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 2010

The board of directors (the "Board") of C.P. Lotus Corporation (the "Company") announces that the consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2010 with comparative figures in 2009, were as follows:

Consolidated Statement of Comprehensive Income

		For the year ended 31 December	
		2010	2009
	Notes	***RMB'000***	*RMB'000*
			(Restated)
			(Note 16)
Turnover	*3*	**9,374,500**	8,783,361
Cost of sales		**(7,641,160)**	(7,136,968)
Gross profit		**1,733,340**	1,646,393
Other revenue	*5*	**334,677**	334,494
Other net income/(loss)	*5*	**39,417**	(13,371)
Distribution and store operating costs		**(1,565,941)**	(1,441,451)
Administrative expenses		**(345,006)**	(398,955)
Profit from operations	*6*	**196,487**	127,110
Gain on redemption of convertible bonds	*14*	**408,487**	-
Finance costs			
– Interest on convertible bonds	*7*	**(91,459)**	(167,595)
– Other finance costs		**(172,859)**	(174,086)
		(264,318)	(341,681)
Profit/(loss) before taxation		**340,656**	(214,571)
Income tax	*8*	**8,666**	(21,161)
Profit/(loss) for the year		**349,322**	(235,732)

Consolidated Statement of Comprehensive Income (Continued)

	Notes	For the year ended 31 December 2010 RMB'000	2009 RMB'000 (Restated)
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")		**43,519**	2,616
Cash flow hedge: net movement in fair value reserve		**(6,734)**	-
		36,785	2,616
Total comprehensive income/(loss) for the year		**386,107**	(233,116)
Profit/(loss) for the year attributable to:			
Equity shareholders of the Company		**349,322**	(235,732)
Non-controlling interests		**-**	-
		349,322	(235,732)
Total comprehensive income/(loss) for the year attributable to:			
Equity shareholders of the Company		**386,107**	(233,116)
Non-controlling interests		**-**	-
		386,107	(233,116)
Earnings/(Loss) per share	*10*		
- Basic		**2.76 RMB cents**	(2.20) RMB cents
- Diluted		**0.20 RMB cent**	(2.20) RMB cents

Consolidated Statement of Financial Position

	Notes	As at 31 December 2010 RMB'000	As at 31 December 2009 RMB'000 (Restated)	As at 1 January 2009 RMB'000 (Restated)
Non-current assets				
Fixed assets				
- Property, plant and equipment		**1,523,361**	1,608,357	1,764,214
- Interests in leasehold land held for own use under operating leases		**166,827**	168,571	175,566
		1,690,188	1,776,928	1,939,780
Intangible assets		**211,795**	222,505	229,926
Goodwill	*11*	**2,719,785**	2,719,785	2,719,785
Prepaid lease payments for premises		**8,089**	8,246	6,024
Other long-term prepayments		**5,549**	8,200	-
Deferred tax assets		**106,596**	82,985	93,160
		4,742,002	4,818,649	4,988,675
Current assets				
Prepaid lease payments for premises		**4,584**	12,983	4,664
Inventories		**826,699**	740,274	794,576
Trade and other receivables	*12*	**692,159**	770,413	873,809
Income tax recoverable		-	212	8,181
Pledged and restricted bank deposits		**96,061**	350,737	505,910
Cash and cash equivalents		**288,422**	315,860	261,602
		1,907,925	2,190,479	2,448,742
Assets classified as held for sale		-	-	11,000
		1,907,925	2,190,479	2,459,742
Current liabilities				
Trade and other payables	*13*	**3,317,498**	3,015,053	3,031,722
Bank loans		**145,693**	1,327,515	1,793,529
Other loans		**242,287**	757,824	773,229
Consideration payable for acquisition of subsidiaries		-	53,227	53,312
Obligations under finance leases		**5,150**	4,302	3,899
Current taxation		**16,705**	12,430	3,203
Provisions	*15*	**551**	44,324	62,881
		3,727,884	5,214,675	5,721,775
Net current liabilities		**(1,819,959)**	(3,024,196)	(3,262,033)
Total assets less current liabilities		**2,922,043**	1,794,453	1,726,642
Non-current liabilities				
Bank loans		**1,410,024**	326,231	-
Convertible bonds	*14*	-	1,090,718	1,036,183
Consideration payable for acquisition of subsidiaries		-	-	53,312
Obligations under finance leases		**193,159**	198,309	202,610
Deferred tax liabilities		**41,662**	44,334	47,076
		1,644,845	1,659,592	1,339,181
NET ASSETS		**1,277,198**	134,861	387,461
CAPITAL AND RESERVES				
Share capital		**280,585**	212,590	212,590
Reserves		**994,613**	(77,729)	174,871
Total equity attributable to equity shareholders of the Company		**1,275,198**	134,861	387,461
Non-controlling interests		**2,000**	-	-
TOTAL EQUITY		**1,277,198**	134,861	387,461

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

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 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").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. These developments had no material effect on profit or loss, total income and expense or net assets for the current and prior accounting periods reflected in these financial statements.

2. CHANGE IN PRESENTATION CURRENCY

During the year ended 31 December 2010, the Group changed its presentation currency from Hong Kong dollars ("HKD") to Renminbi ("RMB"). This change in presentation currency has been applied retrospectively. As a result, the comparative figures in the Group's financial statements are translated from HKD to RMB using the closing rate at the relevant reporting date for statement of financial position items, and average rates for the relevant period for statement of comprehensive income items. The change in presentation currency has no significant impact on the financial position of the Group as at 31 December 2010 and 2009, or the results and cash flows for the years ended 31 December 2010 and 2009.

3. TURNOVER

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.

	Consolidated For the year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Sales of goods	**9,374,500**	8,783,361

4. SEGMENT INFORMATION

The Group is engaged in retail business of the operation of hypermarket stores in the PRC and all of its sales during the periods are generated in the PRC. Under the requirement of HKFRS 8, "Operating Segments" issued by the HKICPA, the Group has only one business segment for the years ended 31 December 2010 and 2009.

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

	Consolidated For the year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Other revenue		
Leasing of store premises	**241,412**	216,816
Other promotion and service income	**78,284**	66,148
Interest income	**7,462**	7,184
Subsidy income	**5,758**	10,078
Procurement service fee	**1,761**	3,114
Management service income	**-**	31,154
	334,677	334,494
Other net income / (loss)		
Net foreign exchange gain	**11,223**	814
Net income from store lease cancellations (note (i))	**35,115**	-
Net loss on disposal of fixed assets	**(6,921)**	(14,185)
	39,417	(13,371)

(i) During the year, the Group successfully appealed a court verdict previously issued which required the Group to pay compensation to the landlord for cancelling a store lease. RMB33,000,000 previously paid as compensation was refunded to the Group as a result.

6. DEPRECIATION AND AMORTISATION

During the year ended 31 December 2010, depreciation of RMB200,842,000 (2009: RMB214,817,000) in respect of the Group’s property, plant and equipment; amortisation of RMB7,017,000 (2009: RMB6,995,000) in respect of land lease premium, and amortisation of RMB10,710,000 (2009: RMB7,421,000) in respect of intangible assets were charged.

7. INTEREST ON CONVERTIBLE BONDS

Interest on convertible bonds of RMB91,459,000 (2009: RMB167,595,000) for the year ended 31 December 2010 consisted of RMB6,589,000 (2009: RMB13,508,000) representing coupon interest at 1% per annum on the principal amount of the convertible bonds and RMB84,870,000 (2009: RMB154,087,000) representing additional interest expense arising from the remeasurement of the liability component of the convertible bonds upon their issuance using the effective interest rate method.

8. INCOME TAX

	Consolidated For the year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Current tax - PRC		
Provision for the year	**17,617**	13,728
Deferred tax		
Origination and reversal of temporary differences	**(26,283)**	7,433
Taxation (credit)/expense	**(8,666)**	21,161

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 which took effect on 1 January 2008, subsidiaries of the Group established in the PRC are subject to PRC income tax at 25% (2009: 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 2010, the PRC subsidiaries of the Group had aggregated accumulated losses and therefore no deferred tax liabilities were recognised in this regard.

9. DIVIDEND

No dividend was paid or proposed during the years ended 31 December 2010 and 2009 nor has any dividend been proposed since the reporting date.

10. EARNINGS/ (LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the net profit attributable to equity shareholders of the Company for the year of RMB349,322,000 (2009: net loss of RMB235,732,000) and on the 9,184,414,410 weighted average number of ordinary shares, 1,518,807,075 weighted average number of convertible preference shares and 1,948,555,167 weighted average number of new convertible preference shares (2009: 9,184,414,410 weighted average number of ordinary shares and 1,518,807,075 weighted average number of convertible preference shares) in issue during the year.

The calculation of diluted earnings/(loss) per share is based on the adjusted net profit attributable to equity shareholders of the Company (diluted) of RMB32,294,000, representing the net profit attributable to equity shareholders of the Company for the year of RMB349,322,000, excluding interest on convertible bonds of RMB91,459,000 and gain on redemption of convertible bonds of RMB408,487,000, and on the 9,184,414,410 weighted average number of ordinary shares, 1,518,807,075 weighted average number of convertible preference shares and 1,948,555,167 weighted average number of new convertible preference shares in issue during the year, plus potential ordinary shares of 1,948,555,167 shares and 1,798,984,320 shares deemed to be issued if the convertible bonds and share options had been exercised respectively. The diluted loss per share for the year ended 31 December 2009 was the same as the basic loss per share as all potential ordinary shares were anti-dilutive.

11. GOODWILL

	THE GROUP	
	As at 31 December 2010	As at 31 December 2009
	RMB'000	*RMB'000*
		(Restated)
Cost:		
As at 1 January and 31 December	**2,770,789**	2,770,789
Accumulated impairment losses:		
As at 1 January and 31 December	**51,004**	51,004
Carrying amount:		
As at 31 December	**2,719,785**	2,719,785

12. TRADE AND OTHER RECEIVABLES

		THE GROUP	
	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009
	RMB'000	*RMB'000*	*RMB'000*
		(Restated)	*(Restated)*
Trade receivables, other receivables and deposits	**199,385**	184,600	187,001
Amounts due from related companies	**492,774**	585,813	686,808
	692,159	770,413	873,809

Included in trade and other receivables are trade debtors (net of allowance for bad and doubtful debts) with the following ageing analysis:

	THE GROUP		
	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009
	RMB'000	*RMB'000* *(Restated)*	*RMB'000* *(Restated)*
Current	**20,243**	30,436	24,815
1 to 30 days overdue	**2,702**	1,535	4,301
31 to 60 days overdue	**849**	1,423	1,049
61 to 90 days overdue	**48**	234	556
Over 90 days	**994**	2,068	4,626
	24,836	35,696	35,347

13. TRADE AND OTHER PAYABLES

	THE GROUP		
	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009
	RMB'000	*RMB'000* *(Restated)*	*RMB'000* *(Restated)*
Notes payable	**81,850**	81,200	42,007
Creditors and accrued charges	**3,091,134**	2,749,645	2,822,225
Amounts due to related companies	**137,780**	184,208	167,490
Derivative cash flow hedging instruments	**6,734**	-	-
	3,317,498	3,015,053	3,031,722

Included in trade and other payables are trade creditors and notes payable of RMB2,375,738,000 (31 December 2009: RMB2,126,186,000; 1 January 2009: RMB2,101,475,000) with the following ageing analysis:

	THE GROUP		
	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009
	RMB'000	*RMB'000* *(Restated)*	*RMB'000* *(Restated)*
Uninvoiced purchases	**886,294**	710,536	758,548
Within 30 days of invoice date	**1,460,805**	1,066,171	1,004,303
31 to 60 days after invoice date	**23,964**	276,586	251,560
61 to 90 days after invoice date	**821**	11,898	45,363
More than 90 days after invoice date	**3,854**	60,995	41,701
	2,375,738	2,126,186	2,101,475

14. CONVERTIBLE BONDS

On 31 October 2008, the Company issued convertible bonds due in 2011 in the aggregate principal amount of HK$1,519,873,031 (equivalent to RMB1,338,505,531) (the "Convertible Bonds") as part of the consideration to acquire Shanghai Lotus Supermarket Chain Store Co., Ltd. based on the acquisition agreement dated 17 May 2007. Contemporaneously, a related party subscribed for additional convertible bonds due in 2011 in the aggregate principal amount of HK$156,380,000 (equivalent to RMB137,719,000) (the "Subscribed Convertible Bonds") at their principal amount payable in cash.

On 23 January 2009, the Company entered into a redemption agreement to redeem Convertible Bonds in the principal amount of HK$156,380,000 (equivalent to RMB137,719,000). The outstanding principal amount of Convertible Bonds reduced to HK$1,363,493,031 (equivalent to RMB1,200,786,531) immediately after the completion of the transaction on 30 January 2009.

On 16 March 2010, the Company entered into an agreement with the bondholders to purchase and cancel all the outstanding Convertible Bonds and Subscribed Convertible Bonds in issue with the consideration to be satisfied by the issuance by the Company to the bondholders of 3,897,110,334 new convertible preference shares of par value HK$0.02 each ("New CPS"). This transaction was completed on 30 June 2010. As at 30 June 2010, the carrying value of the redeemed outstanding Convertible Bonds and Subscribed Convertible Bonds was RMB1,427,256,000, including liability component and equity component of RMB1,162,717,000 and RMB264,539,000 respectively. The difference of RMB408,487,000 between the fair value of the New CPS issued of RMB754,230,000 and the liability component of the redeemed outstanding Convertible Bonds and Subscribed Convertible Bonds is recognised as gain on redemption of convertible bonds in profit or loss for the year ended 31 December 2010.

15. 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. Provisions are summarised as follows:

	THE GROUP	
	As at 31 December 2010	As at 31 December 2009
	RMB'000	*RMB'000*
		(Restated)
As at 1 January	**44,324**	62,881
Provisions utilised	**(43,773)**	(18,557)
As at 31 December	**551**	44,324

16. COMPARATIVE FIGURES

Bank loan arrangement and guarantee fees amounting to RMB18,974,000, operating costs amounting to RMB17,611,000 and subsidy income amounting to RMB10,078,000, which were recorded in administrative expenses in the 2009 financial statements are now presented as finance costs, distribution and store operating costs, and other revenue respectively to reflect more appropriately the nature of the expenses.

In addition, as a result of the change in presentation currency from HKD to RMB in the current reporting period, comparative figures have been restated accordingly.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Group currently owns and operates 46 Lotus stores in China – 21 in East Coastal (19 in Shanghai and 2 in Jiangsu), 15 in South Coastal (all in Guangdong) and 10 in the North Coastal (4 in Beijing, 3 in Xian, 2 in Zhengzhou and 1 in Qingdao). We opened one store in Guangzhou in January 2011 with a building area and sales area of approximately 10,300 sqm and 5,300 sqm respectively, offering over 500 parking spaces.

The Group also owns and operates 7 distribution centres, 1 fresh and 1 dry in each of Shanghai, Guangzhou and Beijing and 1 dry in Xian with a total area of approximately 90,000 sqm, forming a nationwide network to serve all our Lotus stores.

FINANCIAL REVIEW

The Group continued to find ways to reduce its interest expenses. With the support of the controlling shareholder, we purchased and cancelled the Convertible Bonds from CP ALL Public Company Limited and its subsidiary and issued New CPS as consideration. This transaction eliminated all interest expenses associated with the Convertible Bonds which amounted to approximately RMB91.5 million for the 6 months ended 30 June 2010 (or approximately 1.0% of the full year's sales). The New CPS are convertible into ordinary shares at HK$0.39 per share subject to the compliance of the minimum float requirement under the Listing Rules with no guaranteed dividend. Our equity structure was also enhanced. Equity attributable to equity shareholders of the Company was RMB1,275.2 million as of 31 December 2010 compared to RMB134.9 million on 31 December 2009. Our interest bearing debt to equity ratio significantly improved from approximately 26.0x to approximately 1.4x.

On 29 November 2010, our shareholders approved the reduction of share premium account of the Company by an amount of HK$1,217,243,000 (corresponding to the amount of the unaudited consolidated accumulated losses of the Group as at 30 June 2010) and such reduced amount be entirely applied to eliminate the unaudited accunmulated losses of the Company as at 30 June 2010. This allows flexibility for the Company to declare dividends to the shareholders at an earlier opportunity in the future as and when the Board considers appropriate. The Board has decided not to declare any dividend for the year under review but will retain these funds to finance the store expansion plan in 2011.

We have also changed our presentation currency from HKD to RMB as our primary revenue is generated in the PRC. Using RMB as presentation currency substantially eliminates the RMB/HKD exchange rate fluctuation and its potential impact on our financials.

Turnover

Group turnover was entirely generated from the sale of goods, less returns, discount and value added tax from our retail operations in China. Same store sales growth was 5.5% whereas stores which underwent renovation during the year recorded an average 12% growth; the growth was due to store layout upgrading, better assortment mix and effective marketing activities to boost sales.

Gross Profit

Gross profit margin is comprised of front margin and back margin. Front margin is sales minus direct cost of sales; back margin represents income from suppliers such as discounts and allowances, entry fee and promotional fee etc. Front margin decreased by 0.3 percentage point from 10.4% in 2009 to 10.1% in 2010 as a result of more price-cutting promotional activities launched to boost sales and to reduce the inventory level, thus improving liquidity of the Company. Back margin increased slightly from 8.3% to 8.4% due to our good relationships with suppliers and increasing purchases.

Other Revenue and Other Net Income/(Loss)

Other revenue is comprised mainly of income received from leasing of store premises, promotion and service income and other net income. The increase of RMB53.0 million was mainly due to increase in leasing income of RMB24.6 million and the reversal of provision of store lease cancellation of RMB35.1 million.

Distribution and Store Operating Costs

Operating costs for the year under review was RMB1,565.9 million, approximately 16.7% of sales in 2010 (2009: RMB1,441.5 million, or 16.4% of sales). It mainly comprised of personnel, rental expenses, utilities and depreciation and amortisation for a total of RMB1,265.0 million. The controllable expenses, which are expenses that can be impacted by the actions of the store managers such as personnel, utilities and transportation expenses etc amounted to approximately RMB907.7 million, or 9.7% of sales in 2010 as compared to RMB809.3 million, or 9.2% of sales in 2009. The increase was mainly attributed to the increase of personnel expenses of RMB36.8 million due to rising labour costs and other benefits and an increase to sales promotion expenses of RMB19.6 million. Personnel related expenses, rental and utilities expenses included in distribution and store operating costs accounted for approximately 4.7%, 4.8% and 1.9% of the Group's total revenue respectively.

Administrative Expenses

Administrative expenses was RMB345.0 million, or 3.7% of sales (2009: RMB399.0 million, or 4.5% of sales), mainly included personnel expenses of RMB211.4 million, professional fee of RMB20.8 million, rental of RMB16.2 million, depreciation and amortisation of RMB21.8 million The decrease was mainly a result of our efforts to streamline the organisation structure of the PRC regional offices.

Financial Expenses

Financial expenses was RMB264.3 million, or 2.8% of sales, a decrease of RMB77.4 million from 2009. This was mainly due to the redemption and cancellation of the Convertible Bonds in June 2010, resulting the elimination of all interest expenses associated with the Convertible Bonds which amounted to RMB91.5 million for the first 6 months of 2010.

Net Profit

Net profit attributable to shareholders was RMB349.3 million (2009: net loss of RMB235.7 million). Excluding the gain from Convertible Bonds redemption and the effect of Convertible Bonds interest expenses, a net profit of RMB32.3 million was recorded for 2010 compared to a loss of RMB68.1 million in 2009 on the same basis. The improvement was mainly attributable to sales growth, reduction of administrative expenses and the reversal of provision of store lease cancellation.

EBITDA

EBITDA increased by 131.1% to RMB823.5 million, EBITDA margin was 8.8% (2009: 4.1%). EBITDA, excluding gain on Convertible Bonds redemption was RMB415.1 million or 4.4% of sales compared to RMB356.3 million in 2009.

Liquidity and Financial Resources

During the year, the Group's source of fund was generated primarily from operating activities. The net cash decrease was mainly due to repayment of bank and other loans. With the continued improvement of our hypermarket operations, we expect we will have sufficient cash to meet our business needs.

	THE GROUP For the year ended 31 December	
	2010	2009
Cash and cash equivalents (RMB million)	**288.4**	315.9
Net cash (decrease) / increase (RMB million)	**(27.5)**	54.3
Current ratio (x)	**0.51**	0.42
Quick ratio (x)	**0.29**	0.28

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 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 USD bank loans borrowed in Hong Kong, as HKD is pegged to USD, the Group does not expect any significant movements in the USD/HKD exchange rate; and in respect of USD bank loans borrowed by PRC subsidiaries, as RMB is expected to be appreciated 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.

Contingent Liabilities

As at the reporting date, the Company had issued two guarantees to an independent third party which expire in 2025 and two guarantees to a bank which expire in March 2011 and July 2011 respectively in respect of finance lease arrangements entered into by its subsidiaries. The directors did not consider it probable that claims will be made against the Company under any of the guarantees. The maximum liability of the Company at the reporting date under the guarantees issued was 100% of the future minimum lease payments under the two lease agreements entered into by the subsidiaries of RMB100.0 million.

Charge on Assets

A share charge has been entered into between Union Growth Investments Limited ("Union Growth"), a wholly-owned subsidiary of the Company, and C.P. Merchandising Co. Ltd. ("CPM") on 30 May 2006 whereby Union Growth has agreed to pledge 38,960,000 registered shares of Lotus-CPF (PRC) Investment Company Limited ("Lotus-CPF"), a wholly-owned subsidiary of the Company to CPM as security for the due and punctual performance of its obligation under a Share Sale and Purchase Agreement dated 27 February 2006 made between Union Growth and CPM, in relation to the acquisition of the remaining 40% of Lotus-CPF. The share charge has been released in November 2010 as secured obligations have been discharged in full.

As at 31 December 2009, RMB200.0 million bank deposits were pledged to banks to secure banking facilities and bank borrowing to the Group, these pledged deposits have been fully released upon the completion of the Refinancing during the year.

A share charge has been created by the Company in favour of The Siam Commercial Bank Public Company Limited ("SCB") on 22 March 2010 whereby the Company has agreed to pledge all shares of Prime Global Retail Management & Advisory Limited to SCB.

An equitable share mortgage has been created by the Company jointly with Union Growth and Lotus-CPF (collectively known as the "Mortgagors") in favour of SCB on 22 March 2010 whereby the respective Mortgagors have agreed to pledge all shares of 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, Union Growth and Chia Tai-Lotus (Guangdong) Investment Co. Ltd. and 58,440,000 shares of Lotus-CPF to SCB.

An equitable share mortgage has been created by Union Growth in favour of SCB on 15 December 2010 whereby Union Growth has agreed to pledge 38,960,000 shares of Lotus-CPF to SCB.

The abovementioned share charge and equitable share mortgages in favour of SCB were created to secure the term loan facility of USD145.0 million which will expire on 31 December 2015 with instalment repayments scheduled during its term.

BUSINESS REVIEW

During the year under review, the Group did not open any new store but was actively seeking suitable site locations in a very prudent manner. One new store was opened in January 2011 in Guangzhou with a building area and sales area of approximately 10,300 sqm and 5,300 sqm respectively, providing over 500 car parking spaces.

The Group continued to focus its efforts on its TOP strategy to remain competitive.

Transform stores and merchandise to delight new generation customers

Upgrading of Stores to Lifestyle Model

During the year under review, the Group completed the renovation of a further 13 stores with a total renovated space of over 250,000 sqm in order to provide more varieties, higher quality products and convenient one stop shopping experience to our customers. The transformation has so far brought about encouraging results with sales increased by 8 to 15% whereas profitability increased by 30 to 40%. The average payback period for our investment is approximately 1 to 1.5 years.

Excel in integrated Operations with service excellence

Enhancement of Product Offering and Optimisation of Product Mix

We launched the ABC merchandise project where we divide merchandise assortment into 3 classes: A class to keep; B class to develop and C class to transform. Before the launch of the ABC merchandise project, our average assortment comprised approximately 20%, 30% and 50% of class A, B, and C products generating 80%, 15% and 5% revenue respectively. The plan was to increase class A product to 60% of total assortment, generating 80% of revenue and reduce Class C products to 10%. The objective is to increase Group sales and profit by reducing out of stock, display effectively, deleting non-movement and slow movement items, and introducing new and quality items. During the year under review, over 66,000 new items were introduced and over 45,000 under-performed items were removed.

We also developed the shop-in-shop model in some of our Shanghai stores, bringing in high quality and branded tenant to our sales area such as Uniqlo, CP Food and Samsung, further strengthening our offerings. This model has proven a success so far and we plan to introduce it to other regions.

Increase Operation Efficiency

Inventory Management, Operation and Supply Chain teams worked together to reduce the size of the store backroom and thus lower the level of inventory by better utilizing our distribution center network. More deliveries were made during the day to the stores to ensure no out of stock and reduce the inventory in backroom. Better tab planning to ensure only popular and high demand products were selected to avoid slow moving items was stocked up.

We continued our vendor evaluation project in 2010, the project helps us to understand vendor performance objectively and impartially so that tailor-made action plan can be drawn up. It also provides information to help enhance the quality performance of vendors and eliminate unqualified vendors.

In the past, invoice matching was conducted in VMS by finance staff in different regions. We modified our VMS system to integrate with new invoice matching software to support centralised invoice matching process. Our IS department also delivered over 2,000 business system enhancements of which 51% related to merchandise department, 20% related to store operations and 29% related to corporate support departments.

To provide our customers with more quality service, we redesigned and renovated our customer service counters in our stores providing seats to the waiting customers. Besides, we installed a ticket controlled queuing system, allowing a customer take a sequentially numbered ticket, organising the queue flow.

Membership Card Programme

We launched our membership programme "Lotus Fresh Card" in the first quarter of 2010 in addition to the current co-brand card programme with Bank of Communication in order to reward customer loyalty and attract new customers. Currently, members can enjoy special members' price of selected products and get special premium and service with accumulated points. Information gathered will be used to analyse customer spending behaviours and preferences and special marketing strategies will be devised to provide our loyal customers with further benefits. We now have a total membership of over 2.6 million.

Major Marketing Activities to Boost Sales and Brand Awareness

In order to create a new "youthful, trendy, energetic" brand image, we cooperated with Hunan TV to organise the Happy Boys Live Show in Super Brand Mall in August 2010. We promoted "Happy Items" and designed Happy Boys T-shirt which were sold at our Lotus stores. We also cooperated with the Columbia Picture Group, becoming the strategic partner of the Hollywood 3D movie "Green Hornet", we were able to increase our brand awareness through the 30 seconds commercial before the movie and co-brand promotion.

Develop People with Win-Win growth

As at 31 December 2010, the Group employed a total 13,902 employees, of which 1,911 were head office staff and 11,991 were store employees. In 2010, total 183 employees were recruited through the cooperation with the Charoen Pokphand Corporate University ("CPCU") team. CPCU was established in 2007 by the Charoen Pokphand Group, the objective is to recruit and develop talented graduates from leading universities in Shanghai, Beijing and Guangzhou through various courses and on the job training, providing Lotus with a pool of future leaders. In addition, CPCU also offers training programmes to existing Lotus employees.

In 2010, among our growth priorities, the development of a strong foundation of leadership pipeline is always a top priority. Besides the recruitment of high caliber management trainees, the Group also selected 8 functional leaders to participate in a 6-month CP Corporate Leadership Programme with project based action learning methodology to develop strategic business competency as well as personal leadership skills.

The Group continued its commitment on People and Manager Development. To improve our employees' knowledge and skills, the Group launched training programmes such as continuing degree education programmes, orientation programme to focus on communication with the culture, principle of our Group and behaviour, operation procedures and guideline of our work standard and entry-level management skills for our first line supervisors.

In 2010, we continued to reinforce the performance management processes with focus on developing the key performance indicators ("KPI") and launch performance based bonus programme for our key functions – store operation and merchandise. With the information generated from the Mercer Consulting Project in 2009, after the launch of a position based salary structure in 2009, a bonus plan for store operation was announced in May 2010 and bonus plan for merchandise was pilot in October 2010. The objective is to reward and retain high performing team and individuals.

LOOKING AHEAD

China has become the world's second largest economy and its retail industry has reached a stable and high-speed development stage with an annual growth rate of over 10% since the beginning of the 21st century. China's retail market will continue to share the benefits from the fast development of China's economy and increasing personal consumption resulting from rapid urbanisation, increasing middle-class population and improving social security system and the government's policies to encourage increase in consumption.

We will continue our store transformation to Lifestyle model in 2011 and plan to finish renovation of all stores by the end of the year. While continue to focus on the development and improvement of our existing stores, we will step up our store expansion plan in 2011 to gain market share and capture the enormous opportunities of the PRC retail market. Except the Lotus store in Super Brand Mall, all our other stores are hypermarket format with a sales area of at least 7,000 sqm. In 2011, we will continue to develop other retail formats in order to cater for different customer needs – our second supermarket store will be opened in April in the affluent Xintiandi, Shanghai.

With the success of the shop-in-shop model launched in some of the Shanghai stores in 2010, we will take this new model to all our Lotus stores. Different theme zone will be created in collaboration with leading vendors e.g. "Safety and Healthy Dining Zone" with Nestle; "Mom & Child" zone with P&G; and "Samsung City" with Samsung.

We will continue to optimise our product mix to achieve at least 60% Class A products generating 80% of revenue. We target to introduce 800 new Class A items and delete at least 800 Class C items every month. We will ensure that Class A products are always in stock and that our customers are always provided with products that they need, want and dream of.

We will continue to upgrade our IT system in order to increase overall efficiency and reduce costs, the old server will be replaced to expand the data storage and improve performance. We would introduce ISO27000, a series of standards have been specifically reserved by the ISO to provide a model for establishing, monitoring, maintaining and improving Lotus information security management system.

We will continue to recruit and develop high caliber talents for the Group in supporting our growth strategy. We will work more closely with CPCU and other leading universities to recruit and develop leaders at all levels. We will continue to implement the performance KPI evaluation to ensure everyone is properly rewarded for their contribution to the Group. We will reinforce "customer centric" and "service excellence" through trainings and better communications.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all code provisions set out in the Code on Corporate Governance Practices 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 2010.

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, 25 March 2011

As at the date of this announcement, the Board of the Company comprises twelve executive directors, namely Mr. Dhanin Chearavanont, Mr. Soopakij Chearavanont, Mr. Narong Chearavanont, Mr. Li Wen Hai, Mr. Meth Jiaravanont, Mr. Michael Ross, Mr. Yang Xiaoping, Mr. Umroong Sanphasitvong, Mr. Robert Ping-Hsien Ho, Mr. Suphachai Chearavanont, Mr. Piyawat Titasattavorakul and Mr. Shih Hong-Mo and three independent non-executive directors, namely Mr. Viroj Sangsnit, Mr. Chokchai Kotikula and Mr. Cheng Yuk Wo.