LOTUS 卜蜂莲花

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 2011

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 2011 with comparative figures in 2010 were as follows:

Consolidated Statement of Comprehensive Income

		For the year ended 31 December	
		2011	2010
	Notes	***RMB'000***	*RMB'000*
Turnover	*2*	**10,019,305**	9,374,500
Cost of sales		**(8,243,734)**	(7,641,160)
Gross profit		**1,775,571**	1,733,340
Other revenue	*3*	**377,557**	334,677
Other net income	*3*	**17,162**	39,417
Distribution and store operating costs		**(1,657,151)**	(1,565,941)
Administrative expenses		**(328,766)**	(345,006)
Profit from operations	*4*	**184,373**	196,487
Gain on redemption of convertible bonds	*5*	**-**	408,487
Finance costs	*6*		
– Interest on convertible bonds		**-**	(91,459)
– Other finance costs		**(149,687)**	(172,859)
		(149,687)	(264,318)
Profit before taxation		**34,686**	340,656
Income tax	*7*	**(10,926)**	8,666
Profit for the year		**23,760**	349,322

Consolidated Statement of Comprehensive Income (Continued)

		For the year ended 31 December	
		2011	2010
	Notes	***RMB'000***	*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")		**37,062**	43,519
Cash flow hedge:			
- Effective portion of changes in fair value		**3,391**	(6,734)
- Reclassified to profit or loss		**3,343**	-
		43,796	36,785
Total comprehensive income for the year		**67,556**	386,107
Profit for the year attributable to:			
Equity shareholders of the Company		**23,813**	349,322
Non-controlling interests		**(53)**	-
		23,760	349,322
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		**67,609**	386,107
Non-controlling interests		**(53)**	-
		67,556	386,107
Earnings per share	*9*		
- Basic		**0.16 RMB cent**	2.68 RMB cents
- Diluted		**0.15 RMB cent**	0.20 RMB cent

Consolidated Statement of Financial Position

		As at 31 December	
		2011	2010
	Notes	***RMB'000***	*RMB'000*
Non-current assets			
Fixed assets			
- Property, plant and equipment		**1,530,810**	1,523,361
- Interests in leasehold land held for own use under operating leases		**160,533**	166,827
		1,691,343	1,690,188
Intangible assets		**201,082**	211,795
Goodwill	*10*	**2,719,785**	2,719,785
Prepaid lease payments for premises		**6,000**	8,089
Other long-term prepayments		**7,342**	5,549
Deferred tax assets		**113,717**	106,596
		4,739,269	4,742,002
Current assets			
Prepaid lease payments for premises		**11,145**	4,584
Inventories		**1,177,056**	826,699
Trade and other receivables	*11*	**580,257**	692,159
Pledged bank deposits		**143,179**	96,061
Cash and cash equivalents		**242,380**	288,422
		2,154,017	1,907,925
Assets classified as held for sale	*12*	**15,927**	-
		2,169,944	1,907,925
Current liabilities			
Trade and other payables	*13*	**3,775,680**	3,317,498
Bank loans		**74,953**	145,693
Other loans		**117,093**	242,287
Obligations under finance leases		**6,052**	5,150
Current taxation		**18,899**	16,705
Provisions	*14*	**267**	551
		3,992,944	3,727,884
Net current liabilities		**(1,823,000)**	(1,819,959)
Total assets less current liabilities		**2,916,269**	2,922,043
Non-current liabilities			
Bank loans		**687,441**	1,410,024
Obligations under finance leases		**187,107**	193,159
Deferred tax liabilities		**39,236**	41,662
		913,784	1,644,845
NET ASSETS		**2,002,485**	1,277,198
CAPITAL AND RESERVES			
Share capital		**340,614**	280,585
Reserves		**1,659,924**	994,613
Total equity attributable to equity shareholders of the Company		**2,000,538**	1,275,198
Non-controlling interests		**1,947**	2,000
TOTAL EQUITY		**2,002,485**	1,277,198

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 ("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").

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.

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation 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.

- HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*
- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)

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

HK(IFRIC) 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods.

Improvements to HKFRSs (2010) introduce a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

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 is 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 INCOME

	For the year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Other revenue		
Leasing of store premises	**285,712**	241,412
Other promotion and service income	**70,572**	68,441
Interest income	**5,686**	7,462
Government grants (note (i))	**15,587**	5,758
Procurement service fee	**-**	1,761
IT service fee income	**-**	9,843
	377,557	334,677
Other net income		
Net foreign exchange gain	**20,407**	11,223
Net income from store lease cancellations (note (ii))	**978**	35,115
Net loss on disposal of fixed assets	**(4,223)**	(6,921)
	17,162	39,417

Note:

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

(ii) During 2010, 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.

4. DEPRECIATION AND AMORTISATION

During the year ended 31 December 2011, depreciation of RMB181,753,000 (2010: RMB200,842,000) in respect of the Group's property, plant and equipment; amortisation of RMB6,294,000 (2010: RMB7,017,000) in respect of land lease premium, and amortisation of RMB10,713,000 (2010: RMB10,710,000) in respect of intangible assets were charged.

5. GAIN ON REDEMPTION OF CONVERTIBLE BONDS

On 30 June 2010, the Group purchased and cancelled all outstanding convertible bonds in issue with the consideration satisfied by the issuance to the bondholders, entities related to the Company's ultimate holding company, of 3,897,110,334 Series B convertible preference shares. As at 30 June 2010, the carrying value of the outstanding 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 Series B convertible preference shares issued of RMB754,230,000 and the liability component of the redeemed outstanding convertible bonds was recognised as gain on redemption of convertible bonds.

6. FINANCE COSTS

	For the year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Finance costs:		
Interest on borrowings wholly repayable within five years:		
- Bank loans	86,397	91,073
- Other loans	11,397	31,485
Interest on bank loan repayable after five years	77	-
Finance charges on obligations under finance leases	19,359	19,816
Interest on convertible bonds (note (i))	-	91,459
Interest on deferred consideration payable	-	785
Total interest expense on financial liabilities not at fair value through profit or loss	117,230	234,618
Interest-rate swaps: cash flow hedges, reclassified from equity (note (ii))	3,343	-
Loan arrangement and guarantee fees	29,114	29,700
	149,687	264,318

Note:

(i) Interest on convertible bonds for the year ended 31 December 2010 consists of RMB6,589,000 representing coupon interest at 1% per annum on the principal amount of the convertible bonds and RMB84,870,000 representing additional interest expense arising from the re-measurement of the liability component of the convertible bonds upon their issuance using the effective interest rate method.

(ii) At 31 December 2010, the Group and the Company had entered into interest rate swaps with a notional contract amount of USD135 million (equivalent to RMB895 million), which were designated as cash flow hedges of the interest rate risk inherent in the Company's variable rate term bank loans. Such bank loans were fully repaid on 28 December 2011. As a result, the cumulative unrealised losses on the interest rate swaps were reclassified from equity to profit or loss on that date.

7. INCOME TAX

	For the year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Current tax - PRC		
Provision for the year	**20,473**	17,617
Deferred tax		
Origination and reversal of temporary differences	**(9,547)**	(26,283)
Taxation expenses/(credit)	**10,926**	(8,666)

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% (2010: 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 2011, the PRC subsidiaries of the Group had accumulated losses and therefore no deferred tax liabilities were recognised in this regard.

8. DIVIDEND

No dividend was paid or proposed during the years ended 31 December 2011 and 2010, nor has any dividend been proposed since the reporting date.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year of RMB23,813,000 (2010: RMB349,322,000) and on the total weighted average number of 15,145,409,894 (2010: 13,055,568,891) ordinary shares and convertible preference shares in issue during the year, comprising 9,184,414,410 (2010: 9,184,414,410) weighted average number of ordinary shares, 1,518,807,075 (2010: 1,518,807,075) weighted average number of Series A convertible preference shares, 3,897,110,334 (2010: 1,948,555,167) weighted average number of Series B convertible preference shares and 545,078,075 weighted average number of Series C convertible preference shares (2010: 403,792,239 reflecting the retrospective adjustment for the bonus element included in the open offer of Series C convertible preference shares).

The calculation of the diluted earnings per share for the year ended 31 December 2011 is based on the profit attributable to equity shareholders of the Company of RMB23,813,000, and on the above total weighted average number of 15,145,409,894 ordinary and convertible preference shares in issue during the year, plus 1,009,597,522 weighted average number of potential ordinary shares deemed to be issued if the outstanding share options had been exercised.

The calculation of the diluted earnings per share for the year ended 31 December 2010 is based on the adjusted profit attributable to equity shareholders of the Company (diluted) of RMB32,294,000, representing the 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 above total weighted average number of 13,055,568,891 ordinary and convertible preference shares, plus 1,948,555,167 and 985,699,697 weighted average number of potential ordinary shares deemed to be issued if the convertible bonds and outstanding share options had been exercised respectively.

10. GOODWILL

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
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

11. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Trade receivables, other receivables and deposits	**221,331**	199,385
Amounts due from related companies	**358,926**	492,774
	580,257	692,159

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

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

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Current	**24,235**	20,243
1 to 30 days overdue	**2,031**	2,702
31 to 60 days overdue	**1,261**	849
61 to 90 days overdue	**101**	48
Over 90 days	**643**	994
	28,271	24,836

12. ASSETS CLASSIFIED AS HELD FOR SALE

	As at 31 December	
	2011	2010
	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 to be 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 million. Accordingly, the assets to be disposed to Whole Sino have been separately classified in the consolidated statement of financial position. The disposal was completed on 1 March 2012.

13. TRADE AND OTHER PAYABLES

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Notes payable	**205,909**	81,850
Creditors and accrued charges	**3,216,285**	3,091,134
Amounts due to related companies	**350,211**	137,780
Derivative cash flow hedging instruments	**3,275**	6,734
	3,775,680	3,317,498

Included in trade and other payables are trade creditors and notes payable of RMB2,597,204,000 (2010: RMB2,375,738,000) with the following ageing analysis:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Uninvoiced purchases	**1,009,128**	886,294
Within 30 days of invoice date	**1,537,426**	1,460,805
31 to 60 days after invoice date	**32,784**	23,964
61 to 90 days after invoice date	**762**	821
More than 90 days after invoice date	**17,104**	3,854
	2,597,204	2,375,738

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 claims from suppliers. Provisions are summarised as follows:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
As at 1 January	**551**	44,324
Provisions utilised	**(284)**	(43,773)
As at 31 December	**267**	551

15. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(i) Acquisition of subsidiaries

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 to be 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, accounted for using the acquisition method of accounting, would have the following estimated 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

If the above acquisition had occurred on 1 January 2011, the directors estimate that the consolidated turnover of the Group would have been RMB10,731 million and the consolidated profit for the year would have been RMB42 million for the year ended 31 December 2011. In determining these amounts, the directors of the Company have assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2011.

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

(ii) Disposal of Madang Lu Store

The disposal of Madang Lu Store Business as set out in note 12 was completed on 1 March 2012. No material gain or loss arose from this transaction.

(iii) Conversion of Series C convertible preference shares

Subsequent to 31 December 2011, 828,000 Series C convertible preference shares were converted to the same number of ordinary shares of the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

With the support of our shareholders, the Company successfully completed the open offer of convertible preference shares ("Series C CPS") and raised net proceeds of approximately RMB657.7 million in December 2011 ("Open Offer"). The full amount has been used to repay part of the existing loans thereby enhancing the capital structure and reducing the financing cost of the Group. The Series C CPS carry no fixed dividend and can be converted to ordinary shares at HK$0.22 per share with no expiry date subject to the compliance of the minimum public float requirement under the Listing Rules. In addition, with the support and confidence of our banking partners on the back of a stronger balance sheet and continued improved performance, the Group refinanced its loan portfolio with lower overall finance cost and additional working capital for store expansion and renovation. As a result of the increase in capital and reduction in debt, the interest bearing debt to equity ratio improved from 1.41 times to 0.44 time.

The Company made an announcement on 14 October 2011 in respect of the proposed acquisition, from Whole Sino, of the entire issued share capital of Excel Worth which operates four hypermarkets in Wuxi, Xuzhou, Hefei and Changsha (the "Acquisition") for a consideration which would be settled by the issuance of convertible preference shares ("Series D CPS"). Whole Sino is a wholly-owned subsidiary of Charoen Pokphand Group Company Limited ("CPG"). As the major conditions precedent had been fulfilled, the Company and Whole Sino agreed completion to take place on 1 January 2012 and a total of 2,211,382,609 Series D CPS were issued. The Series D CPS carry no fixed dividend and can be converted to ordinary shares at HK$0.23 per share at any time subject to the compliance of the minimum public float requirement under the Listing Rules.

Turnover

Group turnover was entirely generated from the sale of goods, less returns, discounts and value added tax from our operations in China. Total turnover increased 6.9% to RMB10,019.3 million and same store sales growth was 5.2%. Turnover was RMB9,197.5 million (2010: RMB8,832.4 million) excluding merchandise sold to C.P. Holding (BVI) Investment Company Limited ("CPH") and its related entities.

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. Front margin dropped 0.6 percentage points to 9.5% in 2011 as a result of the acceleration of inflation during 2011 and thus leading to higher cost of sales. In addition, there were more price reduction promotions to boost sales and reduce inventory level. Back margin also dropped slightly from 8.4% in 2010 to 8.2% in 2011. Gross profit margin was 19.3% (2010: 19.6%) excluding sales at wholesale price to CPH and its related entities. We continued to work closely with our suppliers for a higher rebate on sales volume by driving higher sales while lowering other forms of rebates and allowances received from them.

Other Revenue and Other Net Income

It comprised mainly of income received from leasing of store premises, promotion and service income and other net income. The increase was mainly attributable to the increase in income from leasing of store premises of RMB44.3 million which resulted from the opening of the new stores during 2011 and we were able to charge a higher rental upon contract renewal.

Distribution and Store Operating Costs

Distribution and store operating costs for the year under review were RMB1,657.2 million, approximately 16.5% of sales (2010: RMB1,565.9 million, or 16.7% of sales). It mainly comprised of personnel, rental expenses, utilities and depreciation and amortization for a total of RMB1,370.8 million, or over 80.0% of total distribution and store operating costs. 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 RMB995.2 million, or 9.9% of sales as compared to RMB907.7 million, or 9.7% of sales in 2010. Personnel expenses increased by RMB85.5 million primarily as a result of government's policy to increase the minimum wage nationwide, the general rise in salary and corresponding social welfare contributions in line with China's CPI growth and the opening of new stores in 2011. Surtax also increased by RMB17.3 million due to the introduction of urban maintenance and construction tax and education levy to foreign invested enterprises in China at the end of 2010. Personnel expenses, rental (including property rental and shuttle bus rental), and utilities expenses included in distribution and store operating costs accounted for approximately 5.3%, 4.8% and 1.8% of the Group's total turnover respectively.

Administrative Expenses

Administrative expenses were RMB328.8 million, or 3.3% of sales compared to RMB345.0 million, or 3.7% of sales in 2010. Administrative expenses included personnel expenses of RMB221.9 million, rental of RMB17.5 million, professional fee of RMB15.5 million and depreciation and amortization of RMB17.8 million. Despite the opening of new stores, the general rise in salary and high inflation, we managed to lower the administrative expenses by increasing staff efficiency and productivity and introduction of more cost effective measures.

Financial Expenses

Financial expense was RMB149.7 million, or 1.5% of sales, a decrease of RMB23.1 million from 2010, excluding the interest charge on convertible bonds in 2010. The significant reduction was due to the repayment of bank loans and other loans during the year under review. We will continue our objective to reduce our overall debt levels.

Net Profit

Net profit attributable to shareholders was RMB23.8 million compared to a net profit of RMB32.3 million, excluding gain on redemption of convertible bonds and associated interest expenses in 2010. Despite our efforts in containing the rise in distribution and administrative expenses, the net profit recorded was less than that of last year because of the negative growth of the gross profit margin as explained above.

EBITDA

EBITDA was down from RMB415.0 million, excluding gain on redemption of convertible bonds to RMB383.2 million in 2011, or approximately 3.8% of sales.

Liquidity and Financial Resources

During the year, the Group's sources of funds were generated primarily from operating activities and proceeds from Open Offer. The net cash and cash equivalents decrease was mainly due to repayment of bank and other loans. We expect we will continue to have sufficient cash to meet our business needs.

	For the year ended 31 December	
	2011	2010
Cash and cash equivalents (RMB million)	**242.4**	288.4
Net cash outflow after effect of foreign exchange rate changes (RMB million)	**(46.0)**	(27.5)
Current ratio (x)	**0.54**	0.51
Quick ratio (x)	**0.25**	0.29

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 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, as 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.

Contingent Liabilities
As at 31 December 2011, 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 2012 and July 2012 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 2011 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
Subsequent to the release of share charge and equitable share mortgages in favour of the Siam Commercial Bank Public Company Limited, Hong Kong Branch created to secure the Company's term loan facility, for which the outstanding principal of USD128.3 million was fully repaid by the Company on 28 December 2011, a share charge has been created by the Company in favour of Bangkok Bank Public Company Limited, Hong Kong Branch ("BBL") on 16 December 2011 whereby the Company has agreed to pledge all shares of its subsidiary, Prime Global Retail Management & Advisory Limited to BBL. An equitable share mortgage has been created by the Company in favour of BBL on 16 December 2011 whereby the Company has 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.

An equitable share mortgage has been created by Union Growth in favour of BBL on 16 December 2011 whereby Union Growth has 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 share mortgage has been created by Lotus-CPF in favour of BBL on 16 December 2011 whereby Lotus-CPF has agreed to pledge 97,389,312 shares of its subsidiary, CT-Lotus to BBL.

The abovementioned share charge and equitable share mortgages in favour of BBL were created to secure the Company's term loan facility of USD28 million which will expire on 31 December 2018 with instalment payments scheduled during its term.

BUSINESS REVIEW

Store Network

During the year under review, the Group opened two hypermarkets in Guangzhou, one supermarket in Shanghai, which has been subsequently disposed of on 1 March 2012 and two Lotus Life Stations in Shanghai. Lotus Life Station is a new business format with a size of approximately 350 to 700 sqm. Unlike a conventional convenience store or supermarket, its trendy, chic and comfortable design creates a fresh, energetic and friendly lifestyle which caters for the daily need of the city people. The performance of this new business format has been satisfactory.

With the completion of the Acquisition on 1 January 2012, the Group now owns and operates 52 Lotus stores and two Lotus Life Stations with total sales area of approximately 720,000 sqm.

Optimisation of Merchandise

We continued our efforts to broaden our merchandise assortment and presentation in order to meet the changing demands of customers. We reviewed our merchandise mix regularly by conducting line review based on customer research and market trend to ensure below-par performance products were removed and replaced by newer and more in-demand products. We also recognised that there are differences in tastes and preferences in different cities and in different regions and our merchandise mix is often adjusted to cater for such differences.

The quality and safety of our products is of paramount importance to Lotus as well as being essential for maintaining customer trust and confidence. Given the frequent disclosure of tainted food incidents in recent years, it is also our responsibility to give assurance to customers about what they eat. We continue to review and strengthen our quality control measures through supply chain and vendor development to ensure product integrity. There are strict product safety processes and regular management reports. In recognition of our commitment to food safety, we were awarded the 2011 Award for Outstanding Contribution in Food Safety & Public Health - Trust 100 organized by the China Business Network and the Shanghai Media Group.

As competition continued to intensify, we had to ensure our product prices remain competitive. We surveyed the prices of similar products of our competitors nearby regularly and the findings form basis of the price adjustment.

We continued to expand our direct sourcing bases to deliver more sustainable, safe products and allow the farmers to retain more profit while lowering the overall cost to our customers.

We continued to work closely with our suppliers to improve customer shopping experience through product innovation, co-brand marketing activity and customer centricity. We successfully rolled out joint business plan with 22 selected strategic partners to all our stores and we will continue to expand this strategic partnership with more suppliers and strengthen our relationship through resource sharing and people collaboration. We also continued the development of our shop-in-shop model to bring in well-known tenants such as Uniqlo, Samsung and Giordano to our sales area to further enhance our offerings. Although this new model is only featured in two stores in Shanghai currently, we have plans to develop this model to more stores in 2012.

Improvement of Operation Efficiency

During the year under review, we continued to upgrade and improve our IT system to increase overall efficiency and reduce costs. We upgraded the SAP system with enhanced functions and lower maintenance cost. In response to the government’s requirement, we enhanced our store and supply chain system which allows us to trace and manage the supply chains of agricultural products, meat and liquor at different stages.

Our inventory management team, operation team and the supply chain team continued to work together to reduce the size of the store backroom and thus lower the level of inventory carried by better utilizing our distribution centre network. More deliveries are made to ensure no out-of-stock. During the year under review, we have completed the reduction of store backroom of two stores in Shanghai and one store in Xian.

We understand standardization and simplification are keys to improving efficiency. We continued to review and streamline our organization structure in order to remove unnecessary or duplicative processes and procedures. The Group is also committed to total quality management ("TQM") to achieve operational excellence. Currently 28 of our stores and our Shanghai fresh and dry distribution centres are ISO 9001 certified. We will continue to work on improving and implementing our TQM principles and aim to achieve ISO9001 certificate for most of our stores by the end of 2012.

Continued Store Innovation

Responding to the emergence of a fast growing middle class population and the quest for better shopping experience of our customers, the Group continued to renovate and upgrade our stores to lifestyle concept providing our customers with more varieties and better quality products. The lease areas have also been upgraded to bring in more well-known and branded tenants to enhance the one-stop shopping experience. As of the date of this announcement, 41 of our 52 stores are lifestyle concept stores.

Optimisation of Supply Chain Management

We have one of the largest and most advanced distribution centre network in China and we continued to develop and upgrade its hardware and software to support our operation and expansion and our customers are able to enjoy safe, and hygienic products with our fresh distribution centre providing unbroken cold chain from vendors to stores on a 24-7 basis. The Group plans to open a new 40,000 sqm distribution centre in Shantou which is expected to be operational in 2013 and will cover the stores in east Guangdong and Hunan provinces.

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. Following the severe flooding that devastated Thailand last year, with the generosity of our staff, the Group donated over RMB1.1 million towards the cause. We continued to make donation to Fudan University, Tsing Hua University and Shanghai Jiao Tong University to sponsor their MBA programs. Other social activities include giving out stationeries and books to kids in the rural area and assisting the farmers in Shangdong to sell their cabbages in our stores.

People Development

As at 31 December 2011, the Group employed a total of approximately 15,800 employees of which 1,600 were head office staff and 14,200 were store employees.

Training and development is one of the Group's strategic priorities in attracting, developing and retaining a knowledgeable and skilled workforce in. The Group launched its first action learning leadership program, Leaders Developing Leaders Program "LDL", focusing on improving and developing comprehensive leadership capability of the middle level managers. The concept is to combine teaching in a class and action learning of real projects, allowing the participants to apply what has been learnt into practice. Total 37 middle managers were selected and grouped into six cross-functional projects. These six projects are real business projects aiming to help solve real life issues or challenges, to improve efficiency or effectiveness, or create new business opportunities with data analysis. There were three workshops held and the final project review session is scheduled in April 2012.

In the business of budget process, we continued to reinforce the performance processes with focus on developing the key performance indicators ("KPIs") for all functions. Each function has completed putting together its own KPIs in accordance with the Group's business strategy and objective.

LOOKING FORWARD

Uncertainties still linger in the world economy despite signs of stabilization recently. We believe the outlook remains challenging but the Group is confident in the long term prospects of the China's economy. Chinese government announced an economic growth rate target of 7.5%, which, although a slight drop from 8% in the previous years, is among the highest in the world's major economies. The government also signaled the cut in reliance of export and capital spending in favour of consumption. China reported an inflation of 3.2% in February 2012, the slowest inflation in 20 months and easing pressure on the cost of sales.

We will continue to expand our retail network, upgrade and renovate existing store portfolios, improve merchandise mix and increase productivity and efficiency to deliver a compelling in-store experience that drives profitable growth in 2012. We will continue our strategy to align talent, space, processes and technology to meet the changing demand of our customers and deliver sustainable growth.

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 except that the Chairman did not attend the annual general meeting held on 15 June 2011 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 2011.

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, 27 March 2012

As at the date of this announcement, the Board comprises twelve executive directors, namely Mr. Dhanin Chearavanont, Mr. Soopakij Chearavanont, Mr. Narong Chearavanont, Mr. Michael Ross, Mr. Yang Xiaoping, Mr. Li Wen Hai, Mr. Meth Jiaravanont, 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.