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 2012

The board of directors (the "Board") of C.P. Lotus Corporation (the "Company") announces the consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2012 with comparative figures in 2011 were as follows:

Consolidated Statement of Comprehensive Income

		For the year ended 31 December	
		2012	2011
	Notes	***RMB'000***	*RMB'000*
Turnover	2	**10,677,425**	10,019,305
Cost of sales		**(8,914,309)**	(8,243,734)
Gross profit		**1,763,116**	1,775,571
Other revenue	3	**463,823**	377,557
Other net (loss)/income	3	**(35,783)**	17,162
Distribution and store operating costs		**(1,999,421)**	(1,657,151)
Administrative expenses		**(427,334)**	(328,766)
(Loss)/profit from operations		**(235,599)**	184,373
Finance costs	4	**(88,895)**	(149,687)
(Loss)/profit before taxation	5	**(324,494)**	34,686
Income tax	6	**(67,145)**	(10,926)
(Loss)/profit for the year		**(391,639)**	23,760

Consolidated Statement of Comprehensive Income (Continued)

	Notes	For the year ended 31 December 2012 RMB'000	2011 RMB'000
Other comprehensive income for the year (after tax and reclassification adjustments)			
Exchange differences on translation of financial statements of entities outside the People's Republic of China ("PRC")		**(1,222)**	37,062
Cash flow hedge:			
- Effective portion of changes in fair value		**-**	3,391
- Reclassified to profit or loss		**-**	3,343
		(1,222)	43,796
Total comprehensive income for the year		**(392,861)**	67,556
(Loss)/profit for the year attributable to:			
Equity shareholders of the Company		**(391,530)**	23,813
Non-controlling interests		**(109)**	(53)
		(391,639)	23,760
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		**(392,752)**	67,609
Non-controlling interests		**(109)**	(53)
		(392,861)	67,556
(Loss)/earnings per share	*8*		
- Basic		**(1.88) RMB cents**	0.16 RMB cent
- Diluted		**(1.88) RMB cents**	0.15 RMB cent

Consolidated Statement of Financial Position

	Notes	As at 31 December 2012 RMB'000	2011 RMB'000
Non-current assets			
Fixed assets			
- Property, plant and equipment		**1,682,541**	1,530,810
- Interests in leasehold land held for own use under operating leases		**154,240**	160,533
		1,836,781	1,691,343
Intangible assets		**219,180**	201,082
Goodwill	*9*	**3,154,278**	2,719,785
Prepaid lease payments for premises		**35,674**	6,000
Other long-term prepayments		**9,987**	7,342
Deferred tax assets		**65,112**	113,717
		5,321,012	4,739,269
Current assets			
Prepaid lease payments for premises		**8,944**	11,145
Inventories		**908,635**	1,177,056
Trade and other receivables	*10*	**847,944**	580,257
Pledged bank deposits		**214,831**	143,179
Cash and cash equivalents		**415,974**	242,380
		2,396,328	2,154,017
Assets classified as held for sale	*11*	**-**	15,927
		2,396,328	2,169,944
Current liabilities			
Trade and other payables	*12*	**3,935,625**	3,775,680
Bank loans	*13*	**1,258,192**	74,953
Other loans		**152,100**	117,093
Obligations under finance leases		**6,677**	6,052
Current taxation		**17,214**	18,899
Provisions	*14*	**56,331**	267
		5,426,139	3,992,944
Net current liabilities		**(3,029,811)**	(1,823,000)
Total assets less current liabilities		**2,291,201**	2,916,269
Non-current liabilities			
Bank loans	*13*	**-**	687,441
Obligations under finance leases		**180,430**	187,107
Deferred tax liabilities		**38,031**	39,236
		218,461	913,784
NET ASSETS		**2,072,740**	2,002,485
CAPITAL AND RESERVES			
Share capital		**386,424**	340,614
Reserves		**1,684,478**	1,659,924
Total equity attributable to equity shareholders of the Company		**2,070,902**	2,000,538
Non-controlling interests		**1,838**	1,947
TOTAL EQUITY		**2,072,740**	2,002,485

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 measurement

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial guarantees issued and derivative financial instruments are stated at their fair value.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

(c) Change in accounting policies

(i) Adoption of new Standards or Interpretations

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following development is relevant to the Group's financial statements.

- Amendments to HKFRS 7, Financial instruments: Disclosures – Transfers of financial assets

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

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

(ii) Voluntary changes – Change in inventory costing method

Previously, the Group calculated the cost of inventories located in the Group's hypermarket stores under the retail method, by reference to the retail selling price of goods less the average gross profit margins. During the year ended 31 December 2012, the Group adopted a new policy of calculating the cost of inventories, including inventories located in the hypermarket stores and distribution centres ("DCs"), using the moving weighted average cost method. The directors consider the new policy is more relevant and beneficial for monitoring the performance of each inventory unit.

The change in accounting policy has no material impact to the consolidated financial statements of the Group in prior years. Accordingly, no retrospective adjustment has been made to the consolidated financial statements of the Group for prior years.

2. TURNOVER AND SEGMENT INFORMATION

The principal activity of the Group is the operation of hypermarket stores in the PRC. Turnover 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 AND OTHER NET (LOSS)/INCOME

	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Other revenue		
Leasing of store premises	**369,396**	285,712
Other promotion and service income	**66,326**	70,572
Interest income	**8,494**	5,686
Government grants (note (i))	**19,607**	15,587
	463,823	377,557
Other net (loss)/income		
Net foreign exchange gain	**5,532**	20,407
Net (loss)/gain from store lease cancellations (note (ii))	**(21,014)**	978
Net loss on disposal of fixed assets	**(20,301)**	(4,223)
	(35,783)	17,162

notes:

(i) Government grants represent subsidies received from local authorities.

(ii) This represents the estimated losses to be incurred by the Group in relation to its early cancellation of leases for two new store operating projects and two Lotus Life Stations.

4. FINANCE COSTS

	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Finance costs:		
Interest on borrowings wholly repayable within five years:		
- Bank loans	**3,973**	86,397
- Other loans	**10,798**	11,397
Interest on bank loan repayable after five years	**46,092**	77
Finance charges on obligations under finance leases	**18,806**	19,359
Total interest expense on financial liabilities not at fair value through profit or loss	**79,669**	117,230
Interest-rate swaps: cash flow hedges, reclassified from equity	**-**	3,343
Loan arrangement and guarantee fees	**9,226**	29,114
	88,895	149,687

5. (LOSS)/PROFIT BEFORE TAXATION

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

	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**191,236**	181,753
Amortisation		
- land lease premium	**6,293**	6,294
- intangible assets	**13,152**	10,713
Cost of inventories	**8,914,309**	8,243,734

6. INCOME TAX

	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Current tax - PRC		
Provision for the year	**23,012**	20,473
Deferred tax		
Origination and reversal of temporary differences	**44,133**	(9,547)
Taxation expenses	**67,145**	10,926

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% (2011: 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 2012, the PRC subsidiaries of the Group had accumulated losses and therefore no deferred tax liabilities were recognised in this regard.

7. DIVIDENDS

No dividend was paid or proposed during the years ended 31 December 2012 and 2011, nor has any dividend been proposed since the reporting date.

8. (LOSS)/EARNINGS PER SHARE

(a) Basic

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

	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
(Loss)/profit for the year attributable to equity shareholders of the Company	**(391,530)**	23,813

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

	For the year ended 31 December	
	2012	2011
Number of ordinary shares in issue at 1 January	**9,184,414,410**	9,184,414,410
Effect of ordinary shares issued upon exercise of share options on 29 May 2012 (note (ii))	**362,141,376**	-
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
Effect of Series C convertible preference shares issued on 23 December 2011 (note (iii))	**3,673,765,764**	545,078,075
Effect of Series D convertible preference shares issued on 1 January 2012 (note (iv))	**2,211,382,609**	-
Total	**20,847,621,568**	15,145,409,894

notes:

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

(ii) On 29 May 2012, 610,800,660 ordinary shares of par value of HK$0.02 each were issued at a price of HK$0.0687 per share (equivalent to RMB0.0560 per share) to settle all the outstanding options granted on 6 June 2002. Net proceeds from the shares issued amounted to HK$41,962,000 (equivalent to RMB34,196,000) out of which HK$12,216,000 (equivalent RMB9,955,000) and HK$29,746,000 (equivalent RMB24,241,000) were recorded in share capital and share premium, respectively.

(iii) On 23 December 2011, 3,673,765,764 Series C convertible preference shares of par value of HK$0.02 each were issued at a price of HK$0.22 per share (equivalent to RMB0.18 per share) to the qualifying shareholders under an open offer. Net proceeds from the shares issued amounted to HK$805,056,000 (equivalent to RMB657,731,000) (after offsetting issuance costs of RMB2,592,000) out of which HK$73,475,000 (equivalent to RMB60,029,000) and HK$731,581,000 (equivalent to RMB597,702,000) were recorded in share capital and share premium, respectively.

(iv) On 1 January 2012, 2,211,382,609 Series D convertible preference shares of par value of HK$0.02 each were issued as consideration for the acquisition of subsidiaries as set out in Note 15. The fair value of the shares issued amounted to HK$529,073,000 (equivalent to RMB428,920,000) out of which HK$44,228,000 (equivalent to RMB35,855,000) and HK$484,845,000 (equivalent to RMB393,065,000) were recorded in share capital and share premium, respectively.

(b) Diluted

The diluted loss per share for the year ended 31 December 2012 is the same as the basic loss per share as all potential ordinary shares are anti-dilutive.

The calculation of the diluted earnings per share for the year ended 31 December 2011 is based on the following data:

	2011 *RMB'000*
Profit for the year attributable to equity shareholders of the Company (diluted)	23,813

The weighted average number of shares (diluted) for the year ended 31 December 2011 is calculated based on the following data:

	2011
Weighted average number of shares for the year ended 31 December	15,145,409,894
Effect of share options	1,009,597,522
Weighted average number of shares (diluted) for the year ended 31 December	16,155,007,416

9. GOODWILL

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Cost:		
As at 1 January	**2,770,789**	2,770,789
Additions	**434,493**	-
As at 31 December	**3,205,282**	2,770,789
Accumulated impairment losses:		
As at 1 January and 31 December	**(51,004)**	(51,004)
Carrying amount:		
As at 31 December	**3,154,278**	2,719,785

10. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Trade receivables, other receivables and deposits	**223,789**	221,331
Amounts due from related companies	**624,155**	358,926
	847,944	580,257

Sales to retail customers are mainly made in cash or via major credit cards.

Included in the Group’s trade and other receivables are trade debtors (net of allowance for bad and doubtful debts) with the following ageing analysis, based on invoice date, as of the end of the reporting period:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Current	**23,731**	24,235
1 to 30 days overdue	**4,708**	2,031
31 to 60 days overdue	**1,839**	1,261
61 to 90 days overdue	**1,805**	101
Over 90 days	**337**	643
	32,420	28,271

11. ASSETS CLASSIFIED AS HELD FOR SALE

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Property, plant and equipment	**-**	11,830
Inventories	**-**	2,248
Trade and other receivables	**-**	1,849
	-	15,927

On 2 September 2011, the Company entered into an agreement with Whole Sino Limited ("Whole Sino"), a wholly-owned subsidiary of the Group's ultimate holding company, to dispose of the supermarket business of Shanghai Lotus Supermarket Chain Store Co., Ltd. ("SLS") at the Madang Lu Store ("Madang Lu Store Business") at a consideration calculated as the sum of the book value of the fixed assets, the costs of inventories and other assets, less liabilities (if any), owned or held by SLS in relation to the Madang Lu Store Business, and not in any event to exceed RMB22,000,000. Accordingly, the assets disposed to Whole Sino have been separately classified in the consolidated statement of financial position as at 31 December 2011. The disposal was completed on 1 March 2012 at a total consideration of RMB21,000,000. No gain or loss arose from this transaction.

12. TRADE AND OTHER PAYABLES

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Notes payable	**360,327**	205,909
Creditors and accrued charges	**3,240,440**	3,216,285
Amounts due to related companies	**334,858**	350,211
Derivative cash flow hedging instruments	**-**	3,275
	3,935,625	3,775,680

Included in the Group's trade and other payables are trade creditors and notes payable of RMB2,651,635,000 (2011: RMB2,597,204,000) with the following ageing analysis:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Uninvoiced purchases	**920,124**	1,009,128
Within 30 days of invoice date	**1,668,810**	1,537,426
31 to 60 days after invoice date	**51,351**	32,784
61 to 90 days after invoice date	**1,562**	762
More than 90 days after invoice date	**9,788**	17,104
	2,651,635	2,597,204

13. BANK LOANS

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Long-term bank loans due within 1 year	**1,258,192**	74,953
Long-term bank loans due over 1 year	**-**	687,441
	1,258,192	762,394

As at 31 December 2012, the Group's bank loans are secured/guaranteed as follows:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Secured bank loans		
- Secured by assets held by the Group	**1,258,192**	762,394

As at 31 December 2012, the Group has drawn down floating rate bank loans of USD200,000,000 (equivalent to RMB1,258,192,000) (2011: USD28,000,000 (equivalent to RMB177,057,000)), bearing interest at three-month London Interbank Offered Rate ("LIBOR") plus 3.25% 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 installment repayments scheduled during their terms. As at 31 December 2012, the Company was in breach of certain earnings and solvency related financial covenants included in the bank loan facility agreement and therefore, the bank loans have been classified as current liabilities as at 31 December 2012. Subsequent to the year end, the Company obtained a waiver from the banks in respect of its non-compliance with the financial covenants as at 31 December 2012.

As at 31 December 2011, the Group had drawn down floating rate bank loans of RMB268,140,000 and USD50,340,000 (equivalent to RMB317,197,000), bearing interest at over five years' People's Bank of China lending rate multiplied by 1.275 per annum and three-month LIBOR plus 4% per annum respectively, which are secured by the share capital of certain of its subsidiaries. In addition, Charoen Pokphand Group Company Limited, the Group's ultimate holding company had issued a letter of undertaking for these loans to the respective lending banks. These bank loans were fully settled in 2012.

14. PROVISIONS

Provisions have been made for the directors' best estimate of the expected costs associated with the cancellation by the Group of certain new store projects and termination benefits resulting from the organisation restructuring plan. Provisions are summarised as follows:

	Lease cancellation RMB'000	*Termination benefit RMB'000*	*Total RMB'000*
As at 1 January 2011	551	-	551
Provisions utilised	(284)	-	(284)
As at 31 December 2011	267	-	267
As at 1 January 2012	267	-	267
Provisions incurred	21,014	42,908	63,922
Provisions utilised	(6,628)	(1,230)	(7,858)
As at 31 December 2012	14,653	41,678	56,331

The provision balance at 31 December 2012 is expected to be utilised within one year.

15. ACQUISITION OF SUBSIDIARES

On 14 October 2011, the Company entered into an acquisition agreement to acquire from Whole Sino, the entire issued share capital and all the outstanding shareholder's loan of Excel Worth Limited ("Excel Worth") which, through its subsidiaries in the PRC, operates four hypermarkets in the PRC. The total consideration for the acquisition was entirely satisfied by the allotment and issuance by the Company to Whole Sino of 2,211,382,609 Series D convertible preference shares.

As the major conditions precedent needed to complete the acquisition of Excel Worth had been substantially fulfilled on 1 January 2012, the Company and Whole Sino jointly agreed to transfer control over Excel Worth's financial and operating policies to the Company on 1 January 2012. Accordingly, Excel Worth has been accounted for as a subsidiary of the Company from that date (the "Acquisition Date").

The acquisition of Excel Worth and its subsidiaries, which has been accounted for using the acquisition method of accounting, had the following effect on the Group's assets and liabilities on the Acquisition Date:

	Pre-acquisition carrying amounts RMB'000	*Fair value adjustment RMB'000*	*Recognised values on acquisition RMB'000*
Property, plant and equipment	83,306	2,404	85,710
Intangible assets	-	31,250	31,250
Inventories	59,369	2,996	62,365
Trade and other receivables	89,764	-	89,764
Cash and cash equivalents	21,163	-	21,163
Trade and other payables	(292,558)	-	(292,558)
Deferred tax assets/(liabilities)	5,895	(9,162)	(3,267)
Net assets acquired	(33,061)	27,488	(5,573)
Goodwill on acquisition			434,493
Cost of acquisition			428,920
Total consideration, satisfied by			
- Issue of Series D convertible preference shares			428,920
Net cash inflow in respect of acquisition of subsidiaries			
- Cash and cash equivalents acquired			21,163

The fair value of the convertible preference shares issued was determined based on a valuation report prepared by an independent third party valuer.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2012 was a very difficult year for the Group. Substantial cost increases caused in particular by the rise in minimum wage, negative same store sales growth, falling gross profit margin all contributed to the substantial losses recorded. Like all other retailers in the industry, the Group was affected by macro-economic circumstances, the slowing down of the economy, both in terms of GDP growth and retail sales growth, the intensified competition and the rapid emergence of online retailing which changes the shopping behaviours of many customers which in turn partly led to a drop in customer visits.

FINANCIAL REVIEW

The Group recorded net loss attributable to shareholders of the Company for the 12 months ended 31 December 2012 (the "Year") of RMB391.5 million (2011: profit of RMB23.8 million).

Turnover increased by RMB658.1 million or 6.6% to RMB10,677.4 million. The increase was due to revenue generated by the four hypermarkets in Wuxi, Xuzhou, Hefei and Changsha acquired from Whole Sino on 1 January 2012 (the "Acquisition") and the three new stores opened in 2012 of which two in Guangzhou and one in Shanghai. Same store sales fell 3.9% due to general slowdown of the Chinese economy and the rapid emergence of online retailing led to change in spending habits resulting in fewer buying frequency. The increase in ticket was unable to compensate for the drop in customer counts.

Gross profit margin was 16.5% of sales (2011: 17.7%). Gross margin is comprised of front and back margin. Front margin is sales minus direct cost of sales; back margin represents income from suppliers such as discounts and allowances. Front margin dropped from 9.5% to 8.3%, primarily a combined result of heavier mark-down and more promotion activities to reduce inventory stocked up for seasonal and tab sale; and the sale contribution from fresh increased while margin of this category dropped as we were not able pass on the higher cost in full to our customers in order not to further affect sales. Back margin remained relatively stable at 8.2% compared to 2011.

Other revenue and other net (loss)/income was RMB428.0 million (2011: RMB394.7 million), comprised mainly lease income which is income received from leasing of store space. Lease income increased by RMB83.7 million to RMB369.4 million, or 3.5% of sales (2011: 2.9%), primarily as a result of the Acquisition and the opening of three new stores. Included in the balance was a provision for lease cancellation of RMB21.0 million and loss of disposal on fixed assets of RMB20.3 million.

Distribution and store operating costs was RMB1,999.4 million, approximately 18.7% of sales (2011: 16.5%). It comprised mainly stores rental, personnel expenses, utilities and depreciation and amortisation charges for a total of RMB1,653.0 million and 5.4%, 6.3%, 2.0% and 1.8% of sales respectively. Personnel expenses increased by approximately RMB148.5 million to RMB677.0 million primarily as a result of increased in statutory minimum wages across China, the Acquisition, the opening of three new stores and a provision of RMB24.3 million for restructuring cost relating to the store level restructuring.

Administrative expenses were RMB427.3 million, or 4.0% of sales compared to RMB328.8 million, or 3.3% of sales in 2011. It mainly included personnel expenses of RMB302.0 million, including a provision of RMB18.6 million for restructuring cost relating to the organisational restructuring at corporate level, depreciation and amortisation charges of RMB18.8 million, rental of RMB22.3 million and professional fee of RMB12.6 million.

Financial expenses were RMB88.9 million, or 0.8% of sales, a decrease of RMB60.8 million from the corresponding year in 2011. The reduction was due to the repayment of bank and other loans utilizing the proceeds from the open offer.

Taxation increased RMB56.2 million to RMB67.1 million (2011: RMB10.9 million) was a result of expiration/utilisation of prior year recognised deferred tax assets of tax loss carried forward of certain PRC subsidiaries.

Net loss attributable to shareholders of the Company was RMB391.5 million compared to a net profit of RMB23.8 million as a result of negative same store sales growth, drop in margin and increase in expenses.

Capital structure

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

Liquidity and finance resources

During the Year, the Group's sources of funds were generated primarily from operating activities and banking facilities. The net cash and cash equivalents increase was mainly due to drawdown of additional bank and other loans during the Year. As at 31 December 2012, the Company was in breach of certain financial covenants included in the bank loan facility agreement and a waiver of such breach was obtained from the banks subsequent to the Year, further details referred to note 13 to the financial statements of this announcement. Based on the Group's 2013 business plan and cash flow forecast, we expected we will generate sufficient cash flows to meet our business needs and its liabilities as and when they fall due in the next twelve months.

	For the year ended 31 December	
	2012	2011
Cash and cash equivalents (RMB million)	**416.0**	242.4
Bank and other loans (RMB million)	**1,410.3**	879.5
Net cash inflow/(outflow) after effect of foreign exchange rate changes (RMB million)	**173.6**	(46.0)
Current ratio (x)	**0.44**	0.54
Quick ratio (x)	**0.27**	0.25
Gearing ratio (x) (defined as bank and other loans divided by total equity)	**0.68**	0.44

During the Year under review, bank loans bear interest at three-month LIBOR plus 3.25% per annum and other loans bear interest ranging from 1.81% to 7.393% per annum.

Foreign currency exposure

The directors consider that as the Group's retail operations are all based in the PRC, the Group is therefore not exposed to significant currency risk in its retail operations.

The Group is exposed to foreign currency risk from bank loans held by certain PRC subsidiaries, which are denominated in US dollars ("USD"). In respect of the USD bank loans borrowed in Hong Kong, as HK$ is pegged to USD, the Group does not expect any significant movements in the USD/HK$ exchange rate; and in respect of the USD bank loans borrowed by PRC subsidiaries, despite the recent fluctuations, RMB is expected to continue to appreciate in the coming years, the Group also does not expect any negative impact of foreign currency risk in the PRC subsidiaries. Therefore, the Group has not undertaken any foreign currency hedging activities. The Group however will monitor closely the USD/RMB exchange rate movements and will consider hedging the currency risk as and when necessary.

Contingent liabilities

As at 31 December 2012, the Company had issued two guarantees to an independent third party which expire in 2025 and two guarantees to a bank which expire in April 2013 and July 2013 respectively in respect of finance lease arrangements entered into by its subsidiaries. The directors do not consider it probable that claims will be made against the Company under any of the guarantees. The maximum liability of the Company at 31 December 2012 under the guarantees issued was 100% of the future minimum lease payments under the lease agreements entered into by the subsidiaries of RMB100.0 million.

Charge on assets

As at 31 December 2012, the Company had a share charge created in favour of Bangkok Bank Public Company Limited, Hong Kong Branch ("BBL") on 16 December 2011 whereby the Company agreed to pledge all shares of its subsidiary, Prime Global Retail Management & Advisory Limited to BBL. An equitable share mortgage had been created by the Company in favour of BBL on 16 December 2011 whereby the Company agreed to pledge all shares of its subsidiaries, Chia Tai Trading (Beijing) Company Limited, Chia Tai Trading (Qingdao) Company Limited, Chia Tai Trading (Xian) Company Limited, Chia Tai Trading (Zhengzhou) Company Limited, Chia Tai Distribution Investment Company Limited, Yangtze Supermarket Investment Co. Limited and Union Growth Investments Limited ("Union Growth") to BBL.

As at 31 December 2012, an equitable share mortgage had been created by Union Growth in favour of BBL on 16 December 2011 whereby Union Growth agreed to pledge all shares of its subsidiary, Lotus-CPF (PRC) Investment Company Limited ("Lotus-CPF") and 10,821,033 shares of Chia Tai-Lotus (Guangdong) Investment Co. Ltd. ("CT-Lotus") to BBL. An equitable mortgage had been created by Lotus-CPF in favour of BBL on 16 December 2011 whereby Lotus-CPF agreed to pledge 97,389,312 shares of its subsidiary, CT-Lotus to BBL.

The abovementioned share charge and equitable share charges in favour of BBL were created to secure the Group's term loan facility of USD200 million which will expire on 31 December 2018 with installment payments scheduled during its term.

Employees, training and remuneration policy

The Group employed approximately 16,600 employees as at 31 December, 2012, of which approximately 1,600 were head office staff and approximately 15,000 were store employees. The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical cover, subsidised training programs as well as share option scheme for directors and senior management.

BUSINESS REVIEW

Store network

During the Year under review, the Group opened two hypermarkets in Guangzhou and one supermarket in Shanghai and the Group opened one hypermarket in Beijing on 27 January 2013. The four new stores are opened in cities where the Group already has an established presence, further adding a total building area and sales area of 75,000 sqm and 27,500 sqm respectively. In addition, the Group acquired 4 hypermarkets in Wuxi, Xuzhou, Hefei and Changsha from Whole Sino on 1 January 2012.

The Group now has 57 retail stores including 53 hypermarkets, 2 supermarkets and 2 Lotus Life Stations.

Optimisation of merchandise
In the second half of the Year under review, we set up a National Food Commercial team and a National Non-Food Commercial team in line with the new centralised function strategy to enhance our merchandise competitiveness. The benefits of a centralised buying function is not only strengthening of the Group's procurement scale advantages but also inventory level is better managed with no out-of-stock for fast selling items and under-performing products are not stocked unnecessarily. Centralised buying can also allow popular products in one region can be introduced to the stores in other regions, thus broadening our merchandise assortment. In addition, we have set up a National Commercial Support team and a National Commercial Analysis team; the former focuses on vendor management and trade planning and the latter provides detailed analysis of product performance, generating weekly tracking report for both sales and margin tracking thus enabling the team to make better and more informed decision on merchandise assortment and facilitate cooperation with marketing department to formulate marketing strategy.

In order to remain price competitive, 1,000 "sensitive" items are sold at base price. These sensitive items are mainly grocery products and the prices are set according to sensitivity of merchandise and prices and sales of local competitors which are monitored closely on a weekly basis. In addition, we also rely on market research agency to tell us our market positioning and customer preferences etc to adjust our merchandise strategy accordingly.

The quality and safety of our products remains utmost importance to Lotus. We continued to review and strengthen our quality control measures through supply chain and vendor development to ensure product integrity. One of our stores in Shanghai is HACCP certified and although China has suspended HACCP certification of supermarket from May 2012, we will continue to improve our food safety through the adoption of HACCP standards and procedures.

We continued to work closely with our suppliers to improve customer shopping experience through product innovation, co-brand marketing activities and customer centricity. We have formed strategic partnership with 22 nationwide vendors to develop joint business plan. We will continue to strengthen our relationship through resource sharing and people collaboration and plan to expand the partnership to over 30 nationwide vendors in 2013.

Improvement of operation efficiency
The Group conducted a detailed review of the store operation model and acknowledged that the model needs to be redefined to benchmark industry best practice in order to be competitive. Under the new model, the staffing level will be determined based on the revenue and number of customers of the store. The implementation of the new store operation model will take place in the first quarter of 2013. With the centralised strategy, we have also managed to reduce the number of regional offices from six to four.

We understand the importance for management to be able to monitor and manage the performance of different business units and make better business decisions based on accurate and up-to-date data and information. In early 2012, we started the development of Business Intelligence ("BI") project to generate business intelligence analysis from data collected from various accounting and vendor management systems. Phase I of the project is now completed and BI on iPad devices will be launched in 2013.

We continued to reinforce the store productivity improvement through replacement of more advanced equipment and utilisation of technology to reduce manual work. Some of our stores are already using Telxon scanner, this helps to provide a more accurate sales and inventory level of the products. We also started to replace our POS devices to improve store check and thus customer satisfaction by reducing their waiting time at the till.

We started upgrading the store membership system which allows the Lotus membership card to be used nationwide instead of only locally/regionally at present. The information gathered can allow the marketing team to analyse spending behaviours and preferences and devise a nationwide marketing strategy and special tailored membership promotions to improve sales and enhance customer loyalty. We plan to carry out pilot test in our stores in Shanghai and will roll this out to the rest of the stores throughout 2013.

We continued our commitment to total quality management ("TQM") to achieve operational excellence. Currently 45 of our stores and 4 DCs are ISO 9001 certified. We will continue to work on improving and implementing our TQM principles and aim to have 5 more stores seeking ISO9001 certification by end of June 2013.

Optimisation of supply chain management

During the Year under review, a number of changes were made to improve the overall DCs and inventory management. We set up regular DC to DC delivery so that our Shanghai DC can deliver the top selling items to the stores served by the Xian and Beijing DCs. We added 40 feet container to replace 10 tons truck and we were able to reduce the transportation cost with additional agreed time to deliver to stores in Jiangsu, Xian, Zhengzhou and Beijing. We also revised our ordering parameter in vendor lead-time whereas we talk to each vendor and try to accommodate what their delivery requirements are instead of imposing what we want them to do. This helps not only to improve vendor relationship but also enables us to measure the service level of the vendors. In addition, previously purchase orders are cancelled if delivery is not made after three days from due delivery with no follow up; now the purchase order will be cancelled one day after due delivery and our replenishment team will call up the vendor to understand the situation and make sure the goods will be delivered on time with the quantity matching the purchase order.

Major marketing activities to enhance brand awareness and customer loyalty

During the Year under review, the Group celebrated its 15th anniversary since the opening of its first store in Shanghai in June 1997. A series of marketing activities was launched across the country to mark this joyful occasion including free redemption of Zwilling cookware for purchase over a certain amount. These 15th anniversary promotional activities further enhanced our brand image among customers. Besides, 2012 was also a year of Olympics and many Olympics-themed activities were organised such as "Lotus VIP Passport to Gold" and "Guess Gold Medal, Win Fabulous Prize" (猜金牌贏大獎).

In addition, we started an end-to-end review of our customer loyalty program. We currently have a total membership of approximately 4.7 million and approximately 40% of sales were from our members. We want to make it rewarding to be a member of Lotus by providing exclusive offers and benefits, easy redemption at check out and more interesting and relevant communications. Our aim is to increase membership sales to 60% of sales by the end of 2013.

Continued store innovation

The Group continued its efforts to transform our stores into lifestyle model to provide one-stop shopping convenience, a more comfortable shopping environment and bring in more varieties to our customers. During the Year under review, we have completed the renovation of 5 stores. In 2013, we plan to remodel 2 stores and refresh 10 stores and we will take advantage of the scale of renovation to reduce costs.

Social responsibility
Observing the business mission – "For the Country, For the People and For the Company", the Group continued to be actively involved in community, focusing on helping and developing people. A number of activities had been organised including the "Pink Spring" women care charity activity designed to help women in need; "Warm Your Heart in New School Year" activity which presented 200 gift packages for each university in the Shanghai Songjiang University Town and the "Lotus Heart Brings Warmth" where Lotus Heart volunteers visited Shanghai Pudong Foster Home for the Disabled.

People development
Training and development remains one of the Group's strategic priorities in attracting, developing and retaining a knowledgeable and skilled workforce. The Group launched "Mission to Success" ("MTS") program, a professional leadership action learning program in 2012. Over 40 senior executives and 20 young leaders participated in the program aiming to address some fundamental strategic and operational issues the Group face.

In 2012, the Group continued to reinforce the performance management process which focused on building a performance culture. Performance Score Card for key functions was developed and this will be rolled out to nationwide in 2013. To help new recruits to better understand the company culture and learn professional skills quickly, we are preparing a new orientation program with more comprehensive and practical content with a more flexible and interactive approach.

In 2013, the Group will launch the HR Information System by phases to improve data accuracy, work efficiency and staff satisfaction.

LOOKING FORWARD
Recognising the urgent need for change to ensure its continued viability, the new management team conducted a comprehensive review on both the business model as well as the operation model of the Group in the second half of the Year under review. Following the review, a number of changes have been introduced.

From the business model perspective, the Group will pursue potential strategic options for its non-core business lines to focus on re-engineering core hypermarket operations and develop a sustainable supermarket model for growth. The key change in operational model is the strategy of centralisation where a centralised management team with clear defined functions and responsibilities was established. The immediate benefit of this is the reduction of the number of regional headquarters from six to four. Previously, regional headquarters were responsible for both driving and executing strategies, under the new structure, regional headquarters will be focusing on execution only while strategies formulation and planning will come directly from the management team in Shanghai headquarter to ensure uniformed and consistent strategy and action is implemented nationwide. In addition, store operation model has been redefined with staffing level determined by store revenue and number of customer visits and this new model will be implemented before the first quarter of 2013. At corporate level, we have carried out a detailed understanding of tasks by role to remove duplicate and redundant activities and staffing level has been reduced following the review, there will be phase II and phase III of restructuring and both phases will be completed in 2013. We are building a more efficient and more cost-effective workforce in order to stay relevant in this competitive and dynamic industry.

Each business function has prepared a detailed action plan for 2013 with strategic priorities mapped out. We believe that with all these new initiatives in place and with consistent execution, the Group will be able to return to profitability in 2013.

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 except that (i) the roles of Chairman and Chief Executive Officer were performed by the same individual from 1 April 2012 to 31 July 2012, which deviated from code provision A.2.1. However, the Board considered that the structure did not impair the balance of power and authority between the Board and the management of the Group; and (ii) the Chairman did not attend the annual general meeting held on 22 June 2012 due to other important business engagement, which deviated from code provision E.1.2.

AUDIT COMMITTEE

The Audit Committee comprises the three independent non-executive directors of the Company. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the financial statements for the year ended 31 December 2012.

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

During the Year, 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, 22 February 2013

As at the date of this announcement, the Board comprises ten executive directors, namely Mr. Soopakij Chearavanont, Mr. Narong Chearavanont, Mr. Chan Yiu-Cheong, Ed, Mr. Michael Ross, Mr. Yang Xiaoping, Mr. Li Wen Hai, 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.