C.P. Lotus Corporation
卜蜂蓮花有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00121)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the "Board") of C.P. Lotus Corporation (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2016 together with the comparative figures in 2015 were as follows:

Consolidated Statement of Profit or Loss

		Unaudited Six months ended 30 June	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**5,320,000**	5,496,236
Cost of sales		**(4,426,901)**	(4,579,664)
Gross profit		**893,099**	916,572
Other revenue	*4*	**276,726**	252,726
Other net loss	*5*	**(38,847)**	(3,321)
Distribution and store operating costs		**(976,578)**	(929,952)
Administrative expenses		**(174,114)**	(160,019)
(Loss)/profit from operations		**(19,714)**	76,006
Finance costs	*6*	**(37,172)**	(36,990)
(Loss)/profit before taxation	*7*	**(56,886)**	39,016
Income tax	*8*	**(6,988)**	(6,106)
(Loss)/profit for the period		**(63,874)**	32,910

Consolidated Statement of Profit or Loss (Continued)

		Unaudited Six months ended 30 June	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
Attributable to:			
Equity shareholders of the Company		**(63,869)**	32,895
Non-controlling interests		**(5)**	15
(Loss)/profit for the period		**(63,874)**	32,910
(Loss)/profit per share			
- Basic	*10*	**(0.29) RMB cent**	0.15 RMB cent
- Diluted		**(0.29) RMB cent**	0.15 RMB cent

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Unaudited Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
(Loss)/profit for the period	**(63,874)**	32,910
Other comprehensive income for the period (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")	**1,811**	475
Total comprehensive income for the period	**(62,063)**	33,385
Attributable to:		
Equity shareholders of the Company	**(62,058)**	33,370
Non-controlling interests	**(5)**	15
Total comprehensive income for the period	**(62,063)**	33,385

Consolidated Statement of Financial Position

	Notes	**Unaudited 30 June 2016 *RMB'000***	Audited 31 December 2015 *RMB'000*
Non-current assets			
Property, plant and equipment		**1,653,768**	1,661,887
Interests in leasehold land held for own use under operating leases		**132,211**	135,358
		1,785,979	1,797,245
Intangible assets		**161,063**	166,481
Goodwill		**2,911,778**	2,911,778
Prepaid lease payments for premises		**17,995**	20,852
Other long-term prepayments		**2,454**	3,390
Deferred tax assets		**31,262**	31,262
		4,910,531	4,931,008
Current assets			
Prepaid lease payments for premises		**12,845**	12,849
Inventories		**887,527**	1,221,436
Trade and other receivables	*11*	**888,684**	737,066
Pledged bank deposits		**75,695**	59,436
Cash and cash equivalents		**102,916**	165,842
		1,967,667	2,196,629
Assets classified as held for sale	*12*	**8,261**	-
		1,975,928	2,196,629
Current liabilities			
Trade and other payables	*13*	**3,717,880**	3,764,731
Bank loans	*14*	**927,538**	267,118
Other loans		**44,378**	43,500
Obligations under finance leases		**10,528**	9,895
Current taxation		**3,420**	20,402
Provisions		**1,101**	1,101
		4,704,845	4,106,747
Liabilities classified as held for sale	*12*	**4,537**	-
		4,709,382	4,106,747
Net current liabilities		**(2,733,454)**	(1,910,118)
Total assets less current liabilities		**2,177,077**	3,020,890
Non-current liabilities			
Bank loans	*14*	**-**	774,860
Obligations under finance leases		**148,326**	153,784
Deferred tax liabilities		**40,793**	42,225
		189,119	970,869
NET ASSETS		**1,987,958**	2,050,021
CAPITAL AND RESERVES			
Share capital		**405,726**	405,726
Reserves		**1,580,613**	1,642,671
Total equity attributable to equity shareholders of the Company		**1,986,339**	2,048,397
Non-controlling interests		**1,619**	1,624
TOTAL EQUITY		**1,987,958**	2,050,021

Notes to Interim Financial Statements

1. BASIS OF PREPARATION

The interim financial statements are unaudited and have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited.

The interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company and approved for issue by the Board of Directors on 20 August 2016.

The interim financial statements does not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the 2015 annual financial statements. The interim financial statements have been prepared in accordance with the same accounting policies in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 2.

As at 30 June 2016, the Group had net current liabilities of approximately RMB2,733.5 million. The Group's liability as at 30 June 2016 include bank loans of approximately RMB927.5 million granted under term loan facility agreements which expire on 31 December 2018 with instalment repayment scheduled during their term. The bank loans have been classified as current liabilities as at 30 June 2016 as the Company breached certain loan financial covenants as at that date.

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.

On 11 August 2016, the Company obtained a waiver from the banks in relation to the breach of financial covenants under the bank loan facility agreement as at 30 June 2016.

As disclosed in the 2015 annual financial statements, the Company has received a letter of support from its ultimate holding company, 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 the ultimate holding company will continue, and be able, to do so.

In view of the waiver granted by the banks and based on the Group's business plan and cash flow forecast and the letter of support provided by the ultimate holding company, the directors consider that the Group will have 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 interim financial statements have been prepared on a going concern basis.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards that are first effective for the current accounting period of the Group. The adoption has no significant impact on the Group's accounting policies, presentation, reported results and the financial position of the Group for the current accounting period and prior accounting periods. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. 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.

4. OTHER REVENUE

	Unaudited Six months ended 30 June **2016** ***RMB'000***	 2015 *RMB'000*
Leasing of store premises	**230,109**	212,591
Other promotion and services income	**38,029**	37,881
Interest income	**1,691**	2,160
Government grants (note)	**6,897**	94
	276,726	252,726

Note: Government grants represent subsidies received from local authorities.

5. OTHER NET LOSS

	Unaudited Six months ended 30 June **2016** ***RMB'000***	 2015 *RMB'000*
Net foreign exchange loss	**(25,243)**	(301)
Loss on the non-delivered forward exchange ("NDF") contracts	**(9,953)**	-
Net loss from store closure	**(1,680)**	-
Net loss on disposal of property, plant and equipment	**(1,971)**	(3,020)
	(38,847)	(3,321)

6. FINANCE COSTS

	Unaudited Six months ended 30 June **2016** ***RMB'000***	 2015 *RMB'000*
Interest on borrowings wholly-repayable within five years:		
- Bank loans	**27,282**	25,814
- Other loans	**472**	398
Finance charges on obligations under finance leases	**7,984**	8,754
Interest on issuance of bank accepted bills	**46**	44
Total interest expense on financial liabilities not at fair value through profit or loss	**35,784**	35,010
Loan arrangement, guarantee and other fees	**1,388**	1,980
	37,172	36,990

7. (LOSS)/PROFIT BEFORE TAXATION

The Group's (loss)/profit before taxation is arrived at after charging:

	Unaudited Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Depreciation	**95,058**	87,204
Amortisation		
- land lease premium	**3,147**	3,147
- intangible assets	**5,419**	5,419
Operating lease charges		
- property rental	**253,638**	237,556
Cost of inventories	**4,426,901**	4,579,664

8. INCOME TAX

	Unaudited Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Current tax – PRC		
Provision for the period	**8,420**	7,490
Deferred tax		
Origination and reversal of temporary differences	**(1,432)**	(1,384)
Taxation expense	**6,988**	6,106

Income tax is calculated at the rates prevailing in the relevant jurisdictions.

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits which were earned in or derived from Hong Kong during the period.

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.

9. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the period (Six months ended 30 June 2015: Nil).

10. (LOSS)/PROFIT PER SHARE

(a) Basic

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

	Unaudited Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
(Loss)/profit for the period attributable to equity shareholders of the Company	**(63,869)**	32,895

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	**-**	138,358,161
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**	21,845,439,673

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

(b) Diluted

The diluted loss per share for the six months ended 30 June 2016 is the same as the basic loss per share as there were no diluted potential ordinary shares of the Company for the period.

The calculation of diluted earnings per share for the six months ended 30 June 2015 was based on the profit attributable to equity shareholders of the Company of RMB32,895,000 and the diluted weighted average number of shares of 22,037,365,948, being the weighted average number of shares in issue of 21,845,439,673 for calculating the basic earnings per share, plus potential dilutive effect caused by the share options of 191,926,275 shares, assuming they were exercised at the beginning of the prior reporting period.

11. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2016	Audited 31 December 2015
	RMB'000	*RMB'000*
Trade receivables	**45,867**	38,767
Other receivables	**301,903**	302,881
Derivative financial instruments	**67,190**	75,770
Amounts due from related companies	**473,724**	319,648
	888,684	737,066

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

At 30 June 2016, NDF contracts with net notional amount of USD141,723,000 are recognised as "derivative financial instruments" at its net fair value of RMB67,190,000 (2015: RMB75,770,000). The NDF contracts have maturity of less than one year after the end of the reporting period, and the amount is expected to be recovered within one year.

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

	Unaudited 30 June 2016	Audited 31 December 2015
	RMB'000	*RMB'000*
Within 30 days	**107,544**	144,177
31 to 60 days	**72,149**	94,117
61 to 90 days (note)	**68,215**	479
Over 90 days (note)	**168,774**	2,753
	416,682	241,526

Note: Subsequent to the end of the reporting period, RMB199,000,000 trade receivables due from related companies have been received, of which RMB32,735,000 was included in 61 to 90 days category and RMB166,265,000 was included in over 90 days category in the above ageing analysis.

12. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

(a) On 28 April 2016, Shanghai Lianyuan Logistics Co., Ltd. ("Lianyuan Logistics"), 上海喜上屋餐飲管理有限公司("SH Xi Shang Wu") and C.P. Lotus Corporate Management Co., Ltd. ("CPL Corporate Management") entered into the equity transfer agreement with Chia Tai Land Company Limited ("CT Land"), a related company of the Company, whereby Lianyuan Logistics, SH Xi Shang Wu and CPL Corporate Management agreed to transfer all of their respective equity interests in Shanghai CP Xi Duo Wu Foods Co., Ltd. ("CP Xi Duo Wu") to CT Land at the total consideration of RMB8,125,000.

Lianyuan Logistics and CPL Corporate Management are indirect wholly-owned subsidiaries of the Company, which owns 75% and 5% equity interests in CP Xi Duo Wu respectively. The consideration to transfer their interests in CP Xi Duo Wu is RMB6,094,000 and RMB406,000 respectively.

SH Xi Shang Wu, a company established in the PRC, owns 20% equity interest in CP Xi Duo Wu. The consideration to transfer its interest in CP Xi Duo Wu is RMB1,625,000.

For the six months ended 30 June 2016, CP Xi Duo Wu contributed approximately RMB676,000 (six months ended 30 June 2015 : RMB861,000) to the Group's revenue and accounted for approximately RMB46,000 of the Group's net loss (six months ended 30 June 2015 : net profit of RMB75,000).

The disposal is still not completed up to the date of this announcement. No significant gain/loss is expected to arise on this transaction.

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) On 24 May 2016, Xian Lotus Supermarket Chain Store Co., Ltd. ("Xian Lotus"), an indirect wholly-owned subsidiary of the Company, entered into the equity transfer agreement with an independent third party, whereby Xian Lotus agreed to transfer 100% equity interests in Xian Delian Trading Co., Ltd. ("Xian Delian") at a total consideration of RMB1,011,000.

For the six months ended 30 June 2016, Xian Delian contributed approximately RMB4,470,000 (six months ended 30 June 2015 : RMB8,390,000) to the Group's revenue and accounted for approximately RMB385,000 of the Group's net loss (six months ended 30 June 2015 : net profit of RMB321,000).

This disposal was completed on 6 July 2016 and gain on this disposal was RMB94,000.

This transaction is exempt for the disclosure requirements under Chapter 14 of the Listing Rules.

12. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (CONTINUED)

Major class of assets classified as held for sale for CP Xi Duo Wu and Xian Delian are as below:-

		Unaudited 30 June 2016	
	CP Xi Duo Wu	**Xian Delian**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Property, plant and equipment	**11**	**20**	**31**
Inventories	**1,905**	**591**	**2,496**
Cash and cash equivalents	**3,664**	**612**	**4,276**
Other current assets	**1,361**	**97**	**1,458**
	6,941	**1,320**	**8,261**

Major class of liabilities classified as held for sale for CP Xi Duo Wu and Xian Delian are as below:-

		Unaudited 30 June 2016	
	CP Xi Duo Wu	**Xian Delian**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Other current liabilities	**4,486**	**51**	**4,537**

13. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2016	Audited 31 December 2015
	RMB'000	*RMB'000*
Notes payable	**157,922**	146,618
Trade creditors	**2,357,484**	2,322,090
Advance receipts from customers	**402,769**	481,291
Other creditors and accrued charges	**661,364**	675,167
Amounts due to related companies	**138,341**	139,565
	3,717,880	3,764,731

13. TRADE AND OTHER PAYABLES (CONTINUED)

Included in the Group's trade and other payables are trade creditors and notes payable of approximately RMB2,515,406,000 (At 31 December 2015: approximately RMB2,468,708,000) with the following ageing analysis:

	Unaudited 30 June 2016	Audited 31 December 2015
	RMB'000	*RMB'000*
Uninvoiced purchases	**710,353**	996,750
Within 30 days	**1,479,146**	1,220,070
31 to 60 days	**157,296**	83,436
61 to 90 days	**75,586**	55,535
More than 90 days	**93,025**	112,917
	2,515,406	2,468,708

14. BANK LOANS

At 30 June 2016, the bank loans were repayable as follows:

	Unaudited 30 June 2016	Audited 31 December 2015
	RMB'000	*RMB'000*
Within 1 year	**927,538**	267,118
After 1 year but within 2 years	**-**	322,371
After 2 years but within 5 years	**-**	452,489
	-	774,860
	927,538	1,041,978

At 30 June 2016, the Group's bank loans are secured/guaranteed as follows:

	Unaudited 30 June 2016	Audited 31 December 2015
	RMB'000	*RMB'000*
Secured bank loans		
- Secured by assets held by the Group	**927,538**	1,041,978

14. BANK LOANS (CONTINUED)

At 30 June 2016, the Group has drawn down floating rate bank loans of USD139,770,000 (equivalent to RMB927,538,000) (at 31 December 2015: USD160,320,000 (equivalent to RMB1,041,978,000)), bearing interest at three-month London Interbank Offered Rate ("LIBOR") plus 3.5% per annum, which are secured by the share capital of certain of its subsidiaries. These bank loans were drawn from term loan facilities which expire on 31 December 2018 with instalment repayments scheduled during the term of the facilities. The bank loans in the amount of RMB626,590,000 (equivalent to USD94,420,000) have been classified as current liabilities as at 30 June 2016 as the Company breached certain loan financial covenants as at that date. A waiver has since been obtained and such amount has subsequently been re-classified in the Company's financial statements as non-current liabilities.

15. COMPARATIVE FIGURES

Certain comparative figures were reclassified to conform with the current accounting period presentation.

MANAGEMENT’S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded a net loss attributable to equity shareholders of the Company for the six months ended 30 June 2016 of RMB63.9 million (2015: profit of RMB32.9 million).

Revenue decreased by RMB176.2 million compared to the corresponding period in 2015, or 3.2%, to RMB5,320.0 million. The decrease was mainly due to the decline in same store sales with a negative growth of 6.5%, which was cushioned to some extent by the revenue generated from the five new stores opened in the second half of 2015. Sales in non-food items continued to underperform. Sales from apparel, electronics, hardline and personal care reduced by approximately RMB190.6 million or 3.6% of sales, while sales in fresh food increased by 2.6% at the expense of a lower margin.

Gross profit margin was 16.8% of sales (2015: 16.7%), a reduction of RMB23.5 million. Gross profit 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. Back margin amount remained stable while front margin amount dropped RMB23.2 million.

Other revenue and other net loss was RMB237.9 million or 4.5% of sales (2015: RMB249.4 million or 4.5% of sales). This comprised mainly lease income received from the leasing of store space. Lease income increased by RMB17.5 million to RMB230.1 million or 4.3% of sales as a result of contribution from the five new stores and a shopping mall opened during the second half in 2015. An exchange loss of RMB25.2 million was recorded primarily caused by our US dollars (“USD”) borrowing and a loss of RMB10.0 million from the USD NDF contract bought on 20 July 2015 was also recorded. The contract expired on 22 July 2016. Three new contracts with total notional amount of USD139.8 million, being the current outstanding balance of the bank loan, were entered into on 20 July 2016 and 21 July 2016 respectively.

Distribution and store operating costs was RMB976.6 million or 18.4% of sales (2015: RMB930.0 million or 16.9% of sales). It comprised mainly rental, personnel expenses, utilities and depreciation and amortisation, representing a total of RMB827.7 million or 5.0%, 7.2%, 1.6% and 1.8% of sales respectively. The increase in expenses was mainly due to the opening of the five new stores and a shopping mall in the second half of 2015.

Administrative expenses was RMB174.1 million or 3.3% of sales compared to RMB160.0 million or 2.9% of sales in 2015. It mainly included personnel expenses of RMB134.4 million, depreciation and amortisation charge of RMB8.9 million, rental of RMB8.6 million and professional fee of RMB4.3 million.

Financial costs were RMB37.2 million or 0.7% of sales (2015: RMB37.0 million or 0.7% of sales).

Capital expenditure was RMB89.2 million for the period under review, mainly in respect of payment for purchase of equipment and machinery for the new stores and store renovations.

Capital Structure

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

Liquidity and financial resources

During the period under review, the Group's sources of funds were primarily operating activities and bank borrowings. The decrease in net cash and cash equivalents was mainly due to CAPEX payments and repayment of bank loans and interest exceeding the cash generated from operation. On 11 August 2016, the Company obtained a waiver from the banks in relation to a breach of financial covenants under the bank loan facility agreement.

	30 June 2016	31 December 2015
Cash and cash equivalents (RMB million)	**102.9**	165.8
Bank and other loans (RMB million)	**971.9**	1,085.5
Current ratio (x)	**0.42**	0.53
Quick ratio (x)	**0.23**	0.24
Gearing ratio (x) (defined as bank and other loans divided by total equity)	**0.49**	0.53

	Six months ended 30 June	
	2016	2015
Net cash (outflow) / inflow after effect of foreign exchange rate changes (RMB million)	**(62.9)**	47.9

During the period under review, bank and other loans of the Group were denominated in USD, and bank loans bore interest at three-month LIBOR plus 3.5% per annum and other loan bore interest at three-month LIBOR plus 1.5% per annum. Bank borrowing of over one year had been reclassified as current liabilities as a result of a breach of financial covenants as at 30 June 2016 (a waiver has since been obtained).

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 operations.

The Group is however exposed to foreign currency risk from bank and other loans which are denominated in currencies other than renminbi. To manage the exposure to currency risk in respect of its USD borrowings, the Group entered into a USD NDF contract on 20 July 2015 which expired on 22 July 2016. The Company entered into three new contracts with total notional amount of USD139.8 million on 20 July 2016 and 21 July 2016 respectively. The Group does not enter into derivative transactions for speculative purposes.

Charges on assets

As at 30 June 2016, the Group had outstanding the following charges, which had all been created in favour of Bangkok Bank Public Company Limited, Hong Kong Branch, as security agent for the USD200.0 million syndicated term loan facility which will mature on 31 December 2018, with instalment payments scheduled during its term:

(i) share charge by the Company over all shares of its subsidiary, Prime Global Retail Management & Advisory Limited;

(ii) equitable share mortgage by the Company over all shares of its subsidiaries, Chia Tai Trading (Beijing) Company Limited, Chia Tai Trading (Qingdao) Company Limited, Chia Tai Trading (Xian) Company Limited, Chia Tai Trading (Zhengzhou) Company Limited, Chia Tai Distribution Investment Company Limited, Yangtze Supermarket Investment Co. Limited and Union Growth Investments Limited ("Union Growth");

(iii) equitable share mortgage by Union Growth over all shares of its subsidiary, Lotus-CPF (PRC) Investment Company Limited ("Lotus-CPF"), and 10,821,033 shares of Chia Tai-Lotus (Guangdong) Investment Co. Ltd. ("CT-Lotus"); and

(iv) equitable share mortgage by Lotus-CPF over 97,389,312 shares of its subsidiary, CT-Lotus.

As at 30 June 2016, the total principal outstanding was USD139.8 million.

Employees, training and remuneration policy

The Group employed approximately 13,450 employees as at 30 June 2016, of which approximately 1,460 were head office staff and approximately 11,990 were store employees. The Group remunerates its employees based on their performance and experience and prevailing market rate. Other employee benefits include insurance and medical cover, and subsidised training programs.

BUSINESS REVIEW

Store network

The Group owns and operates a total of 60 retail stores including 59 hypermarkets and one supermarket with a total sales area of approximately 500,000 square meters. The Group also operates a shopping mall in Shantou. During the period under review, we opened a new store in the city of Yangjiang, making it the 30th Lotus store in Guangdong Province; although our Hefei store was closed in April 2016 as a result of the redevelopment of the property by the landlord, the store is expected to be reopened in October 2018.

Optimisation of merchandise and enhanced relationship with suppliers

During the period under review, the Group continued its efforts to enhance the merchandise mix and offerings. The Group continued to expand its direct sourcing capabilities and more direct purchases of vegetables and fruit were made. Direct sourcing not only lowers the prices but also allow the Group better control of the quality of products. As consumer's disposal income continues to rise and to meet the demand for high quality imported food, the Group continued to bring in a wider range of imported products such as wine, beverages, snacks, health supplements, kitchenware and other groceries. In addition, our house brand team continued to work closely with the merchandise and marketing team to develop competitively priced house brand products and our target is to have house brand products in three categories by the end of the year.

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.

We continued to work closely with our suppliers. We held meetings with our major suppliers to discuss the merchandise and marketing strategy for our "50% off Thanks Giving" activities, and our vendor service team continued to provide high quality service to our vendors.

Improvement of operation and system efficiency

We continued to make use of systems and tools to improve operating efficiency. We continued to change our price labelling to electronic labelling which allows instant price changes to reflect the level of freshness of the products and thus reducing shrinkage.

We continued to enhance the features/functions of our vendor platform system. The "invoice-tracking" system which we developed with a delivery company went live during the period under review. Both our suppliers and our operating subsidiaries are now able to track the status of the invoices online.

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

Optimisation of supply chain management

The Group continued to strengthen its supply chain process and procedures. During the period 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

During the period under review, the Group held three "50% off Thanks Giving" activities with a number of carefully selected products sold at a 50% discount and certain other products also sold at a hefty discount. Customers were able to enjoy very competitive prices. We continued to raise awareness of women's welfare through our widely recognised "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 and play the shake-shake game. We also cooperated with Deslon and Disney and our customers were able to use the coupons earned to redeem knifes and rucksacks respectively.

People Development

During the period under review, the Group completed the evaluation of the head office organisation structure. By simplifying the reporting hierarchy and optimisation of roles and functions, we were able to reduce the head count by approximately 4%.

To incentivise our employees, the Group launched the responsibility and authorisation system pilot project, linking the income of the store employees to the store performance, delegating authorities to the store management team, allowing them to make decisions according to the market situation, customer behaviours and competition. Currently, several stores are conducting the pilot test, which is expected to be rolled out to more stores in the future. Another incentive program is the "Jiren Foundation" which had given out its first award in April 2016 to reward and recognise outstanding performances.

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 period under review.

PROSPECT

The rest of the year remains very challenging. In response to the rapidly changing customer behaviours and the impact from online retailers, in particular in the Shanghai area, the Group has started the reallocation of sales space among different categories with major focus in the fresh category and this project will continue until we reach an optimal sales space structure. We will continue to expand our retail network and we expect to open four new stores by the end of the year. As always, we will continue to find ways to contain the cost increase pressure.

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 period except that the Chairman did not attend the annual general meeting held on 7 June 2016 due to other important business engagement, which deviated from code provision E.1.2.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors of the Company. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements.

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

During the 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, 20 August 2016

As at the date of this announcement, the Board comprises ten executive directors, namely Mr. Soopakij Chearavanont, Mr. Li Wen Hai, Mr. Narong Chearavanont, Mr. Chan Yiu-Cheong, Ed, Mr. Michael Ross, Mr. Yang Xiaoping, Mr. Meth Jiaravanont, Mr. Suphachai Chearavanont, Mr. Umroong Sanphasitvong and Mr. Piyawat Titasattavorakul, and five independent non-executive directors, namely Mr. Viroj Sangsnit, Mr. Songkitti Jaggabatara, Mr. Itthaporn Subhawong, Mr. Prasobsook Boondech and Mr. Cheng Yuk Wo.