 million due to the opening of new stores including eight hypermarkets, two boutique supermarkets and one neighbourhood store during the Reporting Period and the increase in rental expenses for like-for-like stores.

Administrative expenses was approximately RMB260.9 million or 2.6% of sales (2017: approximately RMB266.4 million or 2.8% of sales). It mainly comprised personnel expenses of approximately RMB208.6 million, depreciation and amortization charge of approximately RMB13.8 million, rental expenses of approximately RMB19.1 million and professional fee of approximately RMB11.0 million. The decrease was mainly due to a reduction in personnel expenses of approximately RMB4.4 million following the continued refining of organization structure and improvement in productivity and work efficiency.

Financial costs was approximately RMB117.2 million, or 1.2% of sales, representing an increase of approximately RMB15.6 million from last year (2017: approximately RMB101.6 million). Included was approximately RMB2.8 million expenses relating to an interest rate swap entered by the Company on 16 July 2018 to reduce the exposure to interest rate fluctuations inherent in the USD loans from the controlling shareholder.

Income tax was approximately RMB65.9 million (2017: approximately RMB46.2 million).

Loss attributable to equity shareholders of the Company was approximately RMB288.4 million (2017: profit of approximately RMB179.0 million). The change from profit to loss was largely attributable to the impairment losses in the amount of approximately RMB401.5 million on goodwill and intangible assets during the Reporting Period.

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

Liquidity and finance resources
The Group has been carrying out a restructuring since the end of 2016 in anticipation of the Company's future development and business strategies. The Group continues to benefit from this reform, and cash flow from operating activities has improved. During the year of 2018, net cash generated from operating activities increased by approximately RMB343.1 million to approximately RMB646.9 million (2017: approximately RMB303.8 million). During the Reporting Period, other than the cash generated from operating activities, sources of funds also came from the banking facilities. The increase in net cash and cash equivalents was mainly due to cash generated from operations and additional bank borrowing being less than capital expenditure payments and repayment of bank loans and interest. We expect the Group will continue to benefit from the restructuring in 2016. The cash flow from operating activities in the foreseeable future will continue to improve and the Group will generate sufficient cash to meet its business needs.

	For the year ended 31 December	
	2018	2017
Cash and cash equivalents (RMB million)	**461.4**	166.1
Loans from controlling shareholder, bank loans and other loans (RMB million)	**1,315.5**	1,186.3
Net cash inflow / (outflow) after effect of foreign exchange rate changes (RMB million)	**295.3**	(20.8)
Current ratio (x)	**0.62**	0.44
Quick ratio (x)	**0.34**	0.21
Gearing ratio (x) (defined as loans from controlling shareholder, bank loans and other loans divided by total equity)	**0.93**	0.70

During the Reporting Period, our bank loans bore interest at six-month PBOC Rate multiplied by 1.20, being 5.22% per annum, or fixed interest of 4.79% to 5.31% per annum. The loans from controlling shareholder bore interest at three-month LIBOR plus 4.40% to 5.65% per annum. On 16 July 2018, the Company entered into an interest rate swap contract in the notional amount of approximately USD139.8 million to reduce the exposure to interest rate fluctuations inherent in the USD loans from the controlling shareholder. The swap converts variable rate obligations into fixed rate obligations, and accordingly the Group will continue to make interest payments based on fixed rates of 7.40% to 8.65% per annum instead of floating rates of three-month LIBOR plus 4.40% to 5.65% per annum during the term of the loans.

Foreign currency exposure

As the Group's retail operations are all based in the PRC, the Directors consider that the Group is not exposed to significant currency risks in its retail operations.

The Group faces foreign currency risk from bank loans and other loans which are denominated in USD. The Company entered into the USD Forward Contract with a notional amount of approximately USD139.8 million, expiring on 23 July 2019. A gain of approximately RMB20.9 million was recorded as of 31 December 2018 from the USD Forward Contract as a result of the depreciation of RMB. The Group does not enter into derivative transactions for speculative purposes.

Employees, training and remuneration policy

The Group employed approximately 10,900 employees as at 31 December 2018, of which approximately 1,400 were head office employees and approximately 9,500 were store employees. The Group's remuneration package to its employees was determined based on performance and experience of the employee and the prevailing market rate. Other employee benefits also include insurance, medical cover and subsidised trainings.

BUSINESS REVIEW

New sectors and new areas

The Group opened a total of eleven new stores in 2018, including eight hypermarkets, two boutique supermarkets and one neighbourhood community store. As at 31 December 2018, the Group owned and operated 80 retail stores and three shopping centres and achieved breakthroughs in terms of regions, sectors and commercial models.

The Group actively explores multi-sector mode of development. During the Reporting Period, the Group's strategy shifted from primarily developing the hypermarket sector to a more comprehensive multi-sector development of large, medium, small and micro stores, as Lotus stores now include boutique supermarkets Lotus Plus, neighbourhood stores and Lotus Mini stores. In the online-to-offline sector, the Group continued to promote the integration of online and offline channels and upgrade the operating standard of the self-developed e-commerce shopping app "LOTUS-GO", while promoting in-depth cooperation with large e-commerce platform vendors such as JD, TMall and Meituan. Providing consumers with convenient services and multi-channel options has been widely recognised by consumers and has a significant future development prospect and potential.

The Group also made breakthroughs in some new regions. For example, we entered into the Guangxi market for the first time and opened a hypermarket in Qinzhou City. The Group also opened a boutique supermarket in Changsha and two hypermarkets in Yongzhou, each located in Hunan Province where the Group has been actively developing. Within the 11-month period from December 2017, the Group has opened three stores in Yongzhou City and achieved our regional strategic layout target.

Improve operating standards and system efficiency

To capture business opportunities and overcome challenges, the Group completed the upgrade of ten stores during the Reporting Period in line with business adjustments, revising the store floor plans, compressed the Lotus store areas, expanded the leasing areas to other lessees, and actively introduced branded merchants to provide customers with a diversified array of products in their shopping experience and create a communal shopping environment. At the same time, we optimized the product display within each store and upgraded the fresh products in line with a business strategy for younger target customers. The key operation indicators such as area efficiency and human resources efficiency have been greatly improved.

The Group continued to use information technology systems and tools to improve operating standard and system efficiency. We worked with IBM and Oracle to create a new ERP system that is more suitable for multi-sector development, established a data warehouse, conducted big data analysis in the development of precision marketing activities, optimized the product category structure and improved overall operating efficiency. Our extensive application of facial recognition payment technology and the "LOTUS-GO" self-service cash register achieved technical advancement and has significantly reduced labor costs and shortened customer queuing time overall to enhance customers' shopping experience. For online shopping, the Group steadily promoted function expansion and operation standard of the e-commerce shopping app "LOTUS-GO" while we developed in-depth cooperation with large e-commerce platform vendors such as JD, TMall and Meituan, which further enhanced our online-to-offline integration.

In terms of financial management, the Group completed the establishment of an accounting service sharing centre during the Reporting Period and simultaneously carried out optimisation and improvement of a number of accounting operations, enabling the service sharing centre to undertake additional accounting operations and increasing the financial data management efficiency between the head office and each individual store.

To ensure we retain our reputation for quality products, the Group implemented a strict protocol of product access and inspection verification, and hired Société Générale de Surveillance S.A., an internationally recognized inspections authority, to conduct food safety assessments and product inspections. During the Reporting Period, the Group conducted quality control assessment for more than 180,000 times on fresh products.

In terms of process efficiency, the Group improved the ISO documentation, simplifying the operating approval process and reducing the amount of forms required to be completed by close to 20% through the use of electronic system operation.

Creating supply chain differentiation through collaboration, focusing on creation of three core product categories and optimising product structure

During the Reporting Year, the Group, through synergetic collaboration with CP Group, focused on building three core product categories, optimising our product structure and enhancing our product mix and supply.

In order to create competitive advantage, the Group continued to focus on the development of a differentiated supply chain through coordinated brand building using available resources, expanding distribution channels, strengthening cooperation with suppliers, thereby creating a new collaborative model which offers quality products to consumers.

Against the backdrop of intensifying consumer stratification, consumer demand for imported goods has increased. The Group continued to strengthen its import capability and adhere to the criteria of “good production location, reputable brand and quality grade” in selecting imported products, in order to continue to supply consumers with high-quality overseas products. During the Reporting Period, the Group's direct import growth rate reached 130%, and using Lotus Plus boutique supermarket as an example, the proportion of imported product items to total product offering items reached 40%.

At the same time, the Group placed emphasis on developing fresh product procurement centres with a view to provide consumers with safe, reliable and economical products. The Group took into consideration product originating location and core environmental standard in selecting the fresh product bases, and also placed emphasis on location marking, safety, green qualifications and certifications of the fresh products.

The Group has developed products sold in its own brands and in doing so, we adhered to the principle of “three goods” – good raw materials, good craftsmanship and good quality – to develop cost-effective and value-driven products of international standards. During the Reporting Period, the Group developed a total of six brands and introduced 100 SKUs, among which the “Taiyoo (泰友)” brand has received exceptional reviews from the consumers.

Improving relationship with suppliers

The Group continues to use data-based solutions to select suppliers and conduct procurement. The Group selects its suppliers on an open, fair and transparent basis, and through joint development of new marketing strategies and marketing to target group with the use of new media and other channels continues to strengthen strategic cooperation with its suppliers. Our suppliers are able to receive direct feedback from end users purchasing their products from our stores, and accordingly product research and development strategy can be timely adjusted to enable the Group to offer a diversified product mix that meets the end users’ needs. During the Reporting Period, the Group jointly developed customised products with some of its suppliers to provide consumers with featured products.

To further consolidate a reliable supplier base, the Group launched a supply chain financing project jointly with its strategic cooperative banks and suppliers, utilising the suppliers' transaction records and credentials with the Group for the suppliers to obtain bank financing. This strategy solved a difficult financing issue faced by many of Group’s upstream suppliers and reduced the overall financing cost in the supply chain, thereby improving settlement between the Group and its suppliers which in turn enhanced the competitiveness of the Group.

Optimizing supply chain network management

The Group has further enhanced its extensive warehousing and logistics distribution capabilities and infrastructure. During the Reporting Period, we opened a new warehouse in Guangdong Province to further improve local fresh product warehousing and distribution capacity. At the same time, we constructed a fruit and vegetable processing centre in anticipation of future structural change in consumer fresh product demand. As of 31 December 2018, the Group has nine large warehouses in the PRC reaching a total area of 111,400 square meters, consisting of six dry goods distribution centres with a total area of 100,100 square meters and three fresh distribution centres with a total area of 11,300 square meters. The Group's logistic company, Shanghai Litai Logistics Company Limited, has the logistics management experience, supporting equipment and capability of long-distance trunk logistics and urban distribution. Through consolidation and optimization of operations in 2018, the Group has improved its logistics and distribution capabilities within the supply chain and effectively supported the ongoing development of large, medium, small and micro stores and online-to-offline, business-to-business and business-to-consumer services.

Communicating with Customers and Brand Marketing

During the Reporting Period, the Group engaged Kantar Consulting, a firm specialises in customer research, to conduct customer satisfaction review to optimise and improve the Group's strategy and direction.

The Group regularly communicates with customers through a wide range of online and offline communication channels to broaden customer reach and uses various popular marketing channels, including social media within neighborhood groups, live webcasts, public news releases, APP push notifications and other multi-channel interactions, to deliver a young and energetic brand image. The Group's customer base is diversified and, excluding 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. In 2018, merchandise sold to the retail stores owned and operated by WSL subsidiaries amounted to approximately RMB836.2 million or 8.3% of Group sales (2017: approximately RMB653.6 million or 6.8%).

In addition, we cooperated with major brands to develop precision marketing to match products with target customers using big data analysis and carried out online advertising and coupon promotions to attract customers. Based on the survey "2018 CP Lotus Customer Satisfaction Study" conducted by Kantar Consulting, post-80s and 90s customers constitute more than half of the total customers of the Group in number, and post-70s, 80s and 90s customers are the key users of "LOTUS-GO" platform. The Group will continue to implement strategies which attract young 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 Reporting Period.

LOOKING FORWARD

In 2019, China's economy is expected to remain at a stable growth level. The relatively relaxed monetary policy in 2018 is expected to continue to stimulate consumption in the following years. With further development in consumer stratification, consumption is expected to increase and provide steady contribution to the economy overall in China.

In the retail industry, 2019 is expected to be a year full of new developments and challenges. With wider application of AI technology, the retail market will need to explore new business models to keep up with the development and this leads to increased uncertainties. However, in the last two years, the Group’s restructuring has laid a solid foundation for future development which enable us to remain confident to meet future challenges and to capture market opportunities. In 2019, the Group's business will be more comprehensive as we target new opening in each and every sectors. The Group also expects to launch new stores specifically branded for food, and explore new opportunity to open specialty areas within a store.

In terms of products, the Group will continue to utilise its available resources to focus on core product categories and build a differentiated and high-quality product mix around younger customers. With this strategy, the Group aims to use AI technology to digitize, automate and streamline work processes, thereby increasing operating efficiency. The Group also aims to enhance supply chain logistics distribution capabilities to support multi-sector growth and development. At the same time, we will continue to focus on sustainable and healthy development of the Group while maintaining the core corporate value of the Group – to benefit the country, the people and the group. We believe that our business model and business philosophy will facilitate long-term sustainable development. Under the continuous improvement of organisational structure and talent cultivation, together with a strong capital management practice, the Group has a solid foundation in terms of human capital, finance and facilities, and accordingly we are confident in our performance in 2019.

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.

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 Reporting Period.

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, 27 February 2019

As at the date of this announcement, the Board comprises eight executive directors, namely Mr. Soopakij Chearavanont, Mr. Li Wen Hai, Mr. Narong Chearavanont, 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.