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 2013

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 2013 with comparative figures in 2012 were as follows:

Consolidated Statement of Profit or Loss

		For the year ended 31 December	
		2013	2012
	Note	***RMB'000***	*RMB'000*
			(note 15)
Turnover	*3*	**10,881,553**	10,677,425
Cost of sales		**(9,088,212)**	(8,914,309)
Gross profit		**1,793,341**	1,763,116
Other revenue	*4*	**503,058**	463,823
Other net income/(loss)	*4*	**33,371**	(35,783)
Distribution and store operating costs		**(1,932,936)**	(1,999,421)
Administrative expenses		**(335,873)**	(422,907)
Profit/(loss) from operations		**60,961**	(231,172)
Finance costs	*5*	**(82,082)**	(93,322)
Loss before taxation	*6*	**(21,121)**	(324,494)
Income tax	*7*	**(75,801)**	(67,145)
Loss for the year		**(96,922)**	(391,639)
Attributable to:			
Equity shareholders of the Company		**(96,837)**	(391,530)
Non-controlling interests		**(85)**	(109)
		(96,922)	(391,639)
Loss per share	*9*		
- Basic (RMB cents)		**(0.46)**	(1.88)
- Diluted (RMB cents)		**(0.46)**	(1.88)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

		For the year ended 31 December	
		2013	2012
	Note	***RMB'000***	*RMB'000*
Loss for the year		**(96,922)**	(391,639)
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")		**3,535**	(1,222)
Total comprehensive income for the year		**(93,387)**	(392,861)
Attributable to:			
Equity shareholders of the Company		**(93,302)**	(392,752)
Non-controlling interests		**(85)**	(109)
		(93,387)	(392,861)

Consolidated Statement of Financial Position

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
Non-current assets			
Fixed assets			
- Property, plant and equipment		**1,722,800**	1,682,541
- Interests in leasehold land held for own use under operating leases		**147,946**	154,240
		1,870,746	1,836,781
Intangible assets		**206,027**	219,180
Goodwill	*10*	**3,154,278**	3,154,278
Prepaid lease payments for premises		**30,159**	35,674
Other long-term prepayments		**7,162**	9,987
Deferred tax assets		**22,934**	65,112
		5,291,306	5,321,012
Current assets			
Prepaid lease payments for premises		**11,434**	8,944
Inventories		**1,105,598**	908,635
Trade and other receivables	*11*	**852,461**	847,944
Pledged bank deposits		**104,461**	214,831
Cash and cash equivalents		**266,156**	415,974
		2,340,110	2,396,328
Current liabilities			
Trade and other payables	*12*	**4,102,775**	3,935,625
Bank loans	*13*	**70,906**	1,258,192
Other loans		**40,822**	152,100
Obligations under finance leases		**7,783**	6,677
Current taxation		**19,009**	17,214
Provisions	*14*	**830**	56,331
		4,242,125	5,426,139
Net current liabilities		**(1,902,015)**	(3,029,811)
Total assets less current liabilities		**3,389,291**	2,291,201
Non-current liabilities			
Bank loans	*13*	**1,099,316**	-
Obligations under finance leases		**172,647**	180,430
Deferred tax liabilities		**47,812**	38,031
		1,319,775	218,461
NET ASSETS		**2,069,516**	2,072,740
CAPITAL AND RESERVES			
Share capital		**396,093**	386,424
Reserves		**1,671,670**	1,684,478
Total equity attributable to equity shareholders of the Company		**2,067,763**	2,070,902
Non-controlling interests		**1,753**	1,838
TOTAL EQUITY		**2,069,516**	2,072,740

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.

(c) Change in accounting policies

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

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- Annual Improvements to HKFRSs 2009-2011 Cycle
- Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The impact of the adoption of the above new or amended HKFRSs is discussed below:

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

Amendments to HKAS 1 require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The Group did not have any other comprehensive income that would never be reclassified to profit and loss. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in the annual report.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The Group did not hold any assets or liabilities carried at fair value as at 31 December 2013 and 2012. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities or the relevant disclosures.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented. The Group did not have any retrospective application of an accounting policy, retrospective restatement or a reclassification with a material impact to the consolidated financial statements of the Group during the periods presented.

Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32. The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into any master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

2. ESTIMATES

In preparing these consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2012, with the exception of changes made to the estimated useful lives of property, plant and equipment as of 1 January 2013.

In order to align with Group's property, plant and equipment with its actual useful life, the Company and its subsidiaries have made changes to the estimated useful lives of property, plant and equipment not fully depreciated in the PRC.

The table below shows the details of estimated useful lives of property, plant and equipment before and after the changes:

	Estimated useful lives (years)	
Category of property, plant and equipment	**Before change**	**After change**
Leasehold improvements	10-20 or over the remaining term of the lease, whichever is shorter	13-20 or over the remaining term of the lease, whichever is shorter
Furniture, fixtures and equipment	3-5	3-8
Motor vehicles	3-6	3-8

The changes in accounting estimate applied to the consolidated financial information for the year ended 31 December 2013 have decreased the depreciation charge of property, plant and equipment by approximately RMB36,772,000.

3. 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.

4. OTHER REVENUE AND OTHER NET INCOME/ (LOSS)

	For the year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Other revenue		
Leasing of store premises	**405,089**	369,396
Other promotion and service income	**73,377**	66,326
Interest income	**7,554**	8,494
Government grants (note)	**17,038**	19,607
	503,058	463,823
Other net income/(loss)		
Net foreign exchange gain	**35,719**	5,532
Net gain/(loss) from store lease cancellations	**891**	(21,014)
Net loss on disposal of fixed assets	**(3,239)**	(20,301)
	33,371	(35,783)

Note: Government grants represent subsidies received from local authorities.

5. FINANCE COSTS

	For the year ended 31 December 2013 RMB'000	2012 RMB'000 (note 15)
Finance costs:		
Interest on borrowings wholly-repayable within five years:		
- Bank loans	**51,459**	3,973
- Other loans	**742**	10,798
Interest on bank loan repayable after five years	**-**	46,092
Finance charges on obligations under finance leases	**18,181**	18,806
Interest on issuance of bank accepted bills	**7,192**	4,427
Total interest expense on financial liabilities not at fair value through profit or loss	**77,574**	84,096
Loan arrangement and guarantee fees	**4,508**	9,226
	82,082	93,322

6. LOSS BEFORE TAXATION

The Group's loss before taxation is arrived at after charging:

	For the year ended 31 December 2013 RMB'000	2012 RMB'000
Depreciation of property, plant and equipment	**164,625**	191,236
Amortisation		
- land lease premium	**6,294**	6,293
- intangible assets	**13,153**	13,152
Operating lease charges		
- property rental	**519,891**	503,248
Cost of inventories	**9,088,212**	8,914,309

7. INCOME TAX

	For the year ended 31 December 2013 RMB'000	2012 RMB'000
Current tax - PRC		
Provision for the year	**23,842**	23,012
Deferred tax		
Origination and reversal of temporary differences	**51,959**	44,133
Taxation expense	**75,801**	67,145

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% 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 2013, 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 2013 and 2012, nor has any dividend been proposed since the reporting date.

9. LOSS PER SHARE

(a) Basic

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

	For the year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Loss for the year attributable to equity shareholders of the Company	**(96,837)**	(391,530)

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

Number of ordinary shares in issue at 1 January	**9,796,491,070**	9,184,414,410
Effect of ordinary shares issued upon exercise of share options on 8 November 2013 and 29 May 2012	**90,365,029**	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
Number of Series C convertible preference shares in issue	**3,672,489,764**	3,673,765,764
Number of Series D convertible preference shares in issue	**2,211,382,609**	2,211,382,609
Total	**21,186,645,881**	20,847,621,568

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 years ended 31 December 2013 and 2012 are the same as the basic loss per share as all potential ordinary shares are anti-dilutive.

10. GOODWILL

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Cost:		
At 1 January	**3,205,282**	2,770,789
Addition	**-**	434,493
At 31 December	**3,205,282**	3,205,282
Accumulated impairment losses:		
At 1 January and 31 December	**(51,004)**	(51,004)
Carrying amount:		
At 31 December	**3,154,278**	3,154,278

11. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Trade receivables, other receivables and deposits	**269,022**	223,789
Amounts due from related companies	**583,439**	624,155
	852,461	847,944

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	
	2013	2012
	RMB'000	*RMB'000*
Current	**30,419**	23,731
1 to 30 days overdue	**2,311**	4,708
31 to 60 days overdue	**1,665**	1,839
61 to 90 days overdue	**1,426**	1,805
Over 90 days	**530**	337
	36,351	32,420

12. TRADE AND OTHER PAYABLES

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Notes payable	**210,693**	360,327
Creditors and accrued charges	**3,455,480**	3,240,440
Amounts due to related companies	**436,602**	334,858
	4,102,775	3,935,625

Included in the Group's trade and other payables are trade creditors and notes payable of RMB2,674,123,000 (2012: RMB2,651,635,000) with the following ageing analysis:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Uninvoiced purchases	**1,007,047**	920,124
Within 30 days of invoice date	**1,592,713**	1,668,810
31 to 60 days after invoice date	**64,217**	51,351
61 to 90 days after invoice date	**6,426**	1,562
More than 90 days after invoice date	**3,720**	9,788
	2,674,123	2,651,635

13. BANK LOANS

At 31 December 2013, the bank loans were repayable as follows:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Within 1 year	**70,906**	1,258,192
After 1 year but within 2 years	**121,062**	-
After 2 years but within 5 years	**978,254**	-
	1,099,316	-
	1,170,222	1,258,192

At 31 December 2013, the Group's bank loans are secured/guaranteed as follows:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Secured bank loans		
- Secured by assets held by the Group	**1,170,222**	1,258,192

At 31 December 2013, the Group has drawn down floating rate bank loans of USD191,780,000 (equivalent to RMB1,170,222,000) (2012: USD200,000,000 (equivalent to RMB1,258,192,000)), 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 instalment repayments scheduled during their terms. The bank loans were classified as current liabilities as at 31 December 2012 as the Company breached certain earnings and solvency related loan covenants as at that date. The Company subsequently obtained a waiver from the banks in respect of the breach as at 31 December 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*
At 1 January 2012	267	-	267
Provisions incurred	21,014	42,908	63,922
Provisions utilised	(6,628)	(1,230)	(7,858)
At 31 December 2012	14,653	41,678	56,331
At 1 January 2013	14,653	41,678	56,331
Provisions incurred	180	-	180
Provisions utilised	(12,932)	(41,678)	(54,610)
Provisions reversed	(1,071)	-	(1,071)
At 31 December 2013	830	-	830

The provision balance at 31 December 2013 is expected to be utilised within one year.

15. COMPARATIVE FIGURES

Interest on issuance of bank accepted bills amounting to RMB4,427,000, which was recorded in administrative expenses in the 2012 financial statements are now presented as finance costs to reflect more appropriately the nature of the expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2013 continued to be a challenging year for the Group. Like all other retailers in the industry, the Group continued to be 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. However, there was also some positives, new stores opened in 2013 have been delivering encouraging results since opening and we saw operating expenses improved from 22.7% of sales in 2012 to 20.9% of sales in 2013.

FINANCIAL REVIEW

The Group recorded net loss attributable to equity shareholders of the Company for the year ended 31 December 2013 (the "Year") of RMB96.8 million (2012: RMB391.5 million).

Turnover increased by RMB204.2 million or 1.9% to RMB10,881.6 million. The increase was due to revenue generated by the five new stores opened in 2013 of which one in Xuzhou, Jiangsu province, three in various cities in the Guangdong province and one in Beijing. Same store sales fell 1.3% 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 and sales was further affected by government's anti-waste policy. The increase in ticket was unable to compensate for the drop in customer counts.

Gross profit margin was 16.5% of sales (2012: 16.5%). 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 8.3% to 8.2%, primarily a combined result of heavier mark-down and more promotion activities to reduce over-stocked inventory, to boost sales and lure more customers to counter the effect from online retailing and general slowdown of the economy. Back margin increased from 8.2% to 8.3% due to improved relationship with our suppliers and enhanced bargaining power.

Other revenue and other net income/(loss) was RMB536.5 million (2012: RMB428.0 million), comprised mainly lease income which is income received from leasing of store space. Lease income increased by RMB35.7 million to RMB405.1 million, or 3.7% of sales (2012: 3.5%), as a result of the opening of five new stores. An exchange gain of RMB35.7 million (2012: RMB5.5 million) was recorded against our US dollar borrowings as a result of continuing appreciation of the RMB.

Distribution and store operating costs was RMB1,932.9 million, approximately 17.8% of sales (2012: 18.7%). It comprised mainly stores rental, personnel expenses, utilities and depreciation and amortisation charges for a total of RMB1,602.9 million and 5.5%, 5.8%, 2.0% and 1.5% of sales respectively. Personnel expenses decreased by approximately RMB44.5 million to RMB632.5 million despite the opening of five new stores and the annual increase in statutory minimum wages as we started to enjoy the benefit of a redefined store operating model which see the number of staffing layers down and productivity enhanced. Depreciation and amortization decreased by RMB27.1 million primarily a result of the change in accounting estimate of fixed assets from the beginning of 2013.

Administrative expenses were RMB335.9 million, or 3.1% of sales compared to RMB422.9 million, or 4.0% of sales in 2012. It mainly included personnel expenses of RMB284.3 million, depreciation and amortization charges of RMB19.3 million, rental of RMB20.8 million and professional fee of RMB10.3 million.

Financial costs were RMB82.1 million, or 0.8% of sales, a decrease of RMB11.2 million from the corresponding year in 2012.

Income tax was RMB75.8 million (2012: RMB67.1 million) including a reversal of deferred tax assets due to expiration/utilisation of tax loss carried forward of certain PRC subsidiaries of RMB52.9 million.

Net loss attributable to equity shareholders of the Company was RMB96.8 million (2012: RMB391.5 million), the improvement was due to disciplined expense management and the increase from other income.

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 decrease in net cash and cash equivalents was mainly due to investing cash outflow of RMB213.9 million for the purchase of fixed assets for the five new stores opened in 2013 and store renovation. We expect we will continue to have sufficient cash to meet our business needs.

	For the year ended 31 December	
	2013	2012
Cash and cash equivalents (RMB million)	**266.2**	416.0
Bank and other loans (RMB million)	**1,211.0**	1,410.3
Net cash (outflow)/inflow after effect of foreign exchange rate changes (RMB million)	**(149.8)**	173.6
Current ratio (x)	**0.55**	0.44
Quick ratio (x)	**0.29**	0.27
Gearing ratio (x) (defined as bank and other loans by total equity)	**0.59**	0.68

During the Year under review, bank loans bear interest at three-month LIBOR plus 3.25% per annum and other loans bear interest at three-month LIBOR plus 1.5% 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, we expect RMB will continue to appreciate, albeit at a slower rate, 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 2013, 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 2014 and July 2014 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 2013 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 2013, 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 2013, 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 instalment payments scheduled during its term. As at 31 December 2013, the total principal outstanding was USD191.8 million.

Employees, training and remuneration policy

The Group employed approximately 16,000 employees as at 31 December, 2013, of which approximately 1,500 were head office staff and approximately 14,500 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, subsidized 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 five new hypermarkets of which one in Xuzhou, Jiangsu province, three in various cities in the Guangdong province and one in Beijing. The five new stores are opened in cities where the Group already has an established presence, further adding a total building area and sales area of approximately 79,000 sqm and approximately 37,100 sqm respectively. The Group closed down the two Lotus Life Stations in May 2013.

The Group now has 59 retail stores including 57 hypermarkets and two supermarkets with a total sales floor area of approximately 497,000 sqm.

Optimisation of merchandise
During the Year under review, the Group continued to strengthen central purchasing function and enhance the negotiation and range management skills of the buyers by organizing professional training seminars. Our National Commercial Analysis Team provides detailed analysis of product performance, generating weekly tracking report for both sales and margin thus enable the team to make better and more informed decision on merchandise assortment and identify which supplier offer the lowest cost products and in turn able to raise the product margins.

In the fourth quarter, while continuing the centralized purchase strategy, the Group also reviewed its local purchase function and decided to enhance its capability, local buyers are encouraged to introduce the popular products to nationwide and therefore broaden the overall offerings.

The performance of the Group, like the rest of the industry, had been unavoidably affected by the government's anti-waste policy and the expiration of government's subsidy on electrical products. To counter this negative effect, the Group, in cooperation with major suppliers, had organised a number of large-scale promotion activities to boost sales and introduce new products. By working closely with major suppliers, the Group is finalizing the merchandise offer and promotion plan for the year 2014.

The quality and safety of our products remains utmost importance to Lotus and we received subsidy from government on our investment in machinery and equipment which is designed to raise safety and hygiene level. We continued to review and strengthen our quality control measures through supply chain and vendor development to ensure product integrity.

Improvement of operation and system efficiency
The Group continued to make use of systems and tools to improve operating efficiency. Our Holytax vendor platform not only allows us to process VAT invoice certification online, it also provides invoice matching function, transaction history, discount and allowance reduction and inventory level information etc. The platform not only helps improve relationship with our suppliers but also the overall efficiency of our finance payment team. We have since combined all previously used different vendors systems which offer different capabilities into one single vendor platform which provides end-to-end services from ordering to payment.

The Group had completed the testing of its new customer loyalty system and will roll out to all the stores nationwide. The new store membership system 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.

Distribution centre ("DC") is an integral part of our retail business. The Group had completed the replacement of the old DC system, the technology of which had become obsolete. The new system is now operational in our Shanghai DC and will be put in place in all other DCs soonest. The new DC system supports more than just one DC in the same district.

We continued our commitment to total quality management ("TQM") to achieve operational excellence. Currently 52 of our stores and all DCs are ISO 9001 certified. We will continue to work on improving and implementing our TQM.

Optimisation of supply chain management
During the Year under review, added efforts had been made to further improve inventory management and the efficiency of our DCs which saw the reduction in the inventory days on hand. The continued upgrading and development of the DC system and infrastructure enable our Shanghai DC to be able to serve our stores in Jiangsu province and our Beijing DC to deliver goods to stores Qingdao and Zhengzhou. With the continued expansion to the eastern part of the Guangdong province, a new DC will be opened in Shantou, the second in the Southern region, in mid-2014 and will cover the stores in east Guangdong and Hunan provinces.

Major marketing activities to enhance brand awareness and customer loyalty
We continued to work closely with our suppliers to improve customer shopping experience through product innovation, co-brand marketing activity and customer centricity. After a disappointing Chinese New Year sales in 2013 affected partly by the government's anti-waste campaign, we, with the support of our suppliers, launched the "50% off thanksgiving day" in March, the usual slow-sales month of the year. The activity proved to be a success with sales increased by over 50% as well as having attracted both old and new customers. Our suppliers was pleased with the result and had since committed to support similar activities as it not only improved their product sale but also served as a good platform for them to launch new products. The Group had since organised similar activities every two to three months and covers all stores nationwide.

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 2014, we plan to renovate at least 6 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 organized including the "Pink Spring" women care charity activity designed to help women in need; "Lotus Heart: Tree Planting" activity co-organised with the Shanghai Pudong New Area Fire Brigade which gave the participants the opportunity to learn about fire safety. To pledge our support for a greener planet, all Lotus stores partook in the "2013 Earth Hour Activity".

People development
Training and development remains one of the Group's strategic priorities in attracting, developing and retaining a knowledgeable and skilled workforce. A number of training seminars was organized in Shanghai during June to September which was attended by over 300 merchandise buyers on how to enhance negotiation skill and range management.

Lotus Executive Committee was established in October to manage the daily operation of the Group as well as forming strategic directions. The reporting line and work processes of core business functions were re-adjusted to strengthen competencies and overall communication.
In November, the Group held the "10-Year Service Employee Forum" to express gratitude to long serving employees and listen to their opinions and respond to their questions directly.

Training and development will continue to be our key focus in 2014. We will establish section manager training centre to provide comprehensive knowledge and skill trainings as well as instruction and guidance for work process and standards to each store employee. We will continue to improve our evaluation mechanism to ensure a fair platform for career development.

LOOKING FORWARD

The outlook remains challenging with the slowdown of the growth of both the GDP and the retail sales, the continued penetration of the online retailing will also be a concern. However, we remain confident in the long term development of the Chinese economy as it continues to move towards domestic consumption driven and we are also confident that our business model is sustainable.

In 2014, the Group will continue to expand its retail network by opening a further three to five new stores. Some of the sites we have secured are in the third and fourth tier cities where the incomes are rising with ongoing urbanization and competition is less intense. The performance of the stores in third tier cities like Lecong and Meizhou has been exceeding expectation since opening. We will also review the existing portfolio to find ways to enhance the shareholders' value. We will continue to improve merchandise assortment, upgrade and optimize our store schematics, increase operation efficiency and reduce operating costs to remain competitive. The Group believes that, with the new management team in place, the Group will be able to return to profitability in the near future.

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 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 2013.

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, 24 February 2014

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.