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 2017

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 2017 with comparative figures in 2016 were as follows:

Consolidated Statement of Profit or Loss

		For the year ended 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Revenue	2	**9,655,191**	10,085,679
Cost of sales		**(7,918,689)**	(8,347,148)
Gross profit		**1,736,502**	1,738,531
Other revenue	3	**605,349**	539,608
Other net loss	4	**(41,531)**	(415,507)
Distribution and store operating costs		**(1,707,119)**	(1,892,055)
Administrative expenses		**(266,395)**	(402,505)
Profit/(loss) from operations		**326,806**	(431,928)
Finance costs	5	**(101,554)**	(82,783)
Profit/(loss) before taxation	6	**225,252**	(514,711)
Income tax	7	**(46,212)**	(22,889)
Profit/(loss) for the year		**179,040**	(537,600)
Attributable to:			
Equity shareholders of the Company		**179,040**	(537,587)
Non-controlling interests		**-**	(13)
		179,040	(537,600)
Earnings/(loss) per share	9		
- Basic (RMB cents)		**0.80**	(2.41)
- Diluted (RMB cents)		**0.80**	(2.41)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit/(loss) for the year	**179,040**	(537,600)
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")	**(12,398)**	12,118
Total comprehensive income for the year	**166,642**	(525,482)
Attributable to:		
Equity shareholders of the Company	**166,642**	(525,469)
Non-controlling interests	**-**	(13)
	166,642	(525,482)

Consolidated Statement of Financial Position

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment		**1,690,445**	1,560,671
Interests in leasehold land held for own use under operating leases		**122,771**	129,064
		1,813,216	1,689,735
Intangible assets		**137,455**	145,568
Goodwill	*10*	**2,654,252**	2,654,252
Prepaid lease payments for premises		**10,303**	10,851
Other long-term prepayments		**-**	9,461
Deferred tax assets		**34,972**	35,647
		4,650,198	4,545,514
Current assets			
Prepaid lease payments for premises		**4,099**	5,388
Inventories		**1,144,710**	1,240,544
Trade and other receivables	*11*	**849,084**	830,302
Pledged bank deposits		**59,865**	59,545
Cash and cash equivalents		**166,115**	204,920
		2,223,873	2,340,699
Current liabilities			
Trade and other payables	*12*	**3,786,001**	3,885,544
Bank loans and overdrafts	*13*	**229,946**	222,900
Loans from controlling shareholder	*14*	**913,009**	-
Other loans		**43,402**	-
Obligations under finance leases		**12,909**	11,345
Current taxation		**27,237**	17,823
Provisions		**7,978**	28,069
		5,020,482	4,165,681
Net current liabilities		**(2,796,609)**	(1,824,982)
Total assets less current liabilities		**1,853,589**	2,720,532
Non-current liabilities			
Loans from controlling shareholder	*14*	**-**	971,877
Other loans		**-**	46,446
Obligations under finance leases		**129,530**	142,439
Deferred tax liabilities		**34,489**	36,842
		164,019	1,197,604
NET ASSETS		**1,689,570**	1,522,928
CAPITAL AND RESERVES			
Share capital		**405,726**	405,726
Reserves		**1,283,844**	1,117,202
TOTAL EQUITY		**1,689,570**	1,522,928

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"), the collective term of which 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 on 23 February 2018.

As at 31 December 2017, the Group had net current liabilities of approximately RMB2,796.6 million (2016: RMB1,825.0 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 the Group generated net cash from operating activities of approximately RMB303.8 million during the year (2016: RMB211.6 million). With the continuing efforts taken to streamline the Group's organisation structure and to reduce operating costs, the Group made a net profit of RMB179.0 million during the year (2016: net loss of RMB537.6 million).

As at 31 December 2017, the Group had loans from its controlling shareholder, C.P. Holding (BVI) Investment Company Limited ("CPH"), amounting to approximately USD139.8 million (equivalent to RMB913.0 million), which are repayable in December 2018.

The Company has received a letter of support from CPH which confirmed that it will continue to provide adequate support to the Group so as to enable it to continue its operations for the foreseeable future. The Directors consider that CPH will continue, and be able, to do so.

Based on the Group's 2018 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 several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group.

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 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	
	2017	2016
	RMB'000	*RMB'000*
Leasing of store premises	**522,828**	481,154
Other promotion and service income	**68,131**	51,829
Interest income	**2,273**	2,633
Government grants (note)	**12,117**	3,992
	605,349	539,608

Note: Government grants represent subsidies received from local authorities.

4. OTHER NET LOSS

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Net foreign exchange gain/(loss)	**73,049**	(75,861)
(Loss)/gain on the forward foreign exchange contracts (note 12)	**(103,678)**	37,849
Net gain on disposal of two subsidiaries	**-**	148
Impairment losses		
- property, plant and equipment	**-**	(83,017)
- intangible assets	**-**	(10,663)
- goodwill	**-**	(257,526)
Net loss on disposal of property, plant and equipment	**(10,902)**	(26,437)
	(41,531)	(415,507)

5. FINANCE COSTS

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Finance costs:		
Interest on borrowings:		
- Bank loans	**10,268**	48,848
- Other loans and loans from controlling shareholder	**66,084**	1,083
Finance charges on obligations under finance leases	**14,690**	15,725
Interest on issuance of bank accepted bills	**495**	8,869
Total interest expense on financial liabilities not at fair value through profit or loss	**91,537**	74,525
Loan arrangement and guarantee fees	**10,017**	8,258
	101,554	82,783

6. PROFIT/(LOSS) BEFORE TAXATION

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

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Depreciation	**187,614**	185,656
Amortisation		
- land lease premium	**6,293**	6,294
- intangible assets	**8,113**	10,250
Operating lease charges		
- property rentals	**491,227**	498,387
Termination benefits (note)	**7,086**	44,640
Cost of inventories	**7,918,689**	8,347,148

Note : During the years ended 31 December 2017 and 2016, the Group continued to take efforts to streamline the organisation structure, which has resulted to the termination of certain employees' services.

7. INCOME TAX

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current tax - PRC		
Provision for the year	**53,657**	28,097
(Over) / under provision in respect of prior years	**(5,767)**	4,560
	47,890	32,657
Deferred tax		
Origination and reversal of temporary differences	**(1,678)**	(9,768)
	46,212	22,889

Income tax is calculated at the prevailing rates 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% (2016: 25%) on their assessable profits as determined in accordance with the CIT law.

Further, under the CIT law, 10% withholding tax is levied on foreign investor in respect of dividend distributions arising from a foreign invested enterprise's profit earned after 1 January 2008. As at 31 December 2017, 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 2017 and 2016, nor has any dividend been proposed since the reporting date.

9. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

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

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit/(loss) for the year attributable to equity shareholders of the Company	**179,040**	(537,587)

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.

(b) Diluted earnings/(loss) per share

The diluted earnings per share for the year ended 31 December 2017 was the same as the basic earnings 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 2016 was the same as the basic loss per share as there were no dilutive potential ordinary or convertible preference shares outstanding during the year.

10. GOODWILL

	As at 31 December	
	2017	2016
	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)**	(51,004)
Impairment losses	**-**	(257,526)
At 31 December	**(308,530)**	(308,530)
Carrying amount:		
At 31 December	**2,654,252**	2,654,252

11. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**80,333**	86,498
Rental deposit	**125,547**	117,602
Value-added tax recoverable	**114,908**	137,940
Other debtors	**62,514**	59,817
Amounts due from related companies	**465,782**	387,206
Derivative financial assets (note 12)	**-**	41,239
	849,084	830,302

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.

The ageing analysis of trade receivables due from third parties and related companies at the end of the reporting period, 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	
	2017	2016
	RMB'000	*RMB'000*
Within 30 days	**177,742**	174,641
31 to 60 days	**59,646**	54,597
61 to 90 days	**58,942**	50,928
Over 90 days (note)	**148,059**	110,948
	444,389	391,114

Note: Subsequent to 31 December 2017, the Group has received RMB158,850,000 (2016: RMB89,300,000) trade receivables due from related companies, of which RMB12,305,000 was included in 61 to 90 days category and RMB146,545,000 was included in over 90 days category in the above ageing analysis.

12. TRADE AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Notes payable	**97,668**	128,369
Trade creditors	**2,209,069**	2,374,897
Advanced receipts from customers	**396,141**	458,165
Construction costs payable	**266,881**	162,181
Other creditors and accrued charges	**604,255**	621,513
Amounts due to related companies	**171,903**	140,419
Derivative financial liabilities	**40,084**	-
	3,786,001	3,885,544

Included in the Group's trade and other payables were trade creditors and notes payable of RMB2,306,737,000 (2016: RMB2,503,266,000) with the following ageing analysis, based on the invoice date as at the end of reporting period:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Uninvoiced purchases	**877,391**	1,008,634
Within 30 days	**1,073,575**	1,149,138
31 to 60 days	**180,619**	98,280
61 to 90 days	**32,394**	52,861
More than 90 days	**142,758**	194,353
	2,306,737	2,503,266

At 31 December 2017, the Group had a USD non-delivered forward foreign exchange contract with a notional amount of USD139,770,000 (2016: USD139,770,000). At 31 December 2017, the fair value of the derivative financial liabilities in respect of this forward foreign exchange contract was RMB40,084,000 (2016: derivative financial assets of RMB41,239,000). The forward foreign exchange contract has a maturity of less than one year after the end of the reporting period, and the amount is expected to be recovered within one year.

13. BANK LOANS AND OVERDRAFTS

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Bank loans	**229,946**	204,900
Bank overdrafts	**-**	18,000
	229,946	222,900

As at 31 December 2017, the Group has drawn down bank loans of RMB229,946,000 (2016: RMB204,900,000), bearing interest at six-month rate of People's Bank of China ("PBOC Rate") multiplied by 1.20, being 5.22% per annum (2016: bearing interest at six to twelve-month PBOC Rate multiplied by 1.10 to 1.13, being 4.35% to 4.92% per annum) or bearing fixed interest ranging from 4.70% to 5.22% per annum (2016: nil).

14. LOANS FROM CONTROLLING SHAREHOLDER

At 31 December 2017, the Group has borrowed floating rate loans of USD139,770,000 (equivalent to RMB913,009,000) (2016 : USD139,770,000 (equivalent to RMB971,877,000)) from its controlling shareholder, bearing interest at three-month London Interbank Offered Rate ("LIBOR") plus 4.50% to 5.65% per annum. The loans from controlling shareholder are unsecured and repayable in December 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW
The Group recorded a net profit attributable to equity shareholders of the Company for the year ended 31 December 2017 (the "Reporting Period") of RMB179.0 million (2016: loss of RMB537.6 million).

Revenue fell by RMB430.5 million or 4.3% to RMB9,655.2 million. The reduction was due to revenue contributed by seven new hypermarkets and one neighbourhood store opened in 2017 being insufficient to offset the 8.0% reduction in same store sales, which was a result of the continued easing of the economy and the intensified competition from online retailers. In addition, the business integration of online and offline accelerated in 2017 and several new forms of retail stores were have emerged in the market, giving customers more choices and increasing competition. All merchandise categories, except fresh food, recorded a reduction in sales as compared to last year with apparel and electronic appliances being the most affected categories, recording a 17.7% and 18.0% reduction respectively.

Gross profit margin was 18.0% of sales (2016: 17.2%), although gross profit reduced by RMB2.0 million or 0.1%. Gross profit margin consists of front and back margin: front margin is sales minus direct cost of sales, while back margin represents income from suppliers such as discounts and allowances. Front margin improved by 0.5 percentage point to 9.0% and back margin up 0.3 percentage point from 8.7% to 9.0%. The improvement in gross profit margin was mainly the result of reduction of low margin sales. The front margin amount, despite the 4.3% drop in sales, was up RMB5.2 million as compared to last year. The drop in sales led to lower volume rebates received from suppliers.

Other revenue and other net loss was RMB563.8 million or 5.8% of sales (2016: RMB124.1 million or 1.2% of sales), comprised mainly lease income, being income received from the leasing of store space. An impairment loss of goodwill, intangible assets and property, plant and equipment in the amount of RMB351.2 million was recorded in 2016. Lease income increased by RMB41.7 million to RMB522.8 million as a result of contribution from the seven new hypermarkets and one neighbourhood store which were opened during the Reporting Period and higher rental charged upon lease renewal. An exchange gain of RMB73.0 million as a result of appreciation in RMB/US dollars exchange rate of over 5.8% during the year was recorded against our US dollars ("USD") borrowing; however, such gain was offset by the loss from the USD forward foreign exchange contract of approximately RMB103.7 million. The USD forward foreign exchange contract matures on 23 July 2018.

Distribution and store operating costs was RMB1,707.1 million or 17.7% of sales (2016: RMB1,892.0 million or 18.8% of sales). It comprised mainly personnel expenses, rental, utilities and depreciation and amortization for a total of RMB1,520.9 million, representing 15.8% of sales. Personnel expenses reduced by approximately RMB67.6 million despite the opening of seven new hypermarkets and one neighbourhood store and an annual increase in statutory minimum wages. Rental expenses and tax paid reduced by RMB44.2 million due to the VAT tax reform in May 2016. Overall, the significant reduction in total distribution and store operating costs amounting to RMB184.9 million was a result of a continued refining of the Group's 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 RMB266.4 million or 2.8% of sales as compared to RMB402.5 million or 4.0% of sales in 2016. It mainly consisted of personnel expenses of RMB213.0 million, depreciation and amortization charge of RMB13.0 million, rental of RMB17.3 million and professional fee of RMB8.5 million. The reduction was mainly from the RMB91.0 million reduction in personnel expenses, largely the result of the continued refinement of organisation structure and improvement in productivity and work efficiency in our administrative functions. A compensation payment of RMB6.4 million was made during the Reporting Period relating to the organisation restructuring, as compared to RMB40.1 million in 2016.

Financial costs was RMB101.6 million, or 1.1% of sales, representing an increase of RMB18.8 million from last year.

Income tax was RMB46.2 million (2016: RMB22.9 million).

Net profit attributable to equity shareholders of the Company was RMB179.0 million (2016: loss of RMB537.6 million including an impairment loss of goodwill, intangible assets and property, plant and equipment in the amount of RMB351.2 million). The significant turnaround was largely due to the reduction in distribution and store operating costs of RMB184.9 million and administrative expenses of RMB136.1 million.

Capital structure

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

Liquidity and finance resources

During the Reporting Period, the Group's sources of fund were primarily from operating activities and loans from the controlling shareholder and banking facilities. The reduction in net cash and cash equivalents was mainly due to the cash generated from operation and additional bank borrowing being less than the capital expenditure payments and repayment of bank loans and interest. However, we expect that we will continue to have sufficient cash to meet our business needs.

	For the year ended 31 December	
	2017	2016
Cash and cash equivalents (RMB million)	**166.1**	204.9
Loans from controlling shareholder, bank loans, overdrafts and other loans (RMB million)	**1,186.3**	1,241.2
Net cash (outflow) / inflow after effect of foreign exchange rate changes (RMB million)	**(20.8)**	21.1
Current ratio (x)	**0.44**	0.56
Quick ratio (x)	**0.21**	0.26
Gearing ratio (x) (defined as Loans from controlling shareholder, bank loans, overdrafts and other loans divided by total equity)	**0.70**	0.82

During the Reporting Period, bank loans bore interest at six-month PBOC Rate multiplied by 1.20, being 5.22% per annum, or bear fixed interest ranging from 4.70% to 5.22% per annum. The loan from controlling shareholder bore interest at three-month LIBOR plus a margin, which during the Reporting Period varied between 4.50% per annum to 5.15% per annum.

Foreign currency exposure
The Directors consider that as all of the Group's retail operations are 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 shareholder and other loans which are denominated in USD. The Company entered into USD forward foreign exchange contracts. As at 31 December 2017, one contract with a notional amount of USD139.8 million which will expire on 23 July 2018 was outstanding. A loss of RMB103.7 million was recorded as of 31 December 2017 from these USD forward foreign exchange contracts as a result of the appreciation in RMB against USD. The Group did not enter into derivative transactions for speculative purposes during the Reporting Period.

Employees, training and remuneration policy
The Group employed approximately 11,870 employees as at 31 December 2017, of which approximately 1,185 were head office staff and approximately 10,685 were store employees. The Group remunerates its employees based on their performance and experience at the prevailing market remuneration levels. Other employee benefits include insurance and medical cover, and subsidised training programs.

BUSINESS REVIEW
Store network
During the Reporting Period, the Group opened seven new hypermarkets, of which four were located in third and fourth tier cities of Guangdong Province, two in Hunan Province and one in Shaanxi Province. The Group also opened a neighbourhood store in Beijing. The eight new stores brought to us an additional total sales floor of approximately 43,250 square meters. Including a new store which was opened in Xian in January 2018, the Group currently has a network of 70 stores with a total sales floor of approximately 525,000 square meters. The Group also operates two shopping centres, one in Shantou and one in Xian. Of the 70 stores, approximately 56% are located in southern China, 29% in eastern China and the remaining in cities, for example Beijing, Xian and Zhengzhou.

Optimisation of merchandise, sales space and enhanced relationship with suppliers
During the Reporting Period, the Group continued to review and enhance its merchandise mix and offerings. We continued to expand our direct sourcing capabilities and identify more product supply origins. More direct purchases for fresh food from overseas such as lobsters from Boston and cherries from Chile were made, providing our customers with better product range and at lower prices by eliminating middlemen and agents. In addition, the Group continued to invest in quality control to ensure freshness and food safety and strictly adhere to the laws and regulations of food and production safety.

The Group continued to regularly review its inventory level, in particular of slow-moving items, and strengthen inventory management, such as sale forecast and stock clearance after a tab promotion ends. 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. During the Reporting Period, the Group had 42 housebrand SKUs and plan to increase the SKUs to 200 in the year 2018.

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 imported products directly from overseas vendors. 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 is now allocated to fresh products and mother and baby care sections as a wider range of higher quality products were brought in to satisfy the growing demand while sales space for electronic appliances and apparel has been reduced. Furthermore, to optimise the operation structure and increase income, the self-operated space of some stores had been reduced to make room for larger lease areas. A bigger lease area allowed us to create a community shopping environment by bringing in large-scale tenants such as cinema and gym, and community supporting service merchants. We completed the reallocation of space and upgrades in 17 stores during the Reporting Period.

The Group continued to adopt the data-based approach for supplier selection and procurement. The Group selected suppliers in an open, fair and transparent manner and formed strategic alliance with the suppliers to carry out monitoring and assessment, so as to keep abreast with market trends and improve sales by bringing in new products. Meanwhile, the Group strictly performed its obligations under contracts and offered promotional display of products, gaining wide recognition among the suppliers. In a survey "Advantage Report Mirror" carried out by the Advantage Group International Inc., which interviewed over 130 major suppliers in China on their perceptions of 12 major nationwide and 32 regional retail operators in areas such as category/business development, logistics and retail execution, Lotus ranked 6th among the nationwide category and moved one place up from 2016. The Group continued to work closely with our suppliers. A vendor conference was held in May 2017 to celebrate the Group's 20th anniversary, to show our appreciation to all of the suppliers who had supported us over the years and to discuss products and industry trends going forward. Our vendor service team continued to provide high quality service to our vendors through designated office and meeting space to receive and address any enquiry from the vendors. To further enhance our service level, another invoice processing centre was set up in Shanghai with the objective to expedite invoice processing time and improve response time to handle suppliers' enquiry.

Improvement of operation and system efficiency

The Group continued to optimise the use of systems and tools to improve operating efficiency. We carried out a comprehensive review of the working conditions of our equipment in stores, focusing on the replacement of high energy consumption, high maintenance aging equipment and facilities to save energy and improve operating efficiency. We also installed time- or voice- controlled lights to reduce energy consumption.

We continued to enhance our LOTUS-GO shopping app to integrate the online and offline business. Lotus-GO app was a self-developed application, allowing customers to scan the barcode of the products in store which they want to buy and make payment at designated LOTUS-GO paying machine instead of using the traditional cashier counters. In addition, the application provides the latest information on products and promotion activities. The membership card is also linked to the application, saving app user the needs to carry a membership card with them during store visits. Customers can also place the order on the app and they can choose self-pick up or home delivery. Currently, this application is available to both of our customers in southern and western China.

The Group continued to develop integrated data analysis to understand business trends, performance of a particular promotion activity, customer preferences and buying behaviours, in order to help develop further tailor-made marketing activities, optimise merchandise assortment and improve overall efficiency.

During the Reporting Period, the Group completed the upgrade of the E-contract system, enabling the data on the e-contract to be shared with the vendor management system. This helped remove the redundancy for duplicate entry and eliminate human error in data-input and improve efficiency.

The Group continued to review work process and procedures both at store and head office level in order to minimise redundancy and eliminate unproductive practices.

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 improve functionality and efficiency. During the Reporting Period, the Group continued to strengthen its supply chain process and procedures and implemented upgraded tools and equipment to improve efficiency and lower human errors. The Group was also recognised by the China Food Cold Chain Association for having a comprehensive supply chain network, top of class and efficient service system and an outstanding workforce.

During the Reporting Period, as the Group stepped up its store expansion in western China, to further strengthen its nationwide logistic network by opening two new distribution centres in Hunan and Xian and relocating the distribution centre in Guangzhou to a bigger site to cater for the increasing volume of goods handled.

Strengthening of customer satisfaction and enhancement of brand awareness

During the Reporting Period, the Group continued to focus on traditional poster marketing and differentiated marketing, carefully planned and organised festival marketing, themed marketing, and other large-scale marketing and promoting activities. We continued to raise awareness of women's welfare through our widely recognised "Spring Pink" theme and the Group continued our very successful "50% off thanks-giving activity" throughout the year. The Group also held a couple of "midnight bonanza" in the Shanghai region to further boost sales.

We also applied new media technology such as "wechat public number" and "wechat moments" to create neighbourhood communication groups for customers located within 5km radius of a store. Promotion news and coupons are sent to these groups periodically to raise brand awareness and increase sales.

Our performance depends on our ability to attract and retain customers and to serve their demand. We continued to make sure our customer service centre in each store and also our call centres operate effectively and that there is sufficient capacity to handle volumes. In addition, we also conducted periodic focus group surveys to assess customer opinions and satisfaction levels to ensure that our staff remained 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. In 2017, merchandise sold to the retail stores owned and operated by WSL subsidiaries amounted to approximately RMB653.6 million or 6.8% of Group sales (2016: RMB749.1 million or 7.4%). Prices offered to WSL were determined based on prevailing market prices and were no less favourable than those available to the Group from independent third parties.

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

China economy has entered into the "new normal" stage of development marked by stable growth. The future focus would be on expanding the total market on a moderate scale while reforming the supply structure and improving the quality and efficiency of the supply system. Domestic demand expansion and consumption upgrade will act as strong support for the future growth of the consumer retail industry.

We expect 2018 to be another challenging year but we are looking into the future with confidence. As the Group plans to step up its network expansion, it is very important for us to continue to remain very diligent in the selection of new store location to maintain quality and profitability. The recent acceleration of the business integration of online and offline demonstrates traditional brick and mortar stores are as important as ever and shopping is for many people a pleasurable experience that cannot be replicated online. We will therefore continue to improve our service level. At the same time, it is also important for us to develop different forms to cater for the customers' different and evolving needs. As a result, we are actively looking into the development of smaller sized retail formats. We will continue head office restructuring including streamlining the administrative process to reduce office overheads and headcounts. We are also continuing negotiations with a number of landlords to restructure the rental payment structure. We are optimistic that in the absence of unforeseen circumstances, we can build on the solid foundation created in 2017 and deliver another satisfactory performance in 2018.

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, 23 February 2018

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.