Sun Art Retail Group Ltd.

(Incorporated in Hong Kong with limited liability)
Stock Code: 6808

SUN ART Retail Group Ltd.

2016 Annual Report

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Bruno, Robert MERCIER *(Chief Executive Officer)*
HUANG Ming-Tuan

Non-Executive Directors

CHENG Chuan-Tai *(Chairman)*
Benoit, Claude, Francois, Marie, Joseph LECLERCQ
Xavier, Marie, Alain DELOM de MEZERAC
Wilhelm, Louis HUBNER

Independent Non-Executive Directors

Karen Yifen CHANG
Desmond MURRAY
HE Yi

AUDIT COMMITTEE

Desmond MURRAY *(Chairman)*
CHENG Chuan-Tai
Xavier, Marie, Alain DELOM de MEZERAC
Karen Yifen CHANG
HE Yi

REMUNERATION COMMITTEE

Karen Yifen CHANG *(Chairman)*
CHENG Chuan-Tai
Wilhelm, Louis HUBNER
Desmond MURRAY
HE Yi

NOMINATION COMMITTEE

HE Yi *(Chairman)*
CHENG Chuan-Tai
Wilhelm, Louis HUBNER
Karen Yifen CHANG
Desmond MURRAY

COMPANY SECRETARY

CHAN Wai Ling, FCIS, FCS (PE)
(appointed on 10 August 2016)

AUTHORISED REPRESENTATIVES

Bruno, Robert MERCIER
CHAN Wai Ling (appointed on 10 August 2016)

REGISTERED OFFICE IN HONG KONG

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PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC" OR "CHINA")

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LEGAL ADVISOR

Herbert Smith Freehills
23rd Floor, Gloucester Tower
15 Queen's Road Central, Hong Kong

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

AUDITORS

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road, Central, Hong Kong

COMPANY'S WEBSITE

www.sunartretail.com

STOCK CODE

6808

	For the year ended 31 December		
	2016	2015	Change
	RMB million	*RMB million*	
Revenue	**100,441**	96,414	4.2%
Gross Profit	**23,981**	22,463	6.8%
Profit from Operations	**3,936**	3,575	10.1%
Profit for the Year	**2,629**	2,464	6.7%
Profit Attributable to Equity Shareholders of the Company	**2,571**	2,443	5.2%
Earnings Per Share ("EPS") – Basic and diluted (1)	**RMB0.27**	RMB0.26	

	As at 31 December		
	2016	2015	Change
	RMB million	*RMB million*	
Total Assets	**60,341**	55,509	8.7%
Total Liabilities	**37,532**	33,882	10.8%
Net Assets	**22,809**	21,627	5.5%
Net Financial Position (2)	**8,110**	5,978	35.7%
Gearing Ratio (3)	**0.36**	0.28	
Current Ratio (4)	**0.72**	0.67	

Notes:

(1) The calculation of basic and diluted EPS for the year ended 31 December 2016 and 2015 is based on the weighted average number of 9,539,704,700 ordinary shares in issue during the year.

(2) The balance of net financial position is calculated as the sum of cash and cash equivalents and time deposit minus bank loans.

(3) Gearing Ratio = Net Financial Position/Total Equity

(4) Current Ratio = Current Assets/Current Liabilities

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear Shareholders,

2016 was quite similar to 2015 for retail industry in China, with growth in retail sales reaching 10.4% (+7.5% offline and +26.2% online). Nonetheless, we are glad to report that, in this environment, Sun Art Retail Group Limited (the "**Company**"), together with its subsidiaries (the "**Group**"), has shown strong resilience in its revenue and results while continuing to invest in the development of new retails formats and E-commerce sales channels.

Our sales of goods grew by 4.1% to RMB97,096 million in 2016. The key driver of our growth was the successful opening of 38 hypermarkets (following 38 openings in 2015 and 49 openings in 2014). We should also mention another 1 store opened just before Chinese New Year in 2017. Our same store sales growth was -0.34%, among the best within retailers selling food and non-food. We can also see that the contribution of online to offline ("**O2O**") to the stores sales further increased and will continue to do so in the next few years.

Our rental income increased by 6.4%. This reflects the enduring traffic generated by our hypermarkets, and the work we undertake with our tenants to improve the animation of our galleries.

In order to open those stores we invested a total of RMB2,582 million, as well as RMB943 million to renovate existing stores in order to keep an attractive shopping experience for our customers. Our total investment therefore increased by 7.7% over 2016.

Profit attributable to shareholders reached RMB2,571 million, an increase of 5.2% over 2015. This profit would have increased by 8.0% if not for the losses incurred by Feiniu.com, fieldschina.com and Oney China. This shows both the resilience of our brick and mortar business and the commitment we have to diversify our income streams.

Our gross profit margin grew 0.6 percentage points from 23.3% to 23.9%, driven by improvements in our product mix and improved common negotiations. The banners negotiated around 47.9% of our buying turnover in 2016 (51.9% in fast moving consumer goods industry).

We managed to improve our operational effectiveness by working on our three main cost drivers: labor, energy and rental expenses. Our total head count increased only by 5.14%, and our average number of employees per store went from 320 to 298 as of 31 December 2016 as we continued to deploy a number of initiatives at the store level to improve our productivity. We were also able to keep our energy expenses growth at 0.1%, which was less than revenue growth.

Finally, we undertook a reshuffling of some store assets: one RT-Mart in Weifang, Shandong province was closed, whereas one Auchan store in Yantai changed banners. In addition, two Auchan banner stores located in Northern China in Shandong and Liaoning are now being serviced by the RT-Mart Distribution centers located in Shenyang and Jinan. This resulted in strong increases in sales and margin due to better purchasing prices and delivery service. Finally, we have managed to renegotiate our lease payments in a number of sites with a difficult trading environment.

RH Lavia in Changzhou and Hi!Auchan in Shanghai, the two small format stores opened at the end of 2015 which sold mainly food showed strong progress. We will open additional units of this model in the future.

Feiniu.com has been restructured to enhance its capabilities to be a tool at the service of store O2O sales and achieved major milestones in 2016:

- Gross Merchandise Value ("**GMV**") doubled versus 2015, reaching RMB2.1 billion and 29.1% of the GMV was achieved through O2O sales
- 36 stores are now being used as delivery outlets for O2O sales

In addition, both the Auchan and RT-Mart banners signed agreements to cooperate with Baidu Waimai, Meituan and Eleme platforms to deliver, within two hours, a range of products including fresh items in the trading areas of the stores covered. Almost 250 stores are now offering this service and it is expected that, by the end of 2017, the cooperation will cover almost all the stores, which means that we will be able to offer delivery services to people living within 5 kms of each of our stores.

During 2016, fieldschina.com sales increased by more than 50%. We are serving more and more Chinese customers, and adjusting continuously our range to satisfy them. The company will in 2017 move to new facilities that will enable it to continue to grow its sales of quality products to its customers.

Moreover, with consumer upgrading, the Group continues to promote our exclusive brand products to provide our customers higher value products with good quality. Sales of non-food own brands such as Actuel (home decoration), Airport (luggage) progressed by more than 50%. Our new Chinese cuisine brand named "Huishang" had a successful launch.

Looking ahead in 2017 and beyond, we will continue to open hypermarkets in locations where we believe will bring service to customers. As in 2016, we will open less than 40 stores, continuing to put more emphasis on the quality of each site.

At the same time, we will increase our investments in existing sites, with a renovating program committing RMB633 million to the expansion and renovation of, in particular, our property stores.

We believe that the initiatives outlined above will allow us to continue to gain market share in 2017, as well as improving our operating margins.

We continued to work on corporate responsibility and sustainable development initiatives and we are ready to comply with the new HKSE rules on the matter.

The Board has recommended the payment of a dividend of HKD2,194 million, translating into HKD0.23 per share.

Looking forward, we will continue to be working on the transformation of our banners into multichannel retailers, serving omni-channel customers. We will be able to continue to improve our competitive position in China's growing retailing market.

CHENG Chuan-Tai
Chairman of the Board

Bruno, Robert MERCIER
Chief Executive Officer and Executive Director

17 February 2017

FINANCIAL REVIEW

Revenue

Revenue is derived from sales of goods and rental income. Revenue from sales of goods is primarily derived from the hypermarkets and the E-commerce platforms where merchandise, mainly food, groceries, home appliances, textile and general goods are laid out for sale. Revenue from sales of goods is net of value added tax and other applicable sales taxes after deducting any trade discounts. Revenue from rental income is derived from renting gallery space in hypermarket complexes to operators of businesses that we believe are complementary to the stores.

The following table sets forth a breakdown of the revenue from sales of goods and rental income for the years indicated:

	Year ended 31 December		
	2016	2015	Change
	(RMB million)	*(RMB million)*	
Sales of goods	**97,096**	93,270	4.1%
Rental income	**3,345**	3,144	6.4%
Total revenue	**100,441**	96,414	4.2%

For the year ended 31 December 2016, revenue from sales of goods was RMB97,096 million, an increase of RMB3,826 million, or 4.1%, from RMB93,270 million for the year ended 31 December 2015. The increase was primarily attributable to the continued business expansion of the Group with the opening of new stores [(1)].

For the year ended 31 December 2016, the Group continued to expand in various areas of China and opened 38 stores, which contributed to the increase in sales of goods.

For the year ended 31 December 2016, the same store sales growth (the "**SSSG**")[(2)] was -0.34%, versus -3.6% for the year ended 31 December 2015. The growth of consumer market was steady, although it was slower than previous periods. The competition in retail industry was still intensive in 2016. Nevertheless, SSSG improved, mainly reflecting the efforts made by the Group in promoting fresh products, differentiating the business and integrating the online and offline operations.

For the year ended 31 December 2016, revenue from rental income was RMB3,345 million, an increase of RMB201 million, or 6.4%, from RMB3,144 million for the year ended 31 December 2015. This increase was primarily attributable to an increase in rentable area from new stores and an increase in rental income from existing stores as a result of better management of tenant mix.

Notes:

(1) New stores: Stores opened during the year ended 31 December 2016.

(2) Same store sales growth: For stores with 12 full months' operation as of 31 December 2016, we calculated and compared the sales derived in those stores from their opening month to the end of year 2015 with the same period in year 2016.

Gross Profit

For the year ended 31 December 2016, gross profit was RMB23,981 million, an increase of RMB1,518 million, or 6.8%, from RMB22,463 million for the year ended 31 December 2015. The gross profit margin for the year ended 31 December 2016 was 23.9%, an increase of 0.6 percentage points from 23.3% for the year ended 31 December 2015. The increase in the gross profit margin was a result of a greater increase in revenue of 4.2% as compared to the increase in cost of sales of 3.4%, reflecting: (i) better inventory management to bring a higher profit margin and (ii) economies of scale due to the continued expanding business operation.

Other Income

Other income primarily consists of income from the disposal of packaging materials, interest income, service income and government grants.

For the year ended 31 December 2016, other income was RMB873 million, an increase of RMB126 million, or 16.9%, from RMB747 million for year ended 31 December 2015. This increase was primarily attributable to: (i) an increase in service income, primarily generated from the income from parking in hypermarket complexes and the commission from financial services provided in issuing co-branded credit cards; (ii) an increase in government grants; and (iii) partially offset by a decrease in interest income due to the decrease in the investment in financial products during the year as well as the lower interest rate in the market.

Operating Costs

Operating costs represent the costs related to the operations of the stores and E-commerce platforms. Operating costs primarily consist of personnel expenses, operating lease charges, expenses for utilities, maintenance, advertising, shuttle bus services and cleaning, together with the amortisation of land use rights and depreciation of property, plant and equipment for the stores and E-commerce platforms.

For the year ended 31 December 2016, the operating costs were RMB18,042 million, an increase of RMB1,040 million, or 6.1%, from RMB17,002 million for the year ended 31 December 2015.

This increase was primarily attributable to the increase in the number of stores in accordance with the ongoing expansion of the hypermarket complexes network and the development of E-commerce platforms to a larger scale. These developments required the recruitment of new staff. Meanwhile, the Group followed government guidance in relation to the increase in the minimum wage of staff. These developments led to an increase in personnel expenses. Also, new stores, operated on leased or self-owned sites, resulted in an increase in operating lease charges, amortisation of land use rights and depreciation of property, plant and equipment at the stores.

The amount of operating costs for the year ended 31 December 2016 represented 18.0% of revenue, an increase of 0.4 percentage points, from 17.6% for the year ended 31 December 2015. The increase was as a result of a greater increase in operating costs of 6.1% as compared to the increase in revenue of 4.2%.

Administrative Expenses

Administrative expenses primarily consist of personnel expenses, travelling expenses, amortisation of land use rights, depreciation of property, plant and equipment and other expenses for the administrative departments. For the year ended 31 December 2016, the administrative expenses were RMB2,876 million, an increase of RMB243 million, or 9.2%, from RMB2,633 million for the year ended 31 December 2015. The increase was primarily attributable to an increase in the number of administrative staff to provide support services for the expanded network of hypermarket complexes and E-commerce platforms. The ratio of administrative expenses for the year ended 31 December 2016 represented 2.9% of revenue, an increase of 0.2 percentage points, from 2.7% for the year ended 31 December 2015. The increase was as a result of a greater increase in administrative expenses of 9.2% as compared to the increase in revenue of 4.2%.

Profit from Operations

For the year ended 31 December 2016, profit from operations was RMB3,936 million, an increase of RMB361 million, or 10.1%, from RMB3,575 million for the year ended 31 December 2015. The operating margin for the year ended 31 December 2016 was 3.9%, an increase of 0.2 percentage points from 3.7% for the year ended 31 December 2015. The operating margin increased through the improvement in gross profit margin to cover the expense increase, which showed that the Group was able to manage its profitability while developing its business.

Finance Costs

Finance costs primarily consist of interest expenses on borrowings. For the year ended 31 December 2016, the finance costs were RMB23 million, an increase of RMB3 million, or 15.0% from RMB20 million for the year ended 31 December 2015. The increase is mainly related to the higher average balance of bank borrowing during the year of 2016 as compared to the year of 2015.

Income Tax

For the year ended 31 December 2016, income tax expense was RMB1,280 million, an increase of RMB192 million, or 17.6%, from RMB1,088 million for the year ended 31 December 2015. The effective income tax rate was 32.7% for the year ended 31 December 2016, compared to 30.6% for the year ended 31 December 2015. The increase in effective tax rate was mainly attributable to the losses generated by certain new legal entities and the E-commerce entities for which the accumulated losses have not been utilised and no deferred tax was recognised.

Profit for the Year

For the year ended 31 December 2016, profit for the year was RMB2,629 million, an increase of RMB165 million, or 6.7%, from RMB2,464 million for the year ended 31 December 2015. The net profit margin was 2.6% for the year ended 31 December 2016, which remained the same as of the year ended 31 December 2015. The increase of profit for the year of 2016 compared to the year of 2015 would have been around 8.7%, had the losses occurred by the E-commerce entities and Oney Accord Business Consulting (Shanghai) Co., Ltd ("**Oney Accord**") been excluded from both years.

Profit Attributable to Equity Shareholders of the Company

For the year ended 31 December 2016, profit attributable to equity shareholders of the Company was RMB2,571 million, an increase of RMB128 million, or 5.2%, from RMB2,443 million for the year ended 31 December 2015.

Profit Attributable to Non-Controlling Interests

For the year ended 31 December 2016, profit attributable to non-controlling interest was RMB58 million, an increase of RMB37 million, or 176.2%, from RMB21 million for the year ended 31 December 2015. The profit attributable to non-controlling interests was attributable to: (i) interests in Auchan (China) Investment Co., Ltd ("**ACI**") and Concord Investment (China) Co., Ltd ("**CIC**") from the Auchan Scheme and RT-Mart Scheme[*]; (ii) the interest held by an independent third party in three of the subsidiaries, People's RT-Mart Limited Jinan and Feiniu E-Commerce Hong Kong Limited ("**Feiniu HK**") and Fields Hong Kong Limited ("**Fields HK**"); and (iii) the interest held by Oney Bank S.A. ("**Oney Bank**", formerly "**Banque Accord S.A.**") in Oney Accord.

Liquidity and Financial Resources

For the year ended 31 December 2016, cash flow generated from operating activities was RMB6,952 million, an increase of RMB652 million, or 10.3%, from RMB6,300 million for the year ended 31 December 2015. In addition to the cash flow generated from the improvement from the operating result, the working capital variation also contributed to the increase in operating cash flow from: (i) an increase in cash generated from the prepaid card; and (ii) the impact of calendar difference of Chinese New Year.

As at 31 December 2016, the net current liabilities decreased to RMB10,371 million from RMB11,111 million as of 31 December 2015. This decrease, which reflected the impact in business from the calendar difference of Chinese New Year and the expansion in business operations, was primarily attributed to: (i) an increase in trade payables and other payables of RMB4,181 million; (ii) partially offset by an increase in current assets of RMB4,453 million, mainly from the increased stock level to prepare for the peak sales season for Chinese New Year, which is earlier in the calendar of this year.

For the year ended 31 December 2016, the inventory turnover days and trade payable turnover days were approximately 67 days and 93 days, respectively, and were approximately 59 days and 85 days for the year ended 31 December 2015, respectively.

Investing Activities

For the year ended 31 December 2016, cash flow used in investing activities was RMB3,363 million, a decrease of RMB1,220 million, or 26.6%, from RMB4,583 million for the year ended 31 December 2015.

The cash flow used in investing activities mainly reflected the capital expenditure related to: (a) new stores and projects of RMB2,582 million; (b) the upgrading and remodeling of the existing hypermarkets complexes for RMB943 million; (c) the investment to distribution centers for RMB72 million; and (d) the maintenance and upgrading of E-commerce platforms and office for RMB147 million.

* The Group has established an Employee Trust Benefit Scheme of CIC and its subsidiaries ("**RT-Mart Scheme**") and an Employee Trust Benefit Scheme of ACI and its subsidiaries ("**Auchan Scheme**"). For further details, please refer to Note 4(b) of "Notes to the Consolidated financial statements" on page 91 of the annual report.

Financing Activities

For the year ended 31 December 2016, cash flow used in financing activities was RMB2,090 million, an increase of RMB1,171 million, or 127.4%, from RMB919 million for the year ended 31 December 2015. The increase was mainly attributable to: (i) the increase in dividend distribution of RMB472 million and (ii) a net decrease in bank borrowings of RMB614 million for the year ended 31 December 2016, while for the year ended 31 December 2015, there was a net increase in bank borrowings of RMB217 million.

Dividends

The Board proposed a final dividend of HKD0.23 (equivalent to RMB0.20) per ordinary share (the "**Final Dividend**") for the year ended 31 December 2016, amounting to approximately HKD2,194 million (equivalent to RMB1,908 million).

The payment of the Final Dividend is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting ("**AGM**"). For details of the Final Dividend, please refer to the section headed "Final Dividend" in the Report of Directors on page 22.

BUSINESS REVIEW

Operating Environment

During 2016, China's gross domestic product ("**GDP**") grew by 6.7% to approximately RMB74,412.7 billion. The overall Consumer Price Index ("**CPI**") was up by 2.0% compared to 2015, the food CPI increased by 4.6%, non-food CPI was up by 1.4%. Total retail sales of consumer goods in China reached RMB33,232 billion, a growth of 10.4% year on year. National online sales reached RMB5,156 billion, an increase of 26.2% compared to last year. Online physical products sales of year 2016 amounted to RMB4,194 billion, an increase of 25.6% and accounted for 12.6% of total retail sales. According to the China Nation Commercial Information Center, the sales growth of the 50 key retailers dropped by 0.5% year on year.

Prudent Expansion, Resource Integration, Exploration of New Formats, Innovation and Diversification

During the year under review, the Group opened 38 new hypermarket complexes, of which five were under the Auchan banner and 33 were under the RT-Mart banner. Among the new stores, 13 were located in Eastern China, four were located in Northern China, six were located in North-eastern China, seven were located in Central China, two were located in Western China and six were located in Southern China. The Group closed one store under the RT-Mart banner in Shandong province in October 2016.

As of 31 December 2016, the Group had a total of 446 hypermarket complexes in China with a total gross floor area ("**GFA**") of approximately 12.032 million square meters. Approximately 68.8% of the GFA was operated in leased space, 31.0% of the GFA was in self-owned properties and 0.2% of the GFA was contracted stores. Please refer to note 1 below for definitions of regional zones.

As of 31 December 2016, approximately 8% of the Group's stores were located in first-tier cities, 17% in second-tier cities, 45% in third-tier cities, 22% in fourth-tier cities and 8% in fifth-tier cities. Please refer to note 2 below for definitions of tiers.

During the year under review, the Group continued to proactively seek opportunities, but with higher benchmarks of site selection, to open new stores. As of 31 December 2016, through the execution of lease contracts or acquisition of land plots, the Group has identified and secured 79 sites to open hypermarket complexes, of which 69 are under construction.

Since 1 July 2016, the former Yantai store under the Auchan banner was officially transferred to and taken over by the RT-Mart banner. The RT-Mart banner has more than 30 mortar stores in Shandong province and one regional distribution centre ("**DC**") warehouse, its procurement scale and logistic system have effectively improved the supplier chain of the transferred store. After the transfer, the store has improved its range of products and prices, with its sales and traffic increasing significantly with double-digit growth respectively. The inspiring result of the transferred store illustrated the workability and potential of such synergy between two banners. Therefore, the operation of two more stores located in Shenyang and Dalian under the Auchan banner has been managed by the RT-Mart banner since November and December 2016. The Group expects to enhance store productivity by integrating and sharing resources.

After one year of operation, our two small format stores "Hi!Auchan" and "RH Lavia" also progressed strongly. In particular, "Hi!Auchan", located in Shanghai with an area of 5,000 square meters had a satisfactory increase in sales. If this kind of business model succeeds, it is also an opportunity for the Group to return to open more stores in first-tier cities. The Group has planned to open additional units of this small format in the future. The Group will also explore new formats regularly. For example, through the cooperation with other companies, the Group expects to open two to three beauty shops with a focus on Korean products. Moreover, the Group will also open a new fresh O2O concept community store, which will focus on supplying fresh products supplemented by daily necessities, together with catering service.

As of 31 December 2016, the number of such stores and their GFA in each major region of China are set forth below:

Region	**Number of hypermarket complexes (As of 31 December 2016)**				**Total GFA of hypermarket complexes (sq.m.) (As of 31 December 2016)**		
	Auchan	**RT-Mart**	**Total**	**Percentage**	**Auchan**	**RT-Mart**	**Total**
Eastern China	50	131	181	41%	2,049,520	3,172,257	5,221,777
Northern China	6	42	48	11%	177,594	1,028,881	1,206,475
North-eastern China	2	44	46	10%	55,660	1,215,729	1,271,389
Southern China	5	75	80	18%	124,523	1,837,678	1,962,201
Central China	10	61	71	16%	303,766	1,490,418	1,794,184
Western China	5	15	20	4%	223,839	352,678	576,517
Total	**78**	**368**	**446**	**100%**	**2,934,902**	**9,097,641**	**12,032,543**

Notes:

(1) The Group adopts the following regional zoning according to the national regional economic planning guidelines:

Eastern China:	Shanghai City, Zhejiang Province, Jiangsu Province
Northern China:	Beijing City, Tianjin City, Shandong Province, Hebei Province, Shanxi Province, Inner Mongolia Autonomous Region (West)
North-eastern China:	Jilin Province, Liaoning Province, Heilongjiang Province, Inner Mongolia Autonomous Region (North)
Southern China:	Guangdong Province, Guangxi Zhuang Autonomous Region, Fujian Province, Hainan Province, Yunnan Province, Guizhou Province
Central China:	Anhui Province, Hunan Province, Hubei Province, Henan Province, Jiangxi Province
Western China:	Sichuan Province, Gansu Province, Shaanxi Province, Chongqing City, Ningxia Hui Autonomous Region

(2) City tiers were classified according to the following standards:

First-tier cities:	Municipalities under the direct jurisdiction of the central government and Guangzhou City
Second-tier cities:	Provincial capitals and sub-provincial cities
Third-tier cities:	Prefecture-level cities
Fourth-tier cities:	County-level cities
Fifth-tier cities:	Townships and towns

Actively Promoting Fresh Products, Developing Our Own Brand and Exclusive Brand Products, Enhancing Differentiation of Business

As of 31 December 2016, the Group had a total of 120 stores participating in the vegetable direct sourcing project involving a full range of vegetable products. Another 220 stores also had part of their vegetable products involved in this project. The comparable sales growth in the vegetable sector increased by over 8% compared to last year, and the comparable traffic growth in the vegetable sector had a switch from negative to positive growth compared to last year. In the second half of 2016, the Group launched a fruit direct sourcing project, of which 10 stores in Eastern China have participated.

Moreover, the Group was involved in a central kitchen project to produce and provide semi-finished products for stores such as delicatessen, dim sum and bakeries in collaboration with selected high-standard factories. In 2016, certain stores in Eastern China were engaged in this project as pilot stores. The establishment of the central kitchen project is expected to improve the quality and stability of fresh products, and to accelerate the production of fresh product more quickly and more effectively.

Meanwhile, the Group is striving to build its own exclusive brands, and the performance of some exclusive brands has been very good. As of 31 December 2016, our brand “Actuel”, specializing in general goods, home textile and tableware, achieved a growth of sales by 88%. Despite the influence of E-commerce, the sales of our small appliances brand “Qilive” and home apparel brand “Unic” still recorded a double-digit increase. Our luggage and travelling goods brand “Airport” and sportive brand “Cup’s”, have doubled their sales as compared to last year. Moreover, some newly added brands, such as our traditional Chinese cuisine brand “Hui Shang”, imported mineral water brand “ALLEGRA”, gardening brand “Garden star” and stationery brand “ekolia”, will also be a source of growth in the future.

Equipment Co-sourcing Project and Advanced Maintenance System to Improve Quality and Save Costs

An equipment co-sourcing project between the Auchan and RT-Mart banners was launched at the end of January 2016. As of 31 December 2016, 24 co-sourcing initiatives were identified, 8 projects involving shelves, bakery equipment, wood pallets, tiles etc. have already brought extra savings of over 8%.

The Group has effectively reduced the energy and maintenance cost through energy saving equipment and managing energy efficiency. Examples are the replacement of traditional bulbs, the replacement of LED lights, the automated remote control of equipment power switches and temperature adjustment, together with 3-level of maintenance management procedures (三級維護管理制度).

Joint Purchases and Tailor-made Products

Common procurement expanded from contract negotiation to joint-purchasing and tailor-made products. It aims at some of the best-selling merchandises and formulating large procurement amounts to manufacturers in order to obtain lower purchase prices to ensure price advantage but also “profitability”. The Group will also customize exclusive products in accordance with customer demand to obtain better margin through differentiated sales.

Integration of Online and Offline Business, Exploration for Growth Engine

After three years of operations, Feiniu’s business strategy has been changing, combining online and offline business by leveraging the advantage of mortar stores, using feiniu.com as a carrier, in order to effectively shorten the distance and time for delivering goods to customers. Meanwhile, the effective control of self-operated products number, greatly improved the efficiency of products and DC warehouse, thereby effectively reducing the cost per order. The professionalism of product knowledge and operation management of the procurement team and operation team of the Group, together with strong execution capability, perfect logistics and IT systems, is an important basis for the smooth and rapid development of O2O project and Business to Business (“**B2B**”) projects. Given the increasing efficiency and lowering of cost, the loss of Feiniu is expected to decrease in year 2017.

As of 31 December 2016, the GMV of Feiniu for the year 2016 achieved RMB2.1 billion, which has doubled compared to 2015. 29.1% of revenue was from O2O project. In 2016, 36 stores have participated in the O2O projects and O2O projects contributed to 6.4% of total sales of the participating stores. Over 230 mortar stores under the RT-Mart banner as well as 14 mortar stores under the Auchan banner began their cooperation with “Baidu Waimai”, “Meituan” and “Eleme” since November 2016. In 2017, there will be more stores joining the O2O projects. Rapid delivery within 1 to 2 hours and fresh products will also become major attractions of the project.

Fields (www.fieldschina.com) was launched in June 2010 starting with about 200 stock keeping units (“**SKUs**”), and in April 2015, the Group became its majority shareholder after signing an acquisition agreement. Presented as a high-end fresh E-commerce platform, Fields now runs nearly 4,000 SKUs, covering meat, fruits & vegetables, bakery, seafood, dairy, wines etc. As of 31 December 2016, the GMV of Fields was up by more than 50% compared to last year. Sales share of fresh products accounted for 70% with an outstanding retention and conversion rate as well as high ticket size.

With the upgrade of consumption by Chinese consumers, Fields now attracts more and more native customers with high-incomes whereas its previous customers were mainly expatriates. Given that, Fields is increasing the range of products to meet the needs of Chinese customers' tastes, and it is improving customer education for imported products.

Improving Employee Efficiency

As of 31 December 2016, the Group had 146,737 employees.

Given the pressure from the increase in minimum wage every year and the changes in consumer shopping behavior, the Group successfully managed to improve its operating productivity by giving employees multi-posts with multiple skills, upgrading technology, introducing equipments, simplifying processes and optimizing the use of systems, thereby effectively controlling cost increases.

Outlook

2016 was an unusual year for the retail market with the challenge still unfolding and opportunities are everywhere. Mortar stores expanded their business from offline to online, while E-commerce players also developed their business from online to offline. The Group started its online business in 2013. After more than three years of development, our online business is bringing more and more possibilities for the future development of the Group. This is made possible by relying on the advantages of mortar stores and core competence (such as a mature supplier chain, professional procurement, strong execution ability, excellent logistics and IT systems) as well as being an online carrier. Looking forward to the new year, the Group will continue to strengthen the O2O business model by internetizing (互聯網化) our mortar stores, and will also diversify the retail formats to satisfy our customer needs at anytime, anywhere with any purpose.

Executive Directors

Mr. Bruno, Robert MERCIER, aged 57, is the Chief Executive Officer, an Executive Director of the Company and chairman of the subsidiaries of the Group operating under the “Auchan” banner. Mr. Mercier received an Engineering Degree from The Higher National Agronomic School awarded by the Ministry of National Education and the French Polytechnic Institute of Toulouse in France in 1983, and a Master of Business Administration from INSEAD in 1988. He is responsible for the strategic direction and overall performance of the Group. Mr. Mercier has been a director of the Company since 8 February 2001. He joined the Group in 1999 as a development director of our “Auchan” principal executive office in Shanghai, where he was responsible for the development and implementation of the business operations under our “Auchan” banner in the PRC. In 2002, Mr. Mercier underwent training as a store manager in our “Auchan” hypermarket in Changyang, the PRC. Upon completion of his training, he was appointed as the managing director of our subsidiary, Auchan (China) Investment Co., Ltd. (“**ACI**”) in the same year, where he was responsible for the development and implementation of its business plans and budget. Since 2007, Mr. Mercier has been the chairman of ACI and RT-Mart International Ltd. (“**RT-Mart Int’l**”), a company incorporated in Taiwan, and has been actively participating in the implementation of vision of Auchan Holding S.A. (formerly “Groupe Auchan S.A.”) in both companies. Mr. Mercier is also a director of certain of the subsidiaries of the Group, including Auchan (China) Hong Kong Ltd. (“**ACHK**”), ACI, Concord Champion International Ltd. (“**CCIL**”), RT-Mart Holdings Limited (“**RT-MART Holdings**”), Feiniu HK, Feiniu E-Commerce (Shanghai) Co., Ltd. (“**FESH**”), Fields HK and Shanghai Fields Trading Co., Ltd. as well as various other operating subsidiaries in the PRC under the “Auchan” banner.

Prior to joining the Group in 1999, Mr. Mercier was with Auchan Holding S.A., one of the two ultimate controlling shareholders of the Group, where he worked in an “Auchan” hypermarket store in France in 1998, being trained in all functions and roles of store operations including store manager. Mr. Mercier also has many years of experience gained from working in the retail and consulting industries from 1983 to 1998, notably with Groupe Pernod Ricard, a global wines and spirits producer, in its China and Thailand operations as well as with McKinsey & Company.

Mr. HUANG Ming-Tuan (黃明端), aged 61, is an Executive Director of the Company and chairman of the subsidiaries of the Group operating under the “RT-Mart” banner. Mr. Huang received a Master of Business Administration from the College of Management, National Taiwan University in 1984. He is responsible for the overall strategic planning and management of our business. Mr. Huang has been a director of the Company since 28 April 2011. He joined the Group in 2001 and has since been the chief executive officer of RT-Mart Limited Shanghai (“**Shanghai RT-Mart**”) where he is responsible for devising and implementing its overall strategies and the supervision of its business operations. Mr. Huang has been involved in the business and operational strategies of the Company since 2001 as the legal representative of the directors of our Board, Ruentex Industries Limited (“**Ruentex Industries**”) and Sinopac Global Investment Ltd. (“**Sinopac**”). Mr. Huang is also a director of certain of the subsidiaries of the Group, including CIC, Shanghai RT-Mart, Feiniu HK and Fields HK.

Prior to joining the Group in 2001, Mr. Huang was the general manager of Ruentex Industries from 1991 to 1997, where he was responsible for devising and implementing its overall strategies and the supervision of its business operations. From 1997 to 2001, Mr. Huang was the vice chairman of RT-Mart Int’l.

Non-Executive Directors

Mr. CHENG Chuan-Tai (鄭銓泰), aged 62, is the Chairman and a Non-executive Director of the Company. Mr. Cheng received a Master degree of Business Administration from National Taiwan University in 1981. Mr. Cheng has been a director of the Company since 28 April 2011. From 1992 to 1997, Mr. Cheng has been a general manager of Ruentex Construction & Development Co., Ltd. where he was in charge of overseeing its business operations. Mr. Cheng has been involved in the business and operational strategies of the Company since 2001 as the legal representative and a director of the Company, Ruentex Development Co., Ltd. ("**Ruentex Development**") and Kofu International Limited ("**Kofu**"). Mr. Cheng has also been the chairman of Trend Laser Technology Co., Ltd., a company which is in the business of micro-machining services since 2001. He has also been a member of the coaching committee of RT-Mart Int'l since 2001, where he was responsible for supervising and supporting its management team in the operations of hypermarkets in Taiwan.

Mr. Benoit, Claude, Francois, Marie, Joseph LECLERCQ, aged 45, is a Non-executive Director of the Company. Mr. Leclercq has been a managing director of Crehol China Consultancy Co., Ltd. ("**Crehol China**") since 2011. Crehol China is an investment company of Mulliez Family in the People's Republic of China. The Mulliez Family comprises Mr. Gerard Mulliez, who is the founder of Auchan Holding S.A. and other members of the family in France, who hold interests in various companies under Auchan Holding S.A., one of the two ultimate controlling shareholders of the Company. Through various companies under Auchan Holding S.A., the Mulliez Family conducts or pursues various business interests in hypermarket operations, supermarket operations, real estate development, banking and E-commerce.

Mr. Leclercq is the president of Jungle & MTL Holdings, a company incorporated in the U.S.A. since 1993. Mr. Leclercq is also a co-owner of (i) MTL, a weaving decoration production factory in the U.S.A., (ii) Breteuil, a company which is a fabric furnishing agent in the U.S.A., (iii) IPM US, a design company and converter in decoration in the U.S.A., and (iv) Bayart Tissage, a design company and converter in decoration in France. Moreover, Mr. Leclercq is a chief executive officer in charge of coaching at Donghia, a company engaged in high end upholstery in the U.S.A. since 2005.

Mr. Leclercq has been appointed as directors of A-RT Retail Holdings Limited ("**A-RT**") and RT-Mart Int'l since September 2012 and June 2014 respectively. He has also been appointed as a director of Auchan Holding S.A. and Auchan Retail International S.A. (formerly "Auchan Hyper S.A.") since 5 March 2015, the ultimate controlling shareholders. With effect from 7 March 2016, Mr. Leclercq resigned as a director of Auchan Retail International S.A..

Mr. Leclercq has been appointed as directors of FESH on 8 August 2013, Feiniu HK on 3 February 2015 and Fields HK on 2 April 2015 respectively, subsidiaries of the Company. With effect from 5 November 2015, Mr. Leclercq resigned as a director of Fields HK.

Mr. Leclercq received a Bachelor of Arts major in international marketing and finance from Middlesex University in London in 1992 and a CESEM degree from Reims Management School in 1992.

Mr. Leclercq does not have any relationship with any directors or senior management or substantial shareholders or controlling shareholders of the Company except that he is one of the family members of the Mulliez Family.

Mr. Xavier, Marie, Alain DELOM de MEZERAC, aged 61, is a Non-executive Director of the Company. Mr. Delom de Mezerac received a degree from ESSEC Business School (Diplome de L'ESSEC, Ecole Superieure des Sciences economiques et Commerciales) in 1978. Mr. Delom de Mezerac has been a director of the Company since 8 February 2001. From 1985 to 1993, Mr. Delom de Mezerac was with the Corning group (Corning), a global specialty glass and ceramics producer, in its United States, Mexico and France operations, where he worked in various financial and management positions including as financial manager for Corning's Europe operations. From 1994 to 1997, Mr. Delom de Mezerac was with Euro Disney S.A.S. as its chief financial officer. From 1997 to 1999, Mr. Delom de Mezerac was with Alcatel Alsthom S.A. as its deputy chief financial officer. From 1999 to 2015, Mr. Delom de Mezerac was with Auchan Holding S.A. as its chief financial officer and a member of the executive committee. Since May 2014, he has been the chairman of Oney Bank S.A. (formerly "Banque Accord S.A."), which is the consumer finance subsidiary of Auchan Holding S.A. Since December 2015, he has been the general secretary and a member of the "Directoire" of Auchan Holding S.A.. He is also a director of Auchan Retail International S.A. and A-RT, both of which are the controlling shareholders of the Company, and a director of certain of the subsidiaries of the Group, including ACHK, RT-Mart Holdings and CCIL.

Mr. Wilhelm, Louis HUBNER, aged 54, has been a Non-executive Director of the Company since 11 December 2015. Mr. Hubner graduated from "Institut d'Administration des Entreprises" as mechanical engineer.

Mr. Hubner joined Auchan France S.A., a wholly-owned indirect subsidiary of Auchan Holding S.A., one of the Company's ultimate controlling shareholders, in 1987 as a department manager of a hypermarket located in the north of France. During his career in Auchan France S.A., he was in charge of textiles and checkout sectors. He was also a director of three different hypermarkets in France before being appointed as a chief operating officer of the "Ile de France" area.

In 2010, Mr. Hubner joined Auchan LLC in Russia, a wholly-owned indirect subsidiary of Auchan Holding S.A., where he became a sales director for the hypermarket business. He was as a general manager of Auchan LLC from April 2014 to January 2016.

In November 2015, Mr. Hubner was appointed as a general manager of Auchan Retail International S.A., a wholly-owned subsidiary of Auchan Holding S.A., the new holding company of Auchan Group for its whole retail activities. He has also been member and president of the executive board of Auchan Holding S.A. since December 2015.

Mr. Hubner has been appointed as board members of ACHK, one of the principal subsidiaries of the Company, and A-RT, the immediate controlling shareholder of the Company, on 11 December 2015 and 4 February 2016 respectively.

Independent Non-Executive Directors

Ms. Karen Yifen CHANG (張挹芬), aged 53, is an Independent Non-executive Director of the Company and has been a director of the Company since 27 June 2011. Ms. Chang served as the chief executive officer of Natural Beauty Bio-Technology Limited (Stock Code: 157), a leading skincare and spa chain in Greater China listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), from January 2013 to December 2015. Previously, Ms. Chang was the chief financial officer, the chief executive officer and executive director of Pou Sheng International (Holdings) Limited (Stock Code: 3813), a leading sportswear retailer in the People's Republic of China listed on the Stock Exchange, from October 2007 to April 2012. In addition, she has many years of management consultancy and investment banking experiences from working with KPMG in Washington DC and Los Angeles in the United States as well as Jardine Fleming, Merrill Lynch and Credit Suisse in Shanghai and Hong Kong from 1992 to 2006. Ms. Chang joined the board of Jack Wolfskin Trading (Shanghai) Co., Ltd. ("**Jack Wolfskin Shanghai**"), as a non-executive director since August 2015. On behalf the board of Jack Wolfskin Shanghai, her responsibilities were extended to act as a consultant to supervise its daily operations in 2016.

Ms. Chang received a Bachelor degree in Arts in English Literature from Fu-Jen Catholic University in Taiwan in 1986 and a Master of Business Administration degree from the George Washington University in Washington D.C. in the United States in 1988.

Mr. Desmond MURRAY, aged 62, is an Independent Non-executive Director of the Company since 27 June 2011. Mr Murray graduated with a Bachelor of Commerce from the University College Dublin in 1976 and is a qualified accountant and a member of the Hong Kong Institute of Certified Public Accountants. He was an audit partner in PricewaterhouseCoopers Hong Kong from 1987 to 2000. Since withdrawing from practice with PricewaterhouseCoopers, Mr. Murray has taken on a number of non-executive directorships. These include a major retailer in Ireland and Clear Media Limited ("**CML**", Stock Code: 100), a company listed on the Main Board of the Stock Exchange. With effect from 1 July 2016, Mr. Murray has relinquished his position as chairman of the remuneration committee of CML. With effect from 9 August 2016, Mr. Murray has resigned as an independent non-executive director, as chairman of the audit committee, and as a member of each of the audit committee, the remuneration committee and the nomination committee of CML.

Mr. Murray was a non-executive director of iShares plc, iShares II plc, iShares III plc, iShares IV plc and iShares V plc, companies all listed on the Main Board of the London Stock Exchange until 31 March 2013. He was also a non-executive director of Black Rock Fixed Income Dublin Funds plc, Black Rock Institutional Pooled Funds plc and Institutional Cash Series plc, companies all listed on the Dublin Stock Exchange until 31 March 2013. Mr. Murray also acts as a business consultant to a number of smaller businesses. While working with PricewaterhouseCoopers, Mr. Murray advised boards and audit committees of companies listed in Hong Kong, both as an audit partner and as an adviser in relation to both internal audit and corporate governance. He was Honorary Consul for Ireland in Hong Kong from 1996 to 1999.

Mr. HE Yi (何毅), aged 63, is an Independent Non-executive Director of the Company since 27 June 2011. Mr. He studied management and strategy from HEC International Business School (ecole des Hautes etudes Commerciales) from 1989 to 1991. Mr. He is also currently a director of Essilor International (Compagnie Generale d'Optique), listed on the Euronext Paris stock exchange. From 1978 to 1989, he was a representative of the People's Republic of China Embassy in France, Paris where he was successively in charge of consular affairs, cultural affairs, protocol, relations with media and cooperation in administrative matters between the PRC and France. From 1991 to 1996, he joined the Danone Group's Shanghai subsidiary as a general manager. Mr. He joined the Essilor Group as the chief executive officer of Shanghai Essilor Optical Co., Ltd. in 1996 and has been the chairman of Essilor (China) Holding Company and a director of Essilor International since 2010.

Senior Management

Mr. Jean CHAUSSE, aged 53, has been appointed as the Chief Financial Officer of the Company since November 2016. Mr. CHAUSSE received a degree from HEC Business School, and has extensive experience in the banking and financial management field. He started his career in France first at Credit Commercial de France (now HSBC) mainly in commercial banking, and then worked at Credit Mutuel Arkea firstly as Head of Trading, CEO of the Asset Management Branch, and then CFO. He joined Auchan Holding S.A. in 2008, as Head of Treasury and Funding. He was subsequently promoted to Deputy CFO of Auchan Holding S.A. overseeing accounting consolidation, risk management and insurance, treasury and investors relations.

Mr. HSU Sheng-Yu (徐盛育), aged 61, is the Chief Financial Officer of the Group of subsidiaries operating under the "RT-Mart" banner in China. He is responsible for the financial, controlling and legal matters of our operations under our "RT-Mart" banner. Prior to joining the Group in 1999, Mr. Hsu has been with Ruentex[(1)], one of the two ultimate controlling shareholders of the Group. From 1983 to 1999, Mr. Hsu held various positions in Ruentex's operations in Taiwan, including the position of finance manager, vice general manager, general manager and chairman in Ruentex Industries, Xingye Construction Co., Ltd. (興業建設股份有限公司), Ruentex Construction and Engineer Co., Ltd. (潤泰營造股份有限公司) and Runhong Engineering Co., Ltd. (潤弘工程股份有限公司) respectively. Mr. Hsu is also a director of certain of subsidiaries of the Group, including Shanghai RT-Mart and FEHK.

Mr. SHEN Hui (沈輝), aged 42, has been the General Manager of hypermarkets operating under Auchan banner since February 2016. He is responsible for the strategic direction and overall performance of the hypermarkets under the Auchan banner. Joining the Group as a section manager in 1999, Mr. Shen was involved in the initial stages of establishment of the Auchan banner in China. Then he worked as a store manager and Human Resource Director of Auchan China. He also had three years of working experience in Auchan France as a store manager from 2010 to 2013. Mr. Shen received a bachelor degree of Management in Harbin University of Science and Technology.

Mr. CHIANG Yeong-Fang (蔣永芳), aged 60, is the Chief Executive Officer of the Group of subsidiaries operating under the "RT-Mart" banner in China, where his responsibilities include the management of hypermarket complexes as well as the formulation of strategies for our business operations under the "RT-Mart" banner. Prior to joining the Group in 2001, Mr. Chiang has been with Ruentex[(1)], one of the two ultimate controlling shareholders of the Group. From 2000 to 2001, Mr. Chiang was the vice-general manager of Ruentex Industries, where he was responsible for general operational matters of the group of companies under Ruentex Industries, including procurement, operational efficiency management of the group's factories, human resource and administration. From 1979 to 2000, Mr. Chiang was a career army officer with the army of the Republic of China. Mr. Chiang is also a director of Shanghai RT-Mart, one of the subsidiaries of the Group.

Company Secretary

Ms. Chan Wai Ling (陳蕙玲), FCIS, FCS (PE), was appointed as our company secretary on 10 August 2016. She is a director of Corporate Services of Tricor Services Limited and a fellow member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She has more than 20 years of experience in the corporate secretarial field. Ms. Chan is currently the joint company secretary of IMAX China Holding, Inc. (Stock Code: 1970) and SITC International Holdings Company Limited (Stock Code: 1308) as well as the company secretary of China Polymetallic Mining Limited (Stock Code: 2133), TCC International Holdings Limited (Stock Code: 1136) and China Maple Leaf Educational Systems Limited (Stock Code: 1317).

Note:

(1) Ruentex Development, Ruentex Industries, Concord Greater China Limited and Kofu collectively, one of the two ultimate controlling shareholders of the Group.

The board (the "**Board**") of directors (the "**Directors**") of the Company are pleased to present this report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

Principal Activities

The principal activities of the Group are the operation of hypermarkets and E-commerce platforms in the PRC. An analysis of the Group's revenue by category is set out in note 2 to the consolidated financial statements on page 89.

Financial Statements

The results of the Group for the year ended 31 December 2016 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 62.

The financial position of the Group as at 31 December 2016 is set out in the Consolidated Statement of Financial Position of the Group on pages 63 to 64. The financial position of the Company as at 31 December 2016 is set out in note 26 to the consolidated financial statement on page 129.

The cash flows of the Group for the year ended 31 December 2016 are set out in the Consolidated Cash Flow Statement on pages 67 to 68.

Final Dividend

At the Board meeting held on 17 February 2017 (Friday), the Directors proposed that a final dividend ("**Final Dividend**") of HKD0.23 (equivalent to RMB0.20) per ordinary share for the year ended 31 December 2016, amounting to approximately HKD2,194 million (equivalent to RMB1,908 million) be paid no later than 12 July 2017 (Wednesday) to the shareholders of the Company whose names appear on the Company's register of members at the close of business at 4:30 p.m. on 17 May 2017 (Wednesday). The proposed Final Dividend is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting ("**AGM**") to be held on 10 May 2017 (Wednesday).

There is no arrangement under which a shareholder of the Company has waived or agreed to waive any dividends.

Reserves

Details of the movements in the reserves of the Group and the Company during the year ended 31 December 2016 are set out in the Consolidated Statement of Changes in Equity on page 65 to 66 and note 21(a) to the consolidated financial statements.

As at 31 December 2016, the Company's reserves available for distribution to the shareholders in accordance with the Company's new articles of association ("**Articles of Association**") adopted on 14 May 2015 amounted to RMB2,151 million.

Fixed Assets

Details of the movements in the fixed assets of the Group during the year ended 31 December 2016 are set out in note 10 to the consolidated financial statements.

The Group also manages retail galleries in our hypermarket buildings, in which we lease spaces to third parties. The portion of the buildings containing the retail galleries which are owned by the Group are classified as investment properties. The Group has applied the cost model for investment properties.

As at 31 December 2016, there are 105 retail galleries classified as investment properties. All of the galleries were of similar nature and all located in the PRC. There were a large number of individual properties and none of the properties was material on an individual basis.

An independent professional valuer has been engaged to value the properties owned by the Group. As at 31 December 2016, the total fair value of such properties was RMB35,750 million. And the fair value of investment property was RMB4,562 million.

Details of the fair value of the investment properties as at 31 December 2016 and 2015 and the valuation technique are set out in notes 10(iv) and 10(v) to the consolidated financial statements respectively.

Bank Loans

Details of the Group's bank loans as at 31 December 2016 are set out in note 18 to the consolidated financial statements.

Donations

Donations made by the Group during the year ended 31 December 2016 amounted to RMB1 million.

Share Capital

Details of the movements in share capital of the Company during the year ended 31 December 2016 are set out in note 21(a) to the consolidated financial statements.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the latest practicable date prior to the printing of this annual report, the Company has maintained the amount of public float as approved by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and as permitted under the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

Closure of Register of Members

(a) For determining the entitlement to attend and vote at the 2017 AGM

The Company's register of members will be closed from 8 May 2017 (Monday) to 10 May 2017 (Wednesday), both dates inclusive, during which period no transfer of shares will be registered. To ensure that shareholders are entitled to attend and vote at the 2017 AGM, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's share registrar, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 5 May 2017 (Friday).

(b) For determining the entitlement to the proposed Final Dividend

The proposed Final Dividend is subject to the approval of the shareholders at the 2017 AGM. For determining the entitlement to the proposed Final Dividend, the record date is fixed on 17 May 2017 (Wednesday). Shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's share registrar, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 17 May 2017 (Wednesday).

Purchase, Sale or Redemption of Shares of the Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

Directors

The Directors during the year ended 31 December 2016 and as of the date of this annual report were as follows:

Executive Directors:

Bruno, Robert MERCIER *(Chief Executive Officer)* (Appointed on 8 February 2001)
(Xavier, Marie, Alain DELOM de MEZERAC, Benoit, Claude, Francois, Marie, Joseph LECLERCQ and Wilhelm, Louis HUBNER were appointed as his alternates on 13 May 2011, 12 September 2012 and 11 December 2015 respectively)
HUANG Ming-Tuan (Appointed on 28 April 2011)
(CHENG Chuan-Tai as his alternate, appointed on 13 May 2011)

Non-executive Directors:

CHENG Chuan-Tai *(Chairman)* (Appointed on 28 April 2011)
(HUANG Ming-Tuan as his alternate, appointed on 13 May 2011)
Benoit, Claude, Francois, Marie, Joseph LECLERCQ (Appointed on 12 September 2012)
(Bruno, Robert MERCIER, Xavier, Marie, Alain DELOM de MEZERAC and Wilhelm, Louis HUBNER as his alternates, save for Wilhelm, Louis HUBNER who was appointed on 11 December 2015, all were appointed on 12 September 2012)
Xavier, Marie, Alain DELOM de MEZERAC (Appointed on 8 February 2001)
(Bruno, Robert MERCIER, Benoit, Claude, Francois, Marie, Joseph LECLERCQ and Wilhelm, Louis HUBNER were appointed as his alternates on 13 May 2011, 12 September 2012 and 11 December 2015 respectively)
Wilhelm, Louis HUBNER (Appointed on 11 December 2015)
(Bruno, Robert MERCIER, Benoit, Claude, Francois, Marie, Joseph LECLERCQ and Xavier, Marie, Alain DELOM de MEZERAC as his alternates, all were appointed on 11 December 2015)

Independent Non-executive Directors:

Karen Yifen CHANG (Appointed on 27 June 2011)
Desmond MURRAY (Appointed on 27 June 2011)
HE Yi (Appointed on 27 June 2011)

Biographies of the Directors as at the date of this annual report are set forth in the section headed "Profiles of Directors and Senior Management" of this report.

In accordance with the Articles of Association, Mr. Desmond MURRAY, Mr. HE Yi and Mr. HUANG Ming Tuan will retire as Independent Non-executive Directors and Executive Director and, being eligible, have offered themselves to be re-elected and re-appointed at the forthcoming 2017 AGM.

The Company has received annual confirmation of independence from each of the existing Independent Non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent in accordance with the Listing Rules.

Directors of Subsidiaries

During the year ended 31 December 2016 or during the period from 1 January 2017 to the date of this Report, the names of all directors who have served on the boards of the subsidiaries of the Company are available on the Company's website (http://www.sunartretail.com/html/about_gov.php).

Business Review

A fair review of the business of the Company and a discussion and analysis of the Group's performance during the year under review and the material factors underlying its results and financial position are provided in the Chairman's and Chief Executive Officer's Statement, Financial Review, Business Review respectively from pages 4 to 15 of this annual report. Description of the principal risks and uncertainties facing the Company can be found throughout this annual report, particularly in the Risk Factors section on pages 39 to 44. Particulars of important events affecting the Company that have occurred since the end of the financial year 2016, if any, can also be found in the abovementioned sections and the notes to the consolidated financial statements. The outlook of the Company's business is discussed throughout this annual report including in the Chairman's and Chief Executive Officer's Statement from pages 4 to 6 of this annual report. An account of the Company's relationships with its key stakeholders including its employees, customers and suppliers is included in the Report of Directors section, on pages 33 and 37 of this annual report, respectively.

In addition, more details regarding the Group's performance by reference to environmental and social related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Company, are provided in the Report of Directors section, on page 38 in the annual report.

Permitted Indemnity

Pursuant to the Company's Articles of Association, subject to the statues, every Director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in the execution of his/her office or otherwise in relation thereto. Subject to the applicable laws and the Company's Articles of Association, the Company has taken out insurance against the liability and costs associated with legal actions against the Directors arising out of corporate activities.

Directors Service Contracts

Each of the Independent Non-executive Directors of the Company is appointed for a specific term of three years and shall be subject to retirement by rotation at least once every three years.

The Company will enter into a service agreement with each of the Executive and Non-executive Directors with a term within three years from the relevant effective date.

There was no service contract entered by the Company and any Directors which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Director's Interests in Contracts

Other than those transactions disclosed in note 25 to the consolidated financial statements and in the section headed "Connected Transactions" below, there was no other significant contract to which the Company or any member of the Group was a party and in which the Directors possessed direct or indirect substantial interests, subsisted during or at the end of the year.

Directors' Interest and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2016, the interest or short position of the Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register, or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies as set out in the Appendix 10 to the Listing Rules (the "**Model Code**"), to be notified to the Company and the Stock Exchange, are as follows:

Name of director/ chief executive	Name of corporation	Nature of interest	Total number of shares[1]	Approximate percentage shareholding of the relevant entity
Bruno, Robert MERCIER	Company	Beneficial owner	140,000(L)	0.0015%
HUANG Ming-Tuan	Company	Beneficial owner, interest of spouse and interest in a controlled corporation[3]	117,234,074(L)	1.2289%
CHENG Chuan-Tai	Company	Beneficial owner	6,000,000(L)	0.0629%

Name of director/ chief executive	Name of corporation	Nature of interest	Total number of shares[(1)]	Approximate percentage shareholding of the relevant entity
Xavier, Marie, Alain DELOM de MEZERAC	Auchan Holding S.A. [(2)]	Beneficial owner	791(L)[(4)]	0.0025%
			730(L)[(5)]	0.0023%
			459(L)[(6)]	0.0015%
			719(L)[(7)]	0.0023%
Wilhelm, Louis HUBNER	Auchan Holding S.A. [(2)]	Beneficial owner	953(L)[(8)]	0.0030%
			3,572(L)[(9)]	0.0113%
Desmond MURRAY	Company	Beneficial owner	55,000(L)	0.0006%

Notes:

(1) The letter "L" denotes the person's long position in the shares.

(2) Auchan Holding S.A. (formerly "Groupe Auchan S.A.") is a company incorporated in France and comprises various companies controlled by Gerard Mulliez and the other members of the Mulliez family through which they conduct or pursue their various business interests in hypermarkets operations, supermarkets operations, real estate development, banking and e-commerce. Auchan Holding S.A. is one of our two ultimate controlling shareholders. Auchan Holding S.A. has adopted various share incentive plans pursuant to which share-based awards are granted to eligible directors and employees of Auchan Holding S.A. and its subsidiaries. These share incentive plans include the following:

(i) Stock Option Plan (2016) relating to the grant of options to subscribe for shares in Auchan Holding S.A. with a vesting period from 30 August 2016 to 30 September 2016.

(ii) Stock Option Plan (2017) relating to the grant of options to subscribe for shares in Auchan Holding S.A. with a vesting period from 30 August 2017 to 30 September 2017.

(iii) Stock Option Plan (2018) relating to the grant of options to subscribe for shares in Auchan Holding S.A. with a vesting period from 29 August 2018 to 30 September 2018.

(iv) Stock Option Plan (2019) relating to the grant of options to subscribe for shares in Auchan Holding S.A. with a vesting period from 28 August 2019 to 30 September 2019.

Note: With effect from 9 May 2012, the only class of shares issued by Auchan Holding S.A. is ordinary shares, the restricted shares and Class S shares were converted to ordinary shares on 9 May 2012. The issued share capital of Auchan Holding S.A. is 30,639,965 shares as at 31 December 2016.

(3) (i) Mr. HUANG Ming-Tuan holds 15,559,258 shares.

(ii) Ms. LEE Chih-Lan is the spouse of Mr. HUANG Ming-Tuan and holds 1,551,238 shares. Accordingly, Mr. HUANG Ming-Tuan is deemed to be interested in all of the shares held by Ms. LEE Chih-Lan.

(iii) Mr. HUANG Ming-Tuan is the legal and beneficial owner of the entire issued share capital of Victor Spring Ltd., a limited liability company incorporated in the British Virgin Islands. Accordingly, he is deemed to be interested in all of the 17,969,614 shares held by Victor Spring Ltd.

(iv) Mr. HUANG Ming-Tuan is the legal and beneficial owner of 50% of the share capital of Unique Grand Trading Ltd., a limited liability company incorporated in the British Virgin Islands, and Ms. LEE Chih-Lan, the spouse of Mr. HUANG Ming-Tuan, holds the remaining 50%. Accordingly, he is deemed to be interested in all of the 82,153,964 shares held by Unique Grand Trading Ltd.

(4) This represents 791 shares in Auchan Holding S.A.

(5) This represents stock options in respect of 730 shares in Auchan Holding S.A. granted pursuant to the Auchan Holding S.A. Stock Option Plan (2017).

(6) This represents stock options in respect of 459 shares in Auchan Holding S.A. granted pursuant to the Auchan Holding S.A. Stock Option Plan (2018).

(7) This represents stock options in respect of 719 shares in Auchan Holding S.A. granted pursuant to the Auchan Holding S.A. Stock Option Plan (2019).

(8) This represents 953 free shares in Auchan Holding S.A. to be exercised on 25 August 2018.

(9) This represents 3,572 free shares in Auchan Holding S.A. to be exercised on 25 August 2020.

Save as disclosed above, so far as known to any Directors, as at 31 December 2016, none of the Directors or chief executives of the Company or any of their associates had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations as defined in Part XV of the SFO, which were required to be recorded in the register required to be kept under section 352 of the SFO, or otherwise required to be notified by the Directors or chief executives to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debt Securities

At no time during the year was the Company or any of its holding companies or its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interest in Competing Business

During the year, none of the Directors of the Group had any interests in a business which competes, either directly, or indirectly, with the business of the Company or the Group.

Share Option Scheme

There is no share option scheme operated by the Company.

Employee Trust Benefit Schemes ("ETBS")

The Group has in place an ETBS for the employees of the Group, including the Directors and senior management, under each of the "Auchan" and "RT-Mart" banners of the Group. The Auchan Scheme and the RT-Mart Scheme are each implemented by way of a trust arrangement. The Auchan Scheme allows the employees of the Auchan Banner to share the success of ACI, a key operating subsidiary under the Auchan Banner while the RT-Mart Scheme allows the employees of the RT-Mart Banner to share the success of CIC, a key operating subsidiary under the RT-Mart Banner.

Details of the ETBS are set out in the note 4(b)(ii) to the consolidated financial statements.

Calculated based on the actual paid-in capital, as at 31 December 2016, 1.44% of ACI and 7.01% of CIC were held by the respective trusts under the Auchan Scheme and the RT-Mart Scheme.

Substantial Shareholders' Interests and Short Position in Shares and Underlying Shares of the Company

So far as is known to any Director or chief executive of the Company, as at 31 December 2016, the persons or corporations (other than Directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company or its associated corporation(s) which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of substantial shareholder	Nature of interest	Number and class of shares (1)	Approximate percentage of shareholding
A-RT (2)	Beneficial owner	4,865,338,686(L)	51.0009%
Auchan Retail International S.A. (3)	Interest in a controlled corporation and beneficial owner	5,791,757,452(L) (12)	60.7121%
Auchan Holding S.A. (4)	Interest in a controlled corporation	5,791,757,452(L) (12)	60.7121%
Au Marche S.A.S (5)	Interest in a controlled corporation	5,791,757,452(L) (12)	60.7121%
Mulliez Family (6)	Interest in controlled corporations	5,791,757,452(L) (12)	60.7121%
Kofu (7)	Beneficial owner	748,376,538(L) (13)	7.8449%
CGC (8)	Beneficial owner	807,024,010(L) (14)	8.4596%

Name of substantial shareholder	Nature of interest	Number and class of shares [1]	Approximate percentage of shareholding
Ruentex Industries [9]	Interest in a controlled corporation	807,024,010(L) [14]	8.4596%
Ruentex Development [10]	Interest in controlled corporations	807,024,010(L) [14]	8.4596%
Mr. YIN Chung Yao [11]	Interest in controlled corporations	748,376,538(L) [13]	7.8449%

Notes:

(1) The letter "L" denotes long position in the shares.

(2) A-RT Retail Holdings Limited ("**A-RT**") is 36.70% owned by Auchan Retail International S.A. (formerly "Auchan Hyper S.A."), therefore Auchan Retail International S.A. is deemed to be interested in all the shares in which A-RT is interested in by virtue of Part XV of the SFO.

The rest of shares of A-RT is 25.42% owned by CGC, 23.58% owned by Kofu and 14.30% owned by Monicole Exploitatie Maatschappij BV ("**Monicole BV**").

Monicole BV is a company incorporated in the Netherlands, which is indirectly wholly-owned by Auchan Retail International S.A..

(3) Auchan Retail International S.A. is a company incorporated in France which is wholly-owned by Auchan Holding S.A. A-RT is 36.70% owned by Auchan Retail International S.A., therefore Auchan Retail International S.A. is deemed to be interested in all the shares in which A-RT is interested in by virtue of Part XV of the SFO.

(4) Auchan Retail International S.A. is wholly-owned by Auchan Holding S.A., therefore Auchan Holding S.A. is deemed to be interested in all the shares in which Auchan Retail International S.A. is interested in by virtue of Part XV of the SFO.

(5) Auchan Holding S.A. is 61.88% owned by Au Marche S.A.S, therefore Au Marche S.A.S is deemed to be interested in all the shares in which Auchan Holding S.A. is interested in by virtue of Part XV of the SFO.

(6) Mulliez Family comprises the founder of Auchan Holding S.A. (one of our two ultimate controlling shareholders), Gerard Mulliez, and other members of the Mulliez family in France, who hold interests in various companies under Auchan Holding S.A. Au Marche S.A.S is wholly-owned by the Mulliez Family through certain intermediate holding companies. No one member of the Mulliez Family is able to exert a dominant influence over other members in their voting rights in Au Marche S.A.S. The Mulliez Family is collectively represented by a member of the family, who plays an administrative role and is similarly unable to exert a dominant influence over other members of the Mulliez Family and does not control Au Marche S.A.S.

(7) Kofu International Limited ("**Kofu**") is a company incorporated in the British Virgin Islands, which is indirectly wholly-owned by Mr. YIN Chung Yao, and has a direct beneficial interest of 7.84% in the Company.

(8) Concord Greater China Limited ("**CGC**") is a company incorporated in the British Virgin Islands and a company under Ruentex (Ruentex Development Co., Ltd. ("**Ruentex Development**"), Ruentex Industries Limited ("**Ruentex Industries**"), CGC and Kofu collectively) and has a direct beneficial interest of 8.46% in the Company.

(9) CGC is 42.25% owned by Ruentex Industries, therefore Ruentex Industries is deemed to be interested in all the shares in which CGC is interested in by virtue of Part XV of the SFO.

(10) CGC is 15.51% owned by Sinopac Global Investment Ltd. ("**Sinopac**") (a company indirectly owned as to 49.06% by Ruentex Industries and 49.06% by Ruentex Development and directly owned as to 1.886% by Kofu), and Sinopac is 49.06% owned by Ruentex Development. Therefore Ruentex Development is deemed to be interested in all the shares in CGC in which Sinopac is interested in by virtue of Part XV of the SFO. CGC is 25.46% owned by Ruentex Development. Therefore Ruentex Development is deemed to be interested in all the shares in which CGC is interested in by virtue of Part XV of the SFO.

(11) Kofu is wholly owned by Mr. YIN Chung Yao, through certain controlled corporations.

(12) Such 5,791,757,452 shares belong to the same batch of shares.

(13) Such 748,376,538 shares belong to the same batch of shares.

(14) Such 807,024,010 shares belong to the same batch of shares.

Save as disclosed above, as at 31 December 2016, the Directors of the Company are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company or its associated corporation(s) which would require to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

As at 31 December 2016, the shareholding interests of nine of the operating subsidiaries in the PRC are partially held by independent third parties. Those operating subsidiaries are Fields HK, Feiniu HK, RT-Mart Limited Shanghai, Jinan RT-Mart, Changshu Bairuenfa Hypermarket Co., Ltd., Shanghai Auchan Hypermarket Co., Ltd., Hangzhou Auchan Hypermarket Co., Ltd., Changzhou Immochan Real Estate Co., Ltd., and Wuxi Immochan Real Estate Co, Ltd. The shareholding interest of Oney Accord is partially held by Oney Bank, which is a connected person of the Company.

Highest Paid Individuals and the Remuneration of the Directors and Senior Management

Details of the Directors' remuneration and the five individuals with highest emoluments are set out in notes 6 and 7 respectively of the consolidated financial statements in this annual report.

For the year ended 31 December 2016, the remuneration of the senior management whose profiles are included in the "Profiles of Directors and Senior Management" section of this annual report, except the Company Secretary who is an external service provider, fell within the following bands:

Remuneration Bands	Number of Individuals
HKD1,500,001 – HKD2,000,000	**1**
HKD7,000,001 – HKD7,500,000	**1**
HKD14,500,001 – HKD15,000,000	**1**

Remuneration Policy

As at 31 December 2016, the Group employed a total of 146,737 employees. The Group recruits and promotes individuals based on merit and their development potentials. Remuneration package offered to all employees including Directors is determined with reference to their performance, time commitment, responsibilities and the prevailing salary levels in the market.

Retirement/Pension Schemes

Details of the retirement benefit schemes of the Group are set out in note 4(b) to the consolidated financial statements.

Connected Transactions

During the year ended 31 December 2016, the Group had the following non-exempt continuing connected transactions.

Agency Agreement and Subcontracting Agreement

According to the agreement entered into between the Company and Patinvest on 21 March 2016 in relation to negotiation services with selected international suppliers in Asia to be provided by the Company on behalf of Patinvest (the "**Agency Agreement**"), Patinvest agreed to grant to the Company exclusive right to provide negotiation services in relation to certain international cooperation agreements to be entered into between the Company (on behalf of Patinvest) and selected international suppliers in Asia. The services provided by the Company included negotiating with selected international suppliers in Asia for the provision of joint and specific services, comprising, amongst others, exchange of market knowledge, facilitation of new product introductions and entry into new regions/markets, coordination of product promotional activities and product performance data sharing.

According to the agreement entered into between the Company and Patinvest on 21 March 2016 in relation to the subcontracting of Patinvest's performance obligations in Asia under the international cooperation agreements entered into by Patinvest with third party suppliers (the "**Subcontracting Agreement**", and together with the Agency Agreement, the "**Agreements**"). Patinvest agreed to exclusively subcontract to the Company Patinvest's performance obligations in Asia under the international cooperation agreements entered into by Patinvest with third party suppliers. The services subcontracted included, amongst others, the exchange of market knowledge, facilitation of new product introductions and entry into new regions/markets, coordination of product promotional activities and sharing of product performance data with suppliers.

As Patinvest is a subsidiary of Auchan Holding and Auchan Holding is one of the controlling shareholders of the Company, Patinvest is a connected person of the Company. Accordingly, the Agency Agreement and Subcontracting Agreement constituted a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Each of the Agreements had a term commencing from 21 March 2016 and ending on 31 December 2016. The fees to which the Company was entitled under the Agency Agreement was 15% of the amount payable by selected international suppliers in Asia for the provision of services by the Company. The consideration payable to the Company for the Subcontracting Agreement was 85% of the amount payable by the international suppliers for the services performed in Asia under the international cooperation agreements entered into between Patinvest and such suppliers. By entering into the Agreements, Patinvest could leverage on the expertise and resources of the Group to strengthen the negotiations and bargaining power with selected international suppliers in Asia, and the Group could leverage on Patinvest's relationship with such international suppliers to expand its suppliers' network, and both parties could be in a better position to bargain for more favourable conditions during negotiation.

The annual cap of the Agreements for the year ended 31 December 2016 is EUR15 million (equivalent to RMB110 million). During the year 2016, the total fees paid by Patinvest to the Group was EUR7 million (equivalent to RMB52 million).

Upon the expiry of the Agreements on 31 December 2016, the Company and Patinvest entered into the new agency agreement and new subcontracting agreement on 23 December 2016 (together, the "**New Agency Agreement and New Subcontracting Agreement**") in substantially the same terms. Each of the New Agency Agreement and New Subcontracting Agreement has a term commencing from 1 January 2017 and ending on 31 December 2017. The annual cap of the New Agency Agreement and New Subcontracting Agreement for the year ended 31 December 2017 is EUR20 million (equivalent to RMB146 million).

Trademark Licence Agreement

According to the master trademark license agreement dated 13 December 2001 (supplemented from time to time) (the "**Old Trademark Licence Agreement**") entered into between Auchan Holding and ACHK, Auchan Holding granted to ACHK a non-exclusive and non-transferable license of its Auchan trademarks for use in connection with the Group's "Auchan" banner businesses in the PRC.

To streamline internal administration and operation procedures, ACHK and Auchan Holding agreed to terminate the Old Trademark Licence Agreement and Auchan Holding entered into a new trademark licence agreement with ACI on 13 December 2013 (the "**New Trademark Licence Agreement**"). As Auchan Holding is one of the controlling shareholders of the Company, Auchan Holding is a connected person of the Company. Accordingly, the New Trademark Licence Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to the New Trademark Licence Agreement, Auchan Holding granted to ACI a non-exclusive and non-transferable licence of its Auchan trademarks for use in connection with the Group's "Auchan" banner business in the PRC. The licence was granted for a term of 10 years from 1 January 2014 at a fee of 0.2% of the total income in the PRC (VAT excluded) of ACI on an annual basis. The annual caps for the maximum amount of fees payable to Auchan Holding under the New Trademark Licence Agreement for the year ended 31 December 2016 is RMB45 million.

During the year 2016, the total fees paid by the Group to Auchan Holding was RMB33 million.

Membership Agreement

Pursuant to the membership agreement (the "**Membership Agreement**") entered into between the Company and Organisation Intra-Groupe des Achats ("**SNC OIA**") on 22 March 2016, SNC OIA granted the Group the membership of SNC OIA.

Pursuant to the Membership Agreement and the membership with SNC OIA, the Group will be able to, through the electronic platform operated by SNC OIA, purchase, on a non-exclusive basis, various products, including food, hygiene and perfumery products offered by the corporate entities of Auchan Holding (the "**Auchan Countries Entities**") on the electronic platform of SNC OIA. SNC OIA will be responsible for the management and operation of the electronic platform, including the design of interactive and intuitive search tool as well as menus. Also, SNC OIA will regularly update the platform with new products according to the feedback of its members. As a member of SNC OIA, the Group will also be able to instruct SNC OIA to purchase the products on its behalf (the "**Ancillary Services**").

As each of SNC OIA and the Auchan Countries Entities is a subsidiary of Auchan Holding and Auchan Holding is one of the controlling shareholders of the Company, each of SNC OIA and the Auchan Countries Entities is a connected person of the Company. Accordingly, the Membership Agreement and the transactions contemplated thereunder therefore constituted a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

The Membership Agreement had a term commencing from 22 March 2016 and ending on 31 December 2016. The fees payable by the Group under the Membership Agreement consisted of three parts, namely: (i) the membership fee payable to SNC OIA, being 0.5% of the amount payable by the Group for the Group's purchases of the products offered by the Auchan Countries Entities through the electronic platform operated by SNC OIA. Such fee were payable to SNC OIA on a quarterly basis; (ii) the price of the products of the Auchan Countries Entities purchased by the Group through the electronic platform of SNC OIA. The Group should settle the payment within 60 days from the date of the invoice; and (iii) in respect of the Ancillary Services, a service fee was payable to SNC OIA, being 1.5% of the amount payable by the Group for the goods purchased by SNC OIA on the Group's behalf.

The price of the products of the Auchan Countries Entities purchased by the Group through the electronic platform operated by SNC OIA should not be higher than the average price paid by the Group to other independent third parties on an arm's length basis and normal commercial terms for the same type of products during the relevant period. The Group might, before it placed any purchase order through the electronic platform operated by SNC OIA, obtain price quotations from or transaction information from other suppliers who were independent third parties for the supply of the same or similar type of products required by the Group. If the Group proceeded to place a purchase order for the products offered by the Auchan Countries Entities through the electronic platform of SNC OIA, the price and other conditions at which such products were to be offered should be no less favourable than those offered by the independent third parties to the Group.

The annual cap of the Membership Agreement for the year ended 31 December 2016 is RMB60 million. During the year 2016, the total fees paid by the Group to SNC OIA was Nil.

Upon the expiry of the Membership Agreement on 31 December 2016, the Company and SNC OIA entered into the renewed membership agreement on 24 January 2017 (the "**Renewed Membership Agreement**") in substantially the same terms. The Renewed Membership Agreement has a term commencing from 1 January 2017 and ending on 31 December 2017. The annual cap of the Renewed Membership Agreement for the year ended 31 December 2017 is RMB100 million.

The Independent Non-executive Directors have reviewed the above transactions and confirmed that the continuing connected transactions have been entered into:

a) in the ordinary and usual course of business of the Group;

b) on normal commercial terms or better; and

c) according to the agreement governing them, on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements HKSAE 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 33 to 36 of the annual report in accordance with the Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Deed of Non-competition

Pursuant to a deed of non-competition dated 29 June 2011 (the "**Deed of Non-competition**") entered into between A-RT, Auchan Retail International S.A., Monicole BV, CGC, Kofu (collectively, the "**Controlling Shareholders**") and the Company, each of the Controlling Shareholders has undertaken to the Company that it will not and will use its best endeavour to procure that none of its affiliates will, among other things, carry on or engage in any business, which directly or indirectly, competes or is likely to compete with the operation of hypermarket complexes under the banners of "Auchan" and "RT-Mart" in the PRC, which comprise hypermarkets and retail galleries of individual retail stores.

To the best knowledge of the Directors, there is no breach of the Deed of Non-competition by the Controlling Shareholders during the year ended 31 December 2016.

Securities Transactions by Directors

The Company has devised its own code of conduct regarding Directors' dealing in the Company's securities (the "**Company Code**") on terms no less exacting than the Model Code. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 2016.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance standards to safeguard the interests of shareholders and to enhance corporate value and accountability.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report in this annual report.

Audit Committee

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and also discussed auditing, internal controls and financial reporting matters, including the review of the consolidated financial statements for the year ended 31 December 2016 with the external auditors, KPMG, and with management.

Major Customers and Suppliers

The nature of the Group's activities are such that the percentage of sales or purchases attributable to the Group's five largest customers or suppliers is significantly less than 10% of the total and the Directors do not consider any one customer or supplier to be influential to the Group.

Auditors

The consolidated financial statements for the year ended 31 December 2016 have been audited by KPMG, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming 2017 AGM.

A resolution for the re-appointment of KPMG as auditors of the Company will be proposed at the forthcoming 2017 AGM of the Company.

Compliance with the Relevant Laws and Regulations

As far as the Board is aware, the Company has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

Environmental and Social Responsibilities

The Group, as a responsible citizen, followed the principle to behave ethically and responsibly in daily operation to fulfill its environmental and social responsibilities. Through the implementation of our central remote control system and upgrade of maintenance system, the Group has effectively saved energy and water consumption, thereby reducing our carbon footprint. At the same time, the Group has consistently executed various recycling policies, including the recycling of packaging materials and office paper, to protect natural resources and reduce our impact on the environment. Also, the Group is committed to our neighbourhood community engagement in order to understand the needs of the communities where we operate and act positively in their interests.

Detail information on the environmental, social and governance practices adopted by the Company is set out in the Environment, Social and Governance Report which will be presented in a separate report and published on the websites of the Company and the HKEx no later than three months after the publication of this annual report.

Events after the Reporting Period

Details of significant events occurring after the balance sheet date are set out in note 31 to the consolidated financial statements.

By order of the Board

CHENG Chuan-Tai
Chairman

17 February 2017

The Group's businesses, financial condition, results of operations or growth prospects may be affected by risks and uncertainties pertaining to the Group's businesses. The factors set out below are those that the Group believes could result in the Group's businesses, financial condition, results of operations or growth prospects differing materially from expected or historical results. These factors are by no means exhaustive or comprehensive, and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

RISK ASSOCIATED WITH THE GROUP BUSINESS

Our growth prospects may be limited if we encounter difficulties executing our expansion strategy.

As part of our business strategy, we plan to expand the network of our hypermarkets through organic growth. Our ability to expand depends on, among other things:

- our ability to identify suitable sites for new hypermarkets and successfully negotiate purchase or lease agreements for these sites on terms acceptable to us;
- the availability of financing for our expansion, investments or other strategic transactions;
- our ability to attract, train and retain management talents in sufficient numbers for our expanded operations;
- our ability to obtain all the requisite governmental approvals, licences and permits in a timely manner;
- our ability to adapt and expand our operational and management systems, including our information technology systems, to support an expanded hypermarket network;
- our ability to effectively control and manage our costs in our expanded network, in particular, purchase costs, and expenses related to rent, logistics, human resources and marketing; and
- the timely completion of our new hypermarkets under development.

If we fail to achieve any of the above, we may not be able to achieve our planned expansion objectives. Our ability to manage our future growth will also depend on our ability to continue to successfully implement and improve our operational, financial and management systems in the evolving competitive markets. Our business growth could strain our managerial, operational and financial resources. Failure to effectively execute our expansion strategy may result in limited growth and reduced profitability.

We may not be able to find suitable locations for new hypermarkets on commercially acceptable terms, if at all.

Our performance depends, to a significant extent, on the location of our hypermarkets. When selecting a site for a hypermarket, we take into account various factors, including:

- population density, customer traffic and vehicle traffic;
- customer accessibility;
- potential growth of local population;
- development potential and future development trends;
- estimated spending power of the population and local economy;
- profitability and payback period, estimated on the basis of the expected sales potential;
- marketing or strategic benefits;
- proximity and performance of competitors in the surrounding area; and
- site characteristics and suitability with the specifications of our building plans.

We secure locations either through ownership or through long-term leases, as determined on a case-by-case basis. Going forward, we will need to secure more locations to open more hypermarkets. The supply of locations for new hypermarkets is scarce and, as a result, competition to secure these locations is intense. Our ability to purchase or lease suitable properties on terms acceptable to us is critical to the success of our expansion strategy. In the event that we encounter difficulties in securing suitable locations in regions that we plan to expand into, our growth prospects will be adversely affected.

Our new hypermarkets may not achieve our expected level of profitability within our desired time frame, or at all.

As part of our growth strategy, we plan to further enhance our leading position in China by increasing our market penetration and expanding our retail network. Opening new hypermarkets requires significant capital outlay up front, including the price of acquisition or rental of the premises, the cost of building, renovating and decorating the premises, and the cost of hiring and training employees. However, the new hypermarkets that we open may not achieve our expected level of profitability for a prolonged period of time, or at all. Whether or not the operation of our new hypermarkets will be successful depends on a number of factors, including:

- our ability to properly position our new hypermarkets to successfully establish a foothold in new markets and to execute our business strategy in the local market;
- our ability to successfully integrate the new hypermarkets with our existing operations and achieve related synergies;
- our ability to introduce an optimal mix of merchandise which successfully meets local consumer preferences at attractive prices;
- our ability to negotiate and obtain favourable terms from our suppliers;
- the effectiveness of our marketing campaigns;
- our ability to hire, train and retain skilled personnel;
- the competition that we face from incumbent and new players in the region; and
- any government development plans around our planned sites, such as construction, which could have an impact on the external traffic flow to our hypermarkets and the timely implementation of such changes.

Some of these factors are not entirely within our control. If our new hypermarkets do not break even or achieve our expected level of profitability within our expected timeframe, or at all, our expansion plans and our results of operations, financial condition and profitability may be materially and adversely affected.

Our E-commerce business may not achieve our expected level of profitability within our desired time frame, or at all.

As part of our growth strategy, we have entered into E-commerce business since 2014. Entering E-commerce business requires investments and a different business model. However, the E-commerce business may not achieve our expected level of profitability within our desired time frame, or at all.

Whether or not the E-commerce business will be successful depends on a number of factors, including:

- our ability to properly position this new business model in a very competitive environment;
- our ability to integrate the e-commerce business with our existing hypermarket business model and achieve related synergies;
- our ability to introduce an optimal mix of merchandise which meets on-line customer performance and at attractive prices;
- our ability to negotiate and obtain favorable terms from our suppliers;
- the effectiveness of our marketing campaigns;
- our ability to hire, train and retain skilled personnel; and
- the competition that we face from existing and new players in the on-line business.

Some of the factors are not entirely within our control. If our E-commerce business do not break even or achieve our expected level of profitability within our expected time frame, or at all, our results, financial condition and profitability may be materially and adversely affected and we may decide to shut down the E-commerce business.

We may fail to anticipate and provide the appropriate mix of merchandise to satisfy customer tastes and demands.

We maintain a comprehensive selection of merchandise targeting a broad range of customers. The success of our business depends on our ability to maintain a comprehensive product selection and, at the same time, anticipate and respond in a timely manner to changing customer demands and preferences. Some of the products we offer, such as home electronics and electrical appliances, may be characterised by frequent introductions of new models and technology. Consumer demands and fashion trends in the PRC are changing at a rapid pace and customer acceptance of new products is affected by a number of factors, including prevailing economic conditions, disposable income, global lifestyle trends, price, functionality, technology, appearance and many other factors. The success of our operations depends on our continued ability to select products from suppliers that satisfy customer demand. If we fail to accurately foresee or quickly adjust to general trends in consumer demands and preferences, our business, financial condition and results of operations may be materially and adversely affected.

Real or perceived quality or health issues with the products offered at our hypermarket complexes could have a material and adverse effect on our results of operations.

Concerns regarding the safety of products offered at our hypermarket complexes or the safety and quality of our supply chain could cause shoppers to avoid purchasing certain products from us, or to seek alternative sources, even if the basis for the concern is outside of our control. Adverse publicity about these concerns, whether or not ultimately based on fact, and whether or not involving products sold at our hypermarket complexes, could discourage consumers from buying our products and have a material and adverse effect on our turnover and results of operations.

RISKS RELATING TO THE INDUSTRY IN THE PRC

The outbreak of any severe infectious disease in the PRC may materially and adversely affect our results of operations.

The outbreak of any severe infectious disease in the PRC could have a material adverse effect on the overall business sentiment and environment in the PRC. This in turn may have a material and adverse impact on domestic consumption and, possibly, the overall GDP growth of the PRC. In April 2009, a H1N1 influenza broke out in Mexico and spread globally, resulting in the loss of lives and widespread fear. In addition, certain areas of China have been subject to epidemics, such as severe acute respiratory syndrome (SARS) or swine or avian influenza. As all of our turnover is derived from our PRC operations, any contraction or slowdown in the growth of domestic consumption or slowdown in the GDP growth of the PRC as a result of the outbreak of any severe communicable disease may materially and adversely affect our financial condition, results of operations and future growth. In addition, if the outbreak of any severe communicable disease occurs in the future and any of our employees or our customers in our hypermarkets are suspected of having contracted any severe communicable disease or any of our hypermarkets are identified as a possible source of spreading any severe communicable disease, we may be required to quarantine the employees that have been suspected of becoming infected, as well as others that had come into contact with those employees or customers. We may also be required to disinfect our affected hypermarkets and therefore suffer a temporary suspension of our retail operations. Any quarantine or suspension of our retail operations will affect our results of operations. Furthermore, the outbreak of any severe communicable disease may result in food safety concerns, which could have an adverse impact on our turnover. Such an outbreak would likely restrict the level of economic activity in affected areas, which would also materially and adversely affect our business operations.

Consumer spending patterns in China can be influenced by the state of China's economy.

Consumer spending patterns in China are influenced by the state of China's economy, which in turn affects our sales volume, turnover, profitability and our growth. We believe that Chinese consumers tend to increase their expenditures when the Chinese economy is experiencing strong growth and when they have more disposable income available for personal consumption. Conversely, a recession in the Chinese economy, or uncertainties regarding future economic prospects may result in a reduction in consumer spending at our hypermarkets. As a result, the state of the economy in China has had a significant impact on our historical, and will continue to have a significant impact on our future, performance, results of operations and profitability. Although in recent years, the PRC's economy has maintained rapid growth, and increases in GDP and per capita disposable income have strengthened consumers' purchasing power, we cannot assure you that such growth will not slow down or will continue in the future. In addition, the impact on the PRC economy of inflation and the unequal impact of inflation on different categories of products, such as food products, may affect consumer spending patterns and materially and adversely affect our business, financial condition and results of operations. A slowdown or downturn in the economies of the United States, the countries comprising the European Union and certain Asian nations, with which China has important trade relationships, could materially and adversely affect the economic growth of China. Any economic downturn in the PRC and its effect on consumer spending patterns may materially and adversely affect our business, financial condition and results of operations and our future prospects.

Future fluctuations in foreign exchange rates and government control in currency conversion may materially and adversely affect the ability of the Company to remit dividends.

A substantial proportion of our turnover and expenditure are denominated in Renminbi, which is currently not a freely convertible currency. We will require foreign currencies for dividend payment (if any) to our Shareholders. In addition, the price at which we purchase merchandise and products from our suppliers may be affected to the extent our suppliers' merchandise and products are imported or otherwise subject to foreign currency fluctuations. We will therefore be exposed to foreign currency fluctuations. Should there be significant changes in the exchange rates of US dollars or Hong Kong dollars against Renminbi, our Company's ability to make dividend payments in foreign currencies may be materially and adversely affected. In addition, any significant change in the exchange rates of the Renminbi against the US dollar or the Hong Kong dollar could materially and adversely affect the value of our Company's dividends, which would be funded by Renminbi but paid in Hong Kong dollars.

The board (the "Board") of directors (the "Directors") of the Company is pleased to present this Corporate Governance Report in the Group's Annual Report for the year ended 31 December 2016.

CORPORATE GOVERNANCE PRACTICES

The Company has committed to maintaining high corporate governance standards to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has devised its own Corporate Governance and Compliance Manual which incorporates all the principles and practices as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Listing Rules.

The Company reviews regularly its organizational structure to ensure operations are in line with the good corporate governance practices as set out in the CG Code and aligned with the latest developments.

In the opinion of the Board, the Company has complied with all the code provisions as set out in the CG Code for the year ended 31 December 2016, save and except for the deviation of code provisions A.6.7 and C.3.7(a) of the CG Code.

Code provision A.6.7 provides that the independent non-executive directors should attend general meetings of the company. Mr. Desmond Murray, the Independent Non-Executive Director of the Company, attended the annual general meeting of the Company held on 13 May 2016 (the "**2016 AGM**"). Ms. Karen Yifen Chang and Mr. He Yi, the Independent Non-Executive Directors of the Company, were unable to attend the 2016 AGM due to sickness and prior business engagement external to the Company respectively.

Code provision C.3.7(a) provides that under the terms of reference of the audit committee (the "**Audit Committee**"), the Audit Committee should review arrangements that can be used by the employees in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

The Company had not established any formal arrangement for employees to raise concern about possible improprieties in financial reporting, internal control or other matters. In practice, employees have direct access to our internal audit department via either a telephone line or a mailbox. In addition, they have direct access by email to the Executive Directors and the senior management. The Directors regularly receive and review monthly financial reports. The Directors, through the Audit Committee meet quarterly with the Group's internal audit function, whose main responsibility is to review the internal control system of the Group. The Directors consider that the lack of such arrangements will not have a material effect on the functions of financial reporting, internal control or other related matters. The internal audit department, the Audit Committee and the Board will discuss the proper actions to deal with any issue reported by any employee about improprieties in financial reporting, internal control and other matters.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct regarding Directors' and relevant employees' dealings in the Company's securities (the "**Company Code**") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules.

Specific enquiry has been made of all the Directors and relevant employees and they have confirmed that they have complied with the Model Code and the Company Code throughout the year ended 31 December 2016.

BOARD OF DIRECTORS

The Board currently comprises nine members, consisting of two Executive Directors, four Non-executive Directors and three Independent Non-executive Directors.

The composition of the Board is set out below:

Executive Directors
Bruno, Robert MERCIER, *Chief Executive Officer*
HUANG Ming-Tuan

Non-executive Directors
CHENG Chuan-Tai, *Chairman*
Benoit, Claude, Francois, Marie, Joseph LECLERCQ
Xavier, Marie, Alain DELOM de MEZERAC
Wilhelm, Louis HUBNER [1]

Independent Non-executive Directors
Karen Yifen CHANG
Desmond MURRAY
HE Yi

Note:

(1) Mr Wilhelm, Louis HUBNER was appointed as a Non-executive Director by the Board on 11 December 2015 and has offered himself for election by shareholders of the Company at his first AGM in 2016 pursuant to the Articles of Association of the Company.

The biographical information of the Directors are set out in the section headed "Profiles of Directors and Senior Management" on pages 16 to 21 of the annual report for the year ended 31 December 2016.

None of the members of the Board is related to one another.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. CHENG Chuan-Tai and Mr. Bruno, Robert MERCIER respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

Independent Non-executive Directors

During the year ended 31 December 2016, the Board had at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing one-third of the Board with two of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors are independent.

Non-executive Directors and Directors' Re-election

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Non-executive Directors of the Company is appointed for a specific terms of three years and is subject to retirement by rotation once every three years.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Directors of the Board take decisions objectively in the interests of the Company.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

The Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

The Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to the Directors where appropriate. All the Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2016, the Company organized a training session for all directors on New Standards, Amendments to and Interpretations to Hong Kong Financial Reporting Standards. In addition, relevant reading materials including legal and regulatory update have been provided to the directors for their reference and studying.

BOARD COMMITTEES

The Board has established six committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee, Disclosure Committee, Investment Committee and Operations Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the websites of the Company and the Stock Exchange and are available to shareholders upon request, except those for the Disclosure Committee, Investment Committee and Operations Committee.

The majority of the members of the Audit Committee, Remuneration Committee and Nomination Committee are Independent Non-executive Directors and the list of the chairman and members of each of the Audit Committee, Remuneration Committee and Nomination Committee is set out under "Corporate Information" on page 2.

Audit Committee

The roles and functions of the Audit Committee are set out in its terms of reference (the new terms of reference were adopted by the Board on 11 December 2015). The primary duties of the Audit Committee are to assist the Board in overseeing and reviewing (i) the effectiveness of the Company's risk management and internal control systems and regulatory compliance of the Group; (ii) the balance, transparency and integrity of the Company's financial statements and application of financial reporting principle; and (iii) the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and (iv) agree with internal auditors for their annual plan of work and the results of this work.

The Audit Committee held six meetings to review the annual, quarterly and interim financial results and reports for the year ended 31 December 2015 and for the six months ended 30 June 2016 and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and relevant scope of works, and connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors five times without the presence of the Executive Directors.

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration.

During the year ended 31 December 2016, the Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the Executive Directors and other related matters.

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of the Independent Non-executive Directors.

The Nomination Committee has adopted a set of nomination procedures for selection of candidates for directorship of the Company by making reference to the Company's Board Diversity Policy, such individuals' skills, experience, professional knowledge and time commitments, the Company's needs and other relevant statutory requirements and regulations. External recruitment professionals might be engaged to carry out selection process when necessary.

During the year ended 31 December 2016, the Nomination Committee met twice to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors, to consider the qualifications of the retiring directors standing for election at the annual general meeting. The Nomination Committee also considered an appropriate balance of diversity perspectives of the Board is maintained.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, the Company Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance records of each Director at the meetings of the Board and Board Committees and the general meeting of the Company held during the year ended 31 December 2016 are set out below:

	Attendance/Number of Meetings				
Name of Director	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Bruno, Robert MERCIER	6/6	N/A	N/A	N/A	1/1
HUANG Ming-Tuan	6/6	N/A	N/A	N/A	1/1
CHENG Chuan-Tai	6/6	6/6	2/2	1/1	1/1
Benoit, Claude, Francois, Marie, Joseph LECLERCQ	6/6	N/A	N/A	N/A	1/1
Xavier, Marie, Alain DELOM de MEZERAC	6/6	6/6	N/A	N/A	1/1
Wilhelm, Louis HUBNER	4*/6	N/A	1*/2	1/1	1/1
Karen Yifen CHANG	5/6	5/6	2/2	1/1	0/1
Desmond MURRAY	5/6	5/6	1/2	1/1	1/1
HE Yi	6/6	6/6	2/2	1/1	0/1

* These numbers exclude the attendance of Mr Xavier, Marie, Alain DELOM de MEZERAC, as alternate director to Mr Wilhelm, Louis HUBNER, at the Nomination Committee and Board Meetings held on 26 February 2016 in the absence of Mr Wilhelm, Louis HUBNER.

Apart from regular Board meetings, the Chairman also held a meeting with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the year.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 54 to 61.

AUDITORS' REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, KPMG, in respect of audit services and non-audit services for the year ended 31 December 2016 is shown on note 4(c) of the "Notes to the Consolidated Financial Statements" on page 94.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledge its responsibility for the risk management and internal control systems of the Company and reviewing their effectiveness. Such systems are designed to manage, rather than eliminate, the risk associated in failing to achieve certain business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management as well as overseeing the formation, implementation and monitoring of the risk management and internal control systems.

The Board, through the Audit Committee, has reviewed and confirmed the effectiveness of the risk management and internal control systems of the Company and its subsidiaries for the year ended 31 December 2016, including the adequacy of resources, staff qualification and experience, training programmes and budget of the Company's accounting and reporting function.

The management of the Company monitors the assessment of the risk management and internal controls and has reported and confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2016.

The internal audit department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The internal audit department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

The Board, as supported by the Audit Committee, assessed the effectiveness of the risk management and internal control systems by reviewing the management report and the internal audit findings and considered that, for the year ended 31 December 2016, the risk management and internal control systems of the Company are effective and adequate.

COMPANY SECRETARY

The Company has engaged Tricor Services Limited, external service provider, and Ms. CHAN Wai Ling, in replacement of Ms. HO Siu Pik, has been appointed as the Company's company secretary with effect from 10 August 2016. Her primary contact persons at the Company are Mr. Jean-Patrick Paufichet and Mr. Jean Chausse, the former and existing Chief Financial Controllers, Ms. Edith Wang, Legal and Tax Director, and Ms. Ariel Lu, Legal Manager, of the Company.

The biographical details of Ms. Chan is set out in the section of "Profiles of Directors and Senior Management" on page 21 of this annual report. During the year ended 31 December 2016, Ms. Chan undertook not less than 15 hours of relevant professional trainings.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening General Meeting

General meetings may be convened by the Directors on requisition of shareholder(s) of the Company representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings or by such shareholder(s) who made the requisition (as the case may be) pursuant to Sections 566 and 568 respectively of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "**Companies Ordinance**").

Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for convening a general meeting.

Putting Forward Proposals at General Meetings

Pursuant to Section 615 of the Companies Ordinance, shareholders representing at least 2.5% of the total voting rights of all shareholders; or at least 50 shareholders (as the case may be) who have a right to vote at the relevant annual general meeting, may request to circulate a resolution to be moved at an annual general meeting.

Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for circulating a resolution for annual general meeting.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	6th Floor, 165 Longkou Road, Yangpu District, Shanghai, China 200090 (For the attention of Ms. GU Xiaobei, Investor Relations Manager)
Email:	xiaobei.gu@auchan.com.cn; fn90@mail.rt-mart.com.cn

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, other than the registered office address in Hong Kong, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with the shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with the shareholders and in particular, through annual general meetings and other general meetings.

The Chairman of the Board, the chairmen of Audit Committee, Remuneration Committee and Nomination Committee, or, in their absence, other members of the respective committees, will make themselves available at the annual general meeting to meet the shareholders and answer their enquiries.

To promote effective communication, the Company maintains a website at http://www.sunartretail.com, which contains corporate information, updates on the Company's financial information, interim and annual reports, announcements and circulars issued by the Company, corporate governance practices as well as the recent developments of the Company.

During the year under review, the Company has not made any changes to its Articles of Association.

Independent auditor's report to the shareholders of Sun Art Retail Group Limited

(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Sun Art Retail Group Limited ("the **Company**") and its subsidiaries ("the **Group**") set out on pages 62 to 143, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("**the Code**") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (CONTINUED)

Recognition of supplier income

The Key Audit Matter	How the matter was addressed in our audit
The Group earns supplier income under several types of different arrangements with its suppliers. The arrangements vary in nature and size and include volume based discounts and rebates and fees earned from assisting suppliers with their marketing campaigns. Volume based discounts and rebates are recognised as a deduction from the cost of purchase of merchandise when the performance conditions associated with them are met. These performance conditions generally require the Group to meet certain volume thresholds. Fees earned from assisting suppliers with their marketing campaigns are earned over the period of the contractual agreements with individual suppliers. The total income recognised is, therefore, based on the expected entitlement earned up to the financial reporting date under each agreement. We identified the recognition of supplier income as a key audit matter because the number and complexity of the arrangements with suppliers increases the risk that the consolidated financial statements may not promptly or accurately reflect the Group's entitlements under the contracts agreed with suppliers.	Our audit procedures to assess the recognition of supplier income included the following: • understanding and evaluating the design, implementation and operating effectiveness of management's key internal controls over the recognition of supplier income; • assessing the accounting treatment in respect of the recognition of supplier income by inspecting the terms and conditions set out in each type of standard agreement used with suppliers with reference to the requirements of the prevailing accounting standards; • evaluating, on a sample basis, the inputs to the information technology applications which calculate volume based discounts and rebates by comparing the inputs with underlying documentation, including sales and purchase volume data and discount and rebate rates in the respective agreements, and performing recalculations of the volume based discounts and rebates to which the Group is entitled based on the above inputs; • evaluating, on a sample basis, the recognition of fees earned from assisting suppliers with their marketing campaigns by inspecting underlying documentation, including supplier income agreements or confirmations from suppliers in respect of the fulfilment of performance conditions; • comparing, on a sample basis, the amount of volume based discounts and rebates and fees earned from assisting suppliers with their marketing campaigns for the year with that confirmed by the respective supplier through the "invoice-tracking system", which is an on-line platform accessible by both the suppliers and the Group.

KEY AUDIT MATTERS (CONTINUED)

Valuation of inventories

Refer to notes 13 to the consolidated financial statements and the accounting policies on page 81.

The Key Audit Matter	How the matter was addressed in our audit
Inventories are carried at the lower of cost and net realisable value. Management has put in place controls over the purchase of inventories and inventory returns. Management reviews the status of inventories on hand on a store-by-store basis to identify slow moving items by comparing the volume on hand with actual movements over the past year before the end of the reporting period and may determine either to provide markdowns or to return certain items to suppliers at their original cost after deduction of unearned supplier income at the end of each reporting period. The provision for inventories is calculated based on an inventory ageing analysis, actual sales and purchase data and the current inventory profile. Significant management judgement is required in determining the markdowns and the provision for inventories at the end of each reporting period. No provision is provided for inventories returnable to suppliers at their original cost based on the terms set out in certain purchase agreement. In addition, as inventories are counted by the Group on a cyclical basis, rather than in full at the end of the reporting period, a provision for shrinkage of inventories is assessed and recognised by management in the consolidated financial statements based on management's estimation. We identified the valuation of inventories as a key audit matter because determining an appropriate provision for inventories involves significant management judgement in assessing the markdowns necessary to sell slow moving inventories which cannot be returned to suppliers and the shrinkage rate for inventories.	Our audit procedures to assess the valuation of inventories included the following: • understanding and evaluating the design, implementation and operating effectiveness of management's key internal controls over inventory management, including the purchase of inventories, cycle counts of inventories and review of the status of inventories; • assessing whether the provision for inventories at the reporting date was consistent with the Group's inventory provision policy by recalculating the provision for inventories based on the percentages and other parameters in the Group's inventory provision policy and considering the Group's inventory provision policy with reference to the requirements of the prevailing accounting standards; • assessing, on a sample basis, whether items in the inventory ageing report prepared by the management were classified within the appropriate ageing bracket by comparing items in the report with the underlying purchase records; • evaluating the Group's inventory provision policy for slow moving inventories by comparing management's forecasts of markdowns for a sample of inventories in the prior year to the historical sales amounts and markdown data for the current year and the period subsequent to the end of the reporting period; • assessing the enforceability of inventory return arrangements agreed with suppliers, on a sample basis, by inspecting the terms set in the respective purchase agreements; • performing a retrospective review on the Group's inventory provision policy by comparing the actual sales or return of inventories during the year with management's estimations at the end of the prior year; and • attending cycle counts at the Group's stores and distribution centres throughout the year, on a sample basis, performing sample counts and evaluating the results of the cycle counts performed by management throughout the year to assess management's estimation of the shrinkage rate.

KEY AUDIT MATTERS (CONTINUED)

Potential impairment of property, plant and equipment of certain of the Group's stores

Refer to notes 10 to the consolidated financial statements and the accounting policies on page 77.

The Key Audit Matter

Hypermarket stores in Mainland China are facing increasing competition, particularly from the rapid growth of online retail, which has negatively impacted the sales in certain of the Group's stores.

There is a risk that the carrying value of property, plant and equipment of certain of the Group's stores may not be recoverable in full through the future cash flows to be generated from the trading operations of these stores or from disposal of the related assets.

Management reviews the performance of individual stores at the end of each reporting period to identify if any store meets certain negative performance criteria ("indicators") which could indicate impairment. Such indicators include:

– decrease in turnover per square metre;
– decrease in gross cash flow from operations for three consecutive years; or
– turnover being significantly lower than the project forecast.

Where indicators of impairment are identified, the recoverable amount of the property, plant and equipment in these stores is determined by management on a store-by-store basis at the greater of the value in use and the fair value less cost of disposal of these assets.

In determining the value in use of leased stores, a discounted cash flow forecast was prepared by management for each store where indicators of impairment were identified.

How the matter was addressed in our audit

Our audit procedures to assess potential impairment of property, plant and equipment of certain of the Group's stores included the following:

- challenging the Group's impairment assessment model by assessing the impairment indicators identified by management and by considering whether the discounted cash flow forecasts on a store-by-store basis supported the carrying value of the relevant assets;

- using our internal valuation specialists to assist us in evaluating the methodology used by management in the preparation of its discounted cash flow forecasts and the valuations performed by independent professional valuers with reference to the requirements of the prevailing accounting standards;

- comparing the most significant inputs used in the discounted cash flow forecasts, including future revenue growth rates, future margins and future costs, with the historical performance of these stores, budgets approved by management, industry reports and agreements signed subsequent to the reporting date;

- comparing the most significant inputs used in the discounted cash flow forecasts prepared in the prior year with the current year's performance of the relevant stores to assess the accuracy of management's forecasting process and enquiring of management for any significant variations identified;

- assessing the discount rates used in the discounted cash flow forecasts by benchmarking against other similar retailers;

KEY AUDIT MATTERS (CONTINUED)

Potential impairment of property, plant and equipment of certain of the Group's stores (continued)

Refer to notes 10 to the consolidated financial statements and the accounting policies on page 77.

The Key Audit Matter	How the matter was addressed in our audit
For owned stores where an indicator of impairment was identified, a valuation of the related property was carried out by independent professional valuers to determine the fair value of the property, plant and equipment. In preparing the discounted cash flow forecasts, key inputs, including future revenue growth rates, future margins and future costs of each store are determined by management taking into consideration factors which include remodelling plans for the stores, changes in product mix and changes in expected customers numbers all of which involve the exercise of significant management judgement. We identified potential impairment of property, plant and equipment of certain of the Group's stores as a key audit matter because identifying impairment indicators and determining the level of impairment, if any, involves a significant degree of management judgement, particularly in forecasting future cash flows and estimating the recoverable amounts of these assets, both of which are inherently uncertain and could be subject to management bias.	• obtaining sensitivity analyses of the significant inputs, including future revenue growth rates, future margins and the discount rates used in the cash flow forecasts prepared by management and considering the resulting impact on the impairment charge for the year and whether there were any indicators of management bias; • meeting the independent professional valuers engaged by management to carry out the valuations of owned properties to evaluate their experience, competence, capabilities and objectivity and to understand the methodologies adopted and key inputs used in the valuation of properties; • comparing the most significant inputs used in the valuation of owned properties, including market rent and yield, with the rental agreements for these stores and industry reports; and • considering the disclosures in the consolidated financial statements in respect of impairment testing of property, plant and equipment relating to the stores, including the key assumptions and sensitivities to changes in such assumptions, with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ko Chee Wai David.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

17 February 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB million	 2015 RMB million
Revenue	2	**100,441**	96,414
Cost of sales		**(76,460)**	(73,951)
Gross profit		**23,981**	22,463
Other income	3	**873**	747
Operating costs		**(18,042)**	(17,002)
Administrative expenses		**(2,876)**	(2,633)
Profit from operations		**3,936**	3,575
Finance costs	4(a)	**(23)**	(20)
Share of results of an associate and a joint venture		**(4)**	(3)
Profit before taxation	4	**3,909**	3,552
Income tax	5(a)	**(1,280)**	(1,088)
Profit for the year		**2,629**	2,464
Other comprehensive income for the year			
Items that will not be reclassified to profit or loss:			
Changes in fair value of long-term other financial liabilities		**58**	19
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		**–**	2
Total comprehensive income for the year		**2,687**	2,485
Profit attributable to:			
Equity shareholders of the Company		**2,571**	2,443
Non-controlling interests		**58**	21
Profit for the year		**2,629**	2,464
Total comprehensive income attributable to:			
Equity shareholders of the Company		**2,629**	2,463
Non-controlling interests		**58**	22
Total comprehensive income for the year		**2,687**	2,485
Earnings per share			
Basic and diluted	9	**RMB0.27**	RMB0.26

The accompanying notes set out on pages 69 to 143 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 21(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016 RMB million	2015 RMB million
		At 31 December	
Non-current assets			
Investment properties	*10*	**3,615**	3,516
Other property, plant and equipment	*10*	**22,820**	22,902
Land use rights	*10*	**5,740**	5,278
		32,175	31,696
Intangible assets	*11*	**77**	64
Goodwill	*12*	**181**	181
Equity-accounted investees		**15**	19
Unquoted available-for-sale equity security		**4**	4
Trade and other receivables	*14*	**397**	527
Deferred tax assets	*20*	**395**	374
		33,244	32,865
Current assets			
Inventories	*13*	**15,409**	12,646
Trade and other receivables	*14*	**3,552**	3,380
Time deposits	*15*	**36**	36
Cash and cash equivalents	*16*	**8,100**	6,582
		27,097	22,644
Current liabilities			
Trade and other payables	*17*	**36,807**	32,626
Bank loans	*18*	**23**	638
Income tax payables	*5(c)*	**638**	491
		37,468	33,755
Net current liabilities		**(10,371)**	(11,111)
Total assets less current liabilities		**22,873**	21,754

The accompanying notes set out on pages 69 to 143 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	At 31 December 2016 RMB million	2015 RMB million
Non-current liabilities			
Bank loans	18	**3**	2
Other financial liabilities	19	**50**	114
Deferred tax liabilities	20	**11**	11
		64	127
Net assets		**22,809**	21,627
Capital and reserves			
Share capital	21	**10,020**	10,020
Reserves	21	**11,765**	10,726
Total equity attributable to equity shareholders of the Company		**21,785**	20,746
Non-controlling interests		**1,024**	881
Total equity		**22,809**	21,627

Approved and authorised for issue by the board of directors on 17 February 2017.

Bruno, Robert MERCIER
Chief Executive Officer
& Executive Director

HUANG Ming-Tuan
Executive Director

The accompanying notes set out on pages 69 to 143 form part of these financial statements.

		Attributable to equity shareholders of the Company						Non-	
		Share capital	Capital reserve	Exchange reserve	Statutory reserve	Retained profits	Total	controlling interests	Total equity
	Note	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Balance at 1 January 2015		10,020	2,338	44	950	6,329	19,681	869	20,550
Changes in equity for 2015:									
Profit for the year		–	–	–	–	2,443	2,443	21	2,464
Other comprehensive income		–	19	1	–	–	20	1	21
Total comprehensive income		–	19	1	–	2,443	2,463	22	2,485
Dividend declared in respect of previous years	*21(b)(ii)*	–	–	–	–	(1,223)	(1,223)	–	(1,223)
Dividends declared and payable to non-controlling shareholders		–	–	–	–	–	–	(113)	(113)
Profit appropriation to statutory reserve	*21(d)(iii)*	–	–	–	96	(96)	–	–	–
Acquisition of a subsidiary	*12*	–	(77)	–	–	–	(77)	16	(61)
Business combination under common control		–	(75)	–	–	–	(75)	–	(75)
Acquisition of non-controlling interests	*21(d)(i)*	–	(62)	–	–	–	(62)	13	(49)
Cash injection from non-controlling interests		–	–	–	–	–	–	52	52
Cash injection from Employee Trust Benefit Schemes	*4(b)*	–	39	–	–	–	39	22	61
Balance at 31 December 2015		10,020	2,182	45	1,046	7,453	20,746	881	21,627

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

		Attributable to equity shareholders of the Company						Non-	
		Share capital	Capital reserve	Exchange reserve	Statutory reserve	Retained profits	Total	controlling interests	Total equity
	Note	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Balance at 1 January 2016		**10,020**	**2,182**	**45**	**1,046**	**7,453**	**20,746**	**881**	**21,627**
Changes in equity for 2016:									
Profit for the year		–	–	–	–	2,571	2,571	58	2,629
Other comprehensive income		–	58	–	–	–	58	–	58
Total comprehensive income		–	58	–	–	2,571	2,629	58	2,687
Dividend declared in respect of previous years	*21(b)(ii)*	–	–	–	–	(1,521)	(1,521)	–	(1,521)
Dividends declared and payable to non-controlling shareholders		–	–	–	–	–	–	(124)	(124)
Profit appropriation to statutory reserve	*21(d)(iii)*	–	–	–	166	(166)	–	–	–
Acquisition of non-controlling interests	*21(d)(i)*	–	(157)	–	–	–	(157)	52	(105)
Cash injection from non-controlling interests		–	–	–	–	–	–	90	90
Cash injection from Employee Trust Benefit Schemes	*4(b)*	–	92	–	–	–	92	67	159
Share-based payment		–	(4)	–	–	–	(4)	–	(4)
Balance at 31 December 2016		**10,020**	**2,171**	**45**	**1,212**	**8,337**	**21,785**	**1,024**	**22,809**

The accompanying notes set out on pages 69 to 143 form part of these financial statements.

	Note	Year ended 31 December **2016** ***RMB million***	 2015 *RMB million*
Operating activities			
Profit before taxation		**3,909**	3,552
Adjustments for:			
Depreciation		**2,964**	2,773
Amortisation		**202**	181
Impairment losses on property, plant and equipment		**91**	–
Finance costs		**23**	20
Interest income		**(255)**	(271)
Loss on disposal of property, plant and equipment		**34**	54
Share-based payments		**(4)**	–
Share of results of an associate and a joint venture		**4**	3
Net foreign exchange (gain)/loss		**(15)**	11
		6,953	6,323
Changes in working capital:			
Increase in inventories		**(2,763)**	(1,483)
Increase in trade and other receivables		**(298)**	(185)
Increase in trade and other payables		**4,214**	2,837
Cash generated from operations		**8,106**	7,492
Income tax paid		**(1,154)**	(1,192)
Net cash generated from operating activities		**6,952**	6,300

The accompanying notes set out on pages 69 to 143 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

	Note	Year ended 31 December	
		2016	2015
		RMB million	*RMB million*
Investing activities			
Payment for purchase of investment properties, other property, plant and equipment and land use rights		**(3,579)**	(4,837)
Payment for acquisition of subsidiaries, net of cash acquired		**–**	(62)
Net changes in time deposits with maturity over three months		**–**	65
Proceeds from sale of property, plant and equipment		**5**	12
Payment for purchase of intangible assets		**(44)**	(42)
Interest received		**255**	271
Payment of purchase of investments		**(155)**	(570)
Proceeds from maturity of investments		**155**	600
Payment for acquisition of an associate		**–**	(20)
Net cash used in investing activities		**(3,363)**	(4,583)
Financing activities			
Cash injection from non-controlling interests		**249**	109
Proceeds from bank loans and other borrowings		**1,017**	638
Repayment of bank loans and other borrowings		**(1,631)**	(421)
Interest paid		**(23)**	(15)
Dividends paid to shareholders of the Company		**(1,521)**	(1,223)
Dividends paid to non-controlling shareholders		**(181)**	(7)
Net cash used in financing activities		**(2,090)**	(919)
Net increase in cash and cash equivalents		**1,499**	798
Cash and cash equivalents at 1 January		**6,582**	5,770
Effect of foreign exchange rate changes		**19**	14
Cash and cash equivalents at 31 December	*16*	**8,100**	6,582

The accompanying notes set out on pages 69 to 143 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated 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 (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the requirements of 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 "**Stock Exchange**"). A summary of the significant accounting policies adopted by the Company and its subsidiaries (together referred to as the "**Group**") is set out below.

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. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Group and the Group's interest in an associate and a joint venture.

The consolidated financial statements are presented in Renminbi ("**RMB**"), rounded to the nearest million (unless otherwise stated). RMB is also the functional currency of the Company and the Company's operating subsidiaries, as the Group's hypermarkets and E-commerce platforms are all operated in the People's Republic of China ("**PRC**"). The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments that are measured at fair value.

The preparation of the consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 28.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Change in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments are relevant to the Group's results and financial position.

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

(d) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (note 1(e)), except for business combinations under common control. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (note 1(o)(ii)). Any gain on bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Merger accounting for business combination involving entities under common control

Business combinations arising from transfer of interests in entities that are under the control of the controlling shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the year. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Any difference between the consideration measured at fair value and the net carrying amount of the entities under common control transferred is recognised directly in equity. Expenditure incurred in relation to a common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 1(f)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(o)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management including participation in the financial and operating policy decision.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(o)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year and the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income are recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Associates and joint ventures (continued)

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(m)).

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (see note 1(o)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(g) Hypermarkets operated under Contracted Store arrangements

The Group operates certain hypermarkets through Contracted Store arrangements ("**Contracted Stores**") under which the hypermarket owner ("**Contracted Store Owner**") provides the store, equipment and facilities for use by the Group to carry out the Group's hypermarket business and in return is entitled to an annual fee, calculated as either a fixed amount or a fixed percentage of the store's sales revenue, and any remaining profit or loss relating to the operation of the store is attributable to the Group. As the Group bears the risks and rewards of the store's operation, the revenue, operating expenses and results relating to the operation of the Contracted Stores are included in the Group's consolidated statement of profit or loss and other comprehensive income on a line-by-line basis and the net profit or loss relating to the operation of the stores attributable to the Group is recorded as an amount due from or to the Contracted Store Owner, as applicable. Sales of inventories by the Group to the Contracted Stores are eliminated and the Contracted Stores' inventories as of the reporting period end are incorporated in the Group's consolidated statement of financial position. Prepaid cards bought by customers which may be used to purchase goods in other stores of the Group are recorded as "advance receipts from customers" within "trade and other payables" in the Group's consolidated statement of financial position, and a corresponding receivable from the Contracted Store is recognised.

(h) Goodwill

Goodwill represents the excess of the fair value of the consideration transferred over the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(o)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Investment properties

Areas within hypermarket buildings owned by the Group which are held to earn rental income and/or for capital appreciation are classified as investment properties. Investment properties are stated at cost less accumulated depreciation and impairment losses (see note 1(o)). Depreciation is calculated to write off the cost of investment properties, less their estimated realisable value, if any, using the straight line method over the estimated useful life of 10-30 years. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

Areas within hypermarket buildings leased by the Group which are sublet to earn rental income are classified as other property, plant and equipment (see note 1(j)).

(j) Other property, plant and equipment

(i) Owned assets

Buildings held for own use which are situated on land held under land use rights and other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(o)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs (see note 1(z)). Construction in progress is transferred to investment properties or the relevant categories of other property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete, notwithstanding any delays in the issue of the relevant completion certificates by the relevant PRC authorities. Purchased software that is integral to the functionality of related equipment is capitalised as part of that equipment.

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the differences between the net disposal proceeds and the carrying amount of the item, and are recognised in profit or loss on the date of retirement or disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Other property, plant and equipment (continued)

(ii) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

• Buildings	10-30 years
• Leasehold improvements	5-20 years
• Store and other equipment	4-10 years
• Office equipment	3-5 years
• Motor vehicles	5-8 years

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. No depreciation is provided on construction in progress.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately.

Depreciation methods, useful lives and residual values are reviewed annually.

(k) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses (see note 1(o)).

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, as follows:

• Software	2-5 years

Both the period and method of amortisation are reviewed annually.

(l) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Leased assets (continued)

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land use rights is amortised on a straight-line basis over the period of the lease term.

(m) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in notes 1(x)(iv) and 1(x)(vi).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Other investments in debt and equity securities (continued)

Dated debt securities that the Group has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 1(o)).

Non-derivative financial assets with fixed or determinable payments are classified as loans and receivables. Loans and receivables are stated at amortised cost less impairment losses (see note 1(o)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period, the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(o)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in note 1(x). Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 1(o)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(n) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(o) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 1(f)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(o)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(o)(ii).

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

- For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

- For available-for-sale financial assets, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on the assets previously recognised in profit or loss.

  Impairment losses in respect of available-for-sale financial assets are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– investment properties;

– other property, plant and equipment;

– land use rights;

– investments in subsidiaries, associates and joint ventures in the company's statement of financial position;

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

- intangible assets;
- goodwill; and
- other financial assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

- Reversals of impairment losses

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(o)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available for sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available for sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(p) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises the purchase cost of goods after deducting discounts and payments from suppliers, except where such payments represent a reimbursement of identifiable expenditure incurred by the Group or relate to services provided by the Group which provide identifiable benefits to the suppliers separate from the Group's purchase of the supplier's goods. Supplier payments include cash or its equivalent in form (e.g. credits applied to future purchases). Net realisable value is the estimated selling price in the ordinary course of business.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(o)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(r) Interest bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(s) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(u) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans, contributions to the Group's Employee Trust Benefit Schemes, and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Employee benefits (continued)

(ii) Share-based payments

(a) Cash-settled share-based payments

The fair value of share appreciation rights granted to employees, which are to be settled in cash and based on the price of the equity instruments of entities within the Group, is recognised as an employee cost and liability. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the payments, the total estimated fair value of the rights is spread over the vesting period, taking into account the probability that the rights will vest. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as employee costs in profit or loss.

(b) Share-based payments among group entities

The fair value of stock options and shares granted by the Group's controlling shareholder to certain employees of the Group in respect of their services to the Group, which are to be settled in cash by the controlling shareholder, is recognised as an employee cost, with a corresponding increase in capital reserve within equity of the Group, over the period that the employees become unconditionally entitled to the stock options and shares. The amount recognised as an expense is adjusted to reflect the number of stock options and shares for which the related service and non-market performance conditions are expected to be met at the vesting date.

(c) Equity-settled share-based payments

The fair value of shares granted by the Group's certain subsidiary to its employees in respect of their services to the Group, is recognised as an employee cost, with a corresponding increase in capital reserve within equity of the Group, over the period that the employees become unconditionally entitled to the shares. The amount recognised as an expense is adjusted to reflect the number of shares for which the related service are expected to be met at the vesting date.

(v) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to a business combination, or to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Income tax (continued)

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(w) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(x) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Revenue recognition (continued)

(i) Sales of goods

Revenue is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. If it is probable that discounts will be granted, then the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Service income

Service income is recognised in profit or loss when the services are delivered.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(vi) Dividend income

Dividend income is recognised when the shareholder's right to receive payment is established.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(z) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent or ultimate controlling shareholders.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(bb) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 REVENUE AND SEGMENT REPORTING

The principal activity of the Group is the operation of hypermarkets and E-commerce platforms in the PRC.

The Group is organised, for management purpose, into business units based on the banner under which the hypermarkets and E-commerce platforms are operated. As all of the Group's hypermarkets and E-commerce platforms are operated in the PRC, have similar economic characteristics, and are similar in respect of products and services provided and customer type, the Group has one reportable operating segment which is the operation of hypermarkets and E-commerce platforms in the PRC.

Revenue mainly represents the sales value of goods supplied to customers and rental income from leasing areas in the hypermarket buildings. The amount of each significant category of revenue recognised in revenue is as follows:

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Sales of goods	**97,096**	93,270
Rental income	**3,345**	3,144
	100,441	96,414

The Group's customer base is diversified and there is no customer with whom transactions have exceeded 10% of the Group's revenues.

3 OTHER INCOME

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Service income	**329**	238
Disposal of packaging materials	**122**	112
Interest income	**255**	271
Government grants	**167**	126
	873	747

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Interest expense on borrowings		
– wholly repayable within five years	**17**	14
– wholly repayable after five years	**6**	6
	23	20

(b) Staff costs

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Salaries, wages and other benefits	**7,884**	7,181
Contributions to defined contribution retirement plans (i)	**965**	864
Contributions to Employee Trust Benefit Schemes (ii)	**431**	366
Share-based payments (iii)	**(8)**	2
	9,272	8,413

(i) Contributions to defined contribution retirement plans

The Group participates in pension schemes organised by the PRC government whereby the Group is required to pay annual contributions based on the statutory percentage of the average salary level in the cities where the Group's employees are employed. The Group remits all the pension fund contributions to the respective social security offices, which are responsible for the payments and liabilities relating to the pension funds. The Group has no obligation for payment of retirement and other post-retirement benefits of employees other than the contributions described above.

4 PROFIT BEFORE TAXATION (CONTINUED)

(b) Staff costs (continued)

(ii) Contributions to Employee Trust Benefit Schemes

The Group has established an Employee Trust Benefit Scheme for employees of its subsidiary, Concord Investment (China) Co., Ltd. ("**CIC**") and its subsidiaries ("**the RT-Mart Scheme**") and an Employee Trust Benefit Scheme for employees of its subsidiary, Auchan (China) Hong Kong Limited ("**ACHK**") and its subsidiaries ("**the Auchan Scheme**"). Under each scheme, an annual profit sharing contribution, calculated based on the consolidated results of CIC for the RT-Mart Scheme, and on the consolidated results of ACHK for the Auchan Scheme, and the number of eligible employees, is payable to a trust, the beneficial interests in which are allocated to participating eligible employees in accordance with the relevant Employee Trust Benefit Scheme rules. The trusts are administered by independent trustees and invest the amounts received in either cash and cash equivalents ("**cash-like assets**") or equity of CIC in the case of the RT-Mart Scheme, or cash-like assets or equity of ACHK's subsidiary, Auchan (China) Investment Co., Ltd. ("**ACI**") in the case of the Auchan Scheme, respectively. The annual profit sharing contributions are accrued in the year in which the associated services are rendered by the eligible employees.

In addition to the annual profit sharing contributions made by the Group, subject to certain conditions, eligible employees are entitled to acquire additional beneficial interests in the relevant Employee Trust Benefit Scheme trust using their own funds.

Any excess of the capital injected by the trusts to CIC or ACI over the attributable share of their consolidated net assets acquired is credited to capital reserve within equity of the Group.

(iii) Share-based payments

On 7 December 2011, the Company granted a total of 296,790 share appreciation rights to a director and a member of key management whereby, provided they meet certain vesting criteria, the individuals will be entitled to a future cash payment, calculated based on the increase (capped at 3.5 times) in the Company's share price after a six year period from its opening share price on 6 December 2011 of HKD10.52. Based on the fair value of HKD0.12 per right as at 31 December 2016, determined using the Monte Carlo Method, the changes in fair value have been recognised as a staff cost expense in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016.

4 PROFIT BEFORE TAXATION (CONTINUED)

(b) Staff costs (continued)

(iii) Share-based payments (continued)

ACHK granted certain rights to a number of senior management of ACHK whereby, provided they meet certain vesting criteria, the individuals will be entitled to a future cash payment, calculated based on the increase in the fair value of ACHK. Based on the fair value of ACHK RMB4 million has been recognised as a deduction of staff cost expense in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 (RMB2 million staff cost expenses for the year ended 31 December 2015).

In addition to the above, share-based payments includes RMB4 million credit (2015: nil) in respect of stock options and shares in the Group's controlling shareholder, Auchan Holding S.A. ("**Auchan Holding**"), granted by Auchan Holding to certain employees of the Group in respect of their service to the Group. Details of share options and shares are set out in the Report of Directors.

(iv) Feiniu Employee Equity Participation Scheme

In 2014, the Group established an Employee Equity Participation Scheme ("**EEPS**") for the employees of Feiniu E-Commerce (Shanghai) Co., Ltd. ("**Feiniu Shanghai**"). Under the EEPS, certain selected employees of Feiniu Shanghai were given the right to subscribe new shares issued by Feiniu E-Commerce Hong Kong Limited ("**Feiniu Hong Kong**"), which is the immediate holding company of Feiniu Shanghai, through two limited companies registered in the British Virgin Islands, Grand Charm Venture Limited and Fame Up Development Limited (collectively "**BVI Companies**").

The Group has treated the EEPS as an equity-settled share-based payment in light of the vesting condition above. However, as the share subscription prices for eligible employees under the EEPS were the same as those paid by other non-employee shareholders, there was no significant share-based payment cost to be recognised by the Group in respect of the EEPS.

In 2016, a total of 45 million of shares (2015: 52 million) in Feiniu Hong Kong were issued under the EEPS at RMB1.2 per share (2015: RMB1 per share). A total amount of RMB54 million (2015: RMB52 million) are credited to non-controlling interests within equity in the consolidated financial statements of the Group.

4 PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Cost of inventories	**76,360**	73,736
Depreciation		
– assets leased out under operating leases		
– investment properties	**210**	205
– other property, plant and equipment	**491**	345
– assets held for own use	**2,263**	2,223
	2,964	2,773
Amortisation		
– land use rights	**171**	163
– intangible assets	**31**	18
	202	181
Impairment losses		
– other property, plant and equipment	**91**	–
Operating lease charges		
(i) contingent rents		
– assets leased for own use	**590**	593
– assets sublet to others	**186**	174
(ii) minimum lease payments		
– assets leased for own use	**1,703**	1,629
– assets sublet to others	**253**	238
(iii) fees to Contracted Store Owners	**14**	23
Total	**2,746**	2,657

4 PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items (continued)

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Loss on disposal of property, plant and equipment	**34**	54
Net foreign exchange (gain)/loss	**(15)**	11
Auditors' remuneration		
– audit services	**32**	32
– non-audit services	**1**	1
Donations	**1**	1
Rental income from investment properties		
– gross (including property management fee)	**(1,213)**	(1,131)
– direct operating expenses	**43**	78
Net rental income from investment properties	**(1,170)**	(1,053)

5 INCOME TAX

(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Current tax – Hong Kong Profits Tax		
Provision for the year	**–**	1
Over-provision in respect of prior year	**(1)**	–
Current tax – PRC income tax		
Provision for the year	**1,302**	1,175
Over-provision in respect of prior year	**–**	(5)
	1,301	1,171
Deferred tax		
Origination of temporary differences *(note 20(a))*	**(21)**	(83)
	1,280	1,088

5 INCOME TAX (CONTINUED)

(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents: (continued)

(i) The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the Company and its subsidiaries incorporated in Hong Kong (2015: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

(ii) All PRC subsidiaries are subject to income tax at 25% for the year ended 31 December 2016 (2015: 25%) under the Enterprise Income Tax law ("**EIT law**").

(iii) The EIT law and its relevant regulations also impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, on dividend distributions made out of the PRC from earnings accumulated from 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax.

Under the Arrangement between the Mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest in a PRC-resident enterprise is entitled to a reduced withholding tax rate of 5% on dividends received.

On 12 July 2012, Announcement [2012] No. 30 ("**Announcement 30**") dated 29 June 2012 was released by the State Administration of Taxation ("**SAT**"). Announcement 30 explicitly states that a company that is a tax resident of a Double Taxation Agreement ("**DTA**") partner state and is listed in that jurisdiction ("**Listed Parent**") will automatically satisfy the beneficial ownership criteria in respect of PRC dividends received. Furthermore, subsidiaries that are wholly owned by the Listed Parent, directly and/or indirectly, and are tax residents of the same DTA partner state, may also be automatically regarded as the beneficial owners of any PRC dividends they receive. Accordingly, dividends receivable by RT-Mart Holdings Limited and ACHK should be subject to 5% withholding tax rate.

Since the Group can control the quantum and timing of distribution of profits of the Group's PRC subsidiaries, deferred tax liabilities are only provided to the extent that such profits are expected to be distributed in the foreseeable future.

5 INCOME TAX (CONTINUED)

(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Profit before taxation	**3,909**	3,552
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%	**977**	888
Non-deductible expenses, less non-assessable income	**(16)**	(43)
PRC dividend withholding tax	**91**	71
Current year losses for which no deferred tax asset was recognised	**257**	242
Temporary differences for which no deferred tax asset was recognised	**35**	2
Utilisation of previously unrecognised tax losses	**(61)**	(74)
Recognition of previously unrecognised temporary differences	**(35)**	(16)
Reversal of previously recognised deferred tax assets	**33**	23
Over-provision in respect of prior years	**(1)**	(5)
Actual tax expenses	**1,280**	1,088

(c) Income tax payables in the consolidated statement of financial position represent:

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Balance at beginning of the year	**491**	512
Over-provision in respect of prior years	**(1)**	(5)
Provision for current income tax for the year	**1,302**	1,176
Payment during the year	**(1,154)**	(1,192)
Income tax payables at the end of the year	**638**	491

6 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and part 2 of the Companies (Disclosure of information about Benefits of Directors) Regulation are as follows:

	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Contributions to retirement schemes *RMB'000*	Discretionary bonus *RMB'000*	Share-based payments *(note 7)* *RMB'000*	2016 Total *RMB'000*
Executive directors						
Bruno, Robert MERCIER	–	2,743	292	196	–	3,231
HUANG Ming-Tuan	–	13,365	–	–	–	13,365
Non-executive directors						
CHENG Chuan-Tai	–	–	–	–	–	–
Benoit, Claude, Francois, Marie, Joseph LECLERCQ	–	–	–	–	–	–
Xavier, Marie, Alain DELOM de MEZERAC	–	–	–	–	–	–
Wilhelm, Louis HUBNER	–	–	–	–	–	–
Independent non-executive directors						
Karen Yifen CHANG	257	–	–	–	–	257
HE Yi	257	–	–	–	–	257
Desmond MURRAY	309	–	–	–	–	309
Total	823	16,108	292	196	–	17,419

6 DIRECTORS' REMUNERATION (CONTINUED)

	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Contributions to retirement schemes *RMB'000*	Discretionary bonus *RMB'000*	Share-based payments *(note 7)* *RMB'000*	2015 Total *RMB'000*
Executive directors						
Bruno, Robert MERCIER	–	2,257	259	219	405	3,140
HUANG Ming-Tuan	–	11,582	–	–	–	11,582
Non-executive directors						
CHENG Chuan-Tai	–	–	–	–	–	–
Philippe, David BAROUKH (resigned on 11 December 2015)	–	–	–	–	–	–
Benoit, Claude, Francois, Marie, Joseph LECLERCQ	–	–	–	–	–	–
Xavier, Marie, Alain DELOM de MEZERAC	–	–	–	–	–	–
Wilhelm, Louis HUBNER (appointed on 11 December 2015)	–	–	–	–	–	–
Independent non-executive directors						
Karen Yifen CHANG	240	–	–	–	–	240
HE Yi	240	–	–	–	–	240
Desmond MURRAY	290	–	–	–	–	290
Total	770	13,839	259	219	405	15,492

No director of the Company agreed to waive any remuneration during the year.

During the year, there were no amounts paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 7 below as an inducement to join or upon joining the Group or as compensation for loss of office.

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The aggregate of the emoluments in respect of the five highest paid individuals of the Group during the year, one (2015: one) of whom are directors of the Company, are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**44,935**	39,660
Contributions to retirement schemes	**–**	–
Discretionary bonus	**–**	–
Share-based payments	**–**	–
	44,935	39,660

Share-based payments represent the estimated value of share appreciation rights granted (note 4(b)(iii)) and the estimated value of stock options and shares in Auchan Holding granted, details of which are disclosed under the section "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" in the Report of Directors.

The emoluments of the 5 individuals with the highest emoluments are within the following bands:

	2016 Number of individuals	2015 Number of individuals
HKD6,000,001 – HKD6,500,000	**1**	–
HKD6,500,001 – HKD7,000,000	**–**	1
HKD7,000,001 – HKD7,500,000	**–**	2
HKD7,500,001 – HKD8,000,000	**2**	–
HKD14,000,001 – HKD14,500,000	**–**	2
HKD15,000,001 – HKD15,500,000	**1**	–
HKD15,500,001 – HKD16,000,000	**1**	–
	5	5

8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB2,045 million for the year ended 31 December 2016 (2015: a profit of RMB1,520 million), which has been dealt with in the financial statements of the Company.

Details of dividends paid and payable to equity shareholders of the Company are set out in note 21(b).

9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB2,571 million (2015: RMB2,443 million) and the weighted average of 9,539,704,700 ordinary shares (2015: 9,539,704,700) in issue during the year:

Weighted average number of ordinary shares

	Year ended 31 December	
	2016	2015
Issued ordinary shares at 1 January and 31 December	**9,539,704,700**	9,539,704,700

There were no dilutive potential ordinary shares throughout the years and therefore diluted earnings per share is equivalent to basic earnings per share.

10 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

	Buildings	Leasehold improvements	Store and other equipment	Office equipment	Motor vehicles	Construction in progress	Sub-total	Investment properties	Land use rights	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cost:										
At 1 January 2015	9,991	3,853	14,491	1,904	279	489	31,007	4,381	6,029	41,417
Additions	309	173	141	338	27	3,226	4,214	188	222	4,624
Transfer from construction in progress	211	216	1,467	11	–	(1,909)	(4)	4	–	–
Disposals	(1)	(46)	(99)	(195)	(13)	–	(354)	–	–	(354)
At 31 December 2015	10,510	4,196	16,000	2,058	293	1,806	34,863	4,573	6,251	45,687
At 1 January 2016	**10,510**	**4,196**	**16,000**	**2,058**	**293**	**1,806**	**34,863**	**4,573**	**6,251**	**45,687**
Additions	**484**	**62**	**1,085**	**150**	**7**	**1,053**	**2,841**	**270**	**633**	**3,744**
Transfer from construction in progress	**492**	**306**	**755**	**163**	**26**	**(1,781)**	**(39)**	**39**	**–**	**–**
Disposals	**(1)**	**(17)**	**(111)**	**(59)**	**(28)**	**–**	**(216)**	**–**	**–**	**(216)**
At 31 December 2016	**11,485**	**4,547**	**17,729**	**2,312**	**298**	**1,078**	**37,449**	**4,882**	**6,884**	**49,215**

10 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS (CONTINUED)

	Buildings	Leasehold improvements	Store and other equipment	Office equipment	Motor vehicles	Construction in progress	Sub-total	Investment properties	Land use rights	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Accumulated depreciation and impairment:										
At 1 January 2015	(2,198)	(1,431)	(4,734)	(1,158)	(160)	–	(9,681)	(852)	(810)	(11,343)
Charge for the year	(395)	(347)	(1,471)	(306)	(49)	–	(2,568)	(205)	(163)	(2,936)
Disposals	1	11	81	184	11	–	288	–	–	288
At 31 December 2015	(2,592)	(1,767)	(6,124)	(1,280)	(198)	–	(11,961)	(1,057)	(973)	(13,991)
Net book value:										
At 1 January 2016	**(2,592)**	**(1,767)**	**(6,124)**	**(1,280)**	**(198)**	**–**	**(11,961)**	**(1,057)**	**(973)**	**(13,991)**
Charge for the year	**(408)**	**(422)**	**(1,593)**	**(290)**	**(41)**	**–**	**(2,754)**	**(210)**	**(171)**	**(3,135)**
Disposal	**–**	**15**	**83**	**53**	**26**	**–**	**177**	**–**	**–**	**177**
Impairment losses	**–**	**(91)**	**–**	**–**	**–**	**–**	**(91)**	**–**	**–**	**(91)**
At 31 December 2016	**(3,000)**	**(2,265)**	**(7,634)**	**(1,517)**	**(213)**	**–**	**(14,629)**	**(1,267)**	**(1,144)**	**(17,040)**
Net book value:										
At 31 December 2016	**8,485**	**2,282**	**10,095**	**795**	**85**	**1,078**	**22,820**	**3,615**	**5,740**	**32,175**
At 31 December 2015	7,918	2,429	9,876	778	95	1,806	22,902	3,516	5,278	31,696

10 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS (CONTINUED)

(i) All the Group's investment properties, other property, plant and equipment are located in the PRC.

(ii) Land use rights represent the fees and related expenses in obtaining land use rights for periods ranging from 40 to 70 years. As at 31 December 2016, the Group had not obtained land use rights certificates for certain land use rights with an aggregate carrying amount of RMB705 million (2015: RMB756 million). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these land use rights as at 31 December 2016 and 2015.

(iii) As at 31 December 2016, the Group was in the process of obtaining property ownership certificates for certain buildings with an aggregate carrying amount of RMB2,696 million (2015: RMB3,083 million). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these buildings as at 31 December 2016 and 2015.

(iv) As set out in note 1(i), the Group has applied the cost model for its investment properties.

An independent professional valuer has been engaged to measure the fair value of the retail galleries located in the hypermarket buildings owned by the Group. The valuation included the fair value of the buildings of the retail galleries which were classified as investment properties and the associated land use rights. As at 31 December 2016, the total fair value of the investment properties were RMB4,562 million (2015: RMB4,225 million).

The valuation technique and significant unobservable inputs used to estimate the fair value of the retail galleries including the investment properties and associated land use rights are set forth in the table of note 10(v). The fair value measurement for investment properties has been categorised as Level 3 fair value based on the inputs to the valuation technique used. There have been no changes in valuation technique used in prior year.

(v)

Valuation technique	Significant unobservable inputs
Income approach by capitalising the net rental incomes derived from the existing tenancies with due allowance for any reversionary income potential of the properties.	• Market rent: The market rent is estimated according to the comparable properties in close proximity. The higher the market rent, the higher the fair value of the properties. • Yield: The yield is estimated according to the market evidence, valuer's experience and knowledge of market conditions. The range of adopted yield is from 4.75% to 7.50% (2015: 5.25% to 7.50%) according to different cities. The higher the yield, the lower the fair value of the properties.

10 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS (CONTINUED)

(vi) The Group leases out investment properties and certain other property, plant and equipment within the hypermarket buildings under operating leases which typically run for an initial period of 1 to 3 years. The Group's total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Within 1 year	**2,565**	2,506
After 1 year but within 5 years	**1,265**	1,309
After 5 years	**507**	543
	4,337	4,358

In addition to the minimum amounts disclosed above, certain lessees have commitments to pay additional rent to the Group if their sales revenue exceeds predetermined levels. Contingent rental receivables are not included in the above.

(vii) As at 31 December 2016, due to a reduction in profitability of certain stores, leasehold improvements in certain stores of the Group were stated net of impairment losses of RMB91 million (2015: nil), to write down the carrying amount of the leasehold improvements of the stores to their estimated recoverable amount of RMB83 million. An impairment loss of RMB91 million (2015: nil) was recognised in "Operating costs".

The estimates of recoverable amount were determined based on the higher of the stores' value in use and the fair value less costs of disposal. In determining the value in use, the post-tax discount rate of 10.34% (2015: 9.26%) was used reflecting the current market assessment of the time of money and the risk specific to the stores. In determining the fair value of the relevant assets, the level of fair value hierarchy, the valuation techniques and each key assumption on which management based were disclosed in note 10(v).

11 INTANGIBLE ASSETS

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Software cost:		
At 1 January	**103**	55
Additions	**44**	48
	147	103
Accumulated amortisation		
At 1 January	**(39)**	(21)
Amortisation for the year	**(31)**	(18)
	(70)	(39)
Net book value		
At 1 January	**64**	34
At 31 December	**77**	64

The amortisation charge is recognised in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

12 GOODWILL

Goodwill arose on the acquisition of subsidiaries and there is no individual cash-generating unit to which the goodwill allocated is significant to the consolidated financial statements. No impairment of goodwill was recognised for the years ended 31 December 2016 and 2015.

On 2 April 2015, the Group acquired Fields Hong Kong Limited ("**Fields HK**") for a total consideration of USD16.7 million (equivalent to RMB103 million) through the purchase of shares from existing shareholders and the subscription of new shares issued by Fields HK. Following these transactions, the Group holds 57.25% of share capital of Fields HK and has control over this entity. Goodwill arising from the acquisition of RMB82 million was recognised during the year ended 31 December 2015.

13 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At 31 December	
	2016	2015
	RMB million	*RMB million*
Trading merchandise	**15,409**	12,646

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Carrying amount of inventories sold	**76,417**	73,725
(Reversal of write down)/write down of inventories	**(57)**	11
	76,360	73,736

All inventories are expected to be sold within one year.

14 TRADE AND OTHER RECEIVABLES

	At 31 December	
	2016	2015
	RMB million	*RMB million*
Non-current		
Rental prepayments	**397**	527
Current		
Trade receivables	**450**	195
Amounts due from Contracted Stores	**29**	41
Amounts due from Contracted Store Owners	**45**	57
Amounts due from related parties *(note 25(d))*	**88**	115
Other debtors	**707**	723
Value-added tax recoverable	**1,019**	635
Prepayments:		
– rentals	**1,103**	1,249
– property, plant and equipment and intangible assets	**111**	365
Sub-total	**3,552**	3,380
Trade and other receivables	**3,949**	3,907

14 TRADE AND OTHER RECEIVABLES (CONTINUED)

The Group's trade receivables relate to credit card sales, the aging of which is within one month, and credit sales to corporate customers, the aging of which is within three months. The aging of trade receivables is determined based on invoice date.

The amounts due from Contracted Stores as at 31 December 2016 include the balance of prepaid cards sold by the Contracted Stores which may be used by customers to purchase goods in certain of the Group's other stores, offset by advance payments made by Contracted Stores in respect of purchase of goods.

The amounts due from Contracted Store Owners comprise advances made by the Group to certain Contracted Store Owners and the Contracted Stores' profit attributable to the Group (see note 1(g)). These amounts are repayable on demand.

Rental prepayments may be offset against future rentals due to landlords of hypermarket premises leased by the Group in accordance with the relevant lease agreements.

Except for prepayments made for property, plant and equipment and intangible assets which will be transferred to the relevant asset category upon receipt of the assets, all of the trade and other receivables classified as current assets are expected to be recovered within one year. Details of the Group's credit policy are set out in note 22(a).

15 TIME DEPOSITS

	At 31 December	
	2016	2015
	RMB million	*RMB million*
Time deposits	**36**	36

Time deposits have original maturity over three months.

16 CASH AND CASH EQUIVALENTS

	At 31 December	
	2016	2015
	RMB million	*RMB million*
Deposits with banks within 3 months of maturity	**106**	207
Cash at bank and on hand	**5,405**	4,358
Other financial assets	**2,589**	2,017
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	**8,100**	6,582

Other financial assets represent investments in short-term financial products issued by PRC commercial banks, with principals guaranteed, fixed or determinable returns and with periods to maturity less than three months from date of issue.

17 TRADE AND OTHER PAYABLES

	At 31 December	
	2016	2015
	RMB million	*RMB million*
Current		
Trade payables	**20,817**	18,247
Advance receipts from customers	**9,702**	8,331
Amounts due to related parties *(note 25(d))*	**121**	207
Construction costs payable	**1,799**	1,888
Dividends payable to non-controlling interests	**124**	181
Accruals and other payables	**4,244**	3,772
Trade and other payables	**36,807**	32,626

All trade and other payables are expected to be settled within one year.

Advance receipts from customers primarily represent the unutilised balance of prepaid cards sold by the Group.

17 TRADE AND OTHER PAYABLES (CONTINUED)

An ageing analysis of trade payables determined based on invoice date is as follows:

	At 31 December	
	2016	2015
	RMB million	*RMB million*
Due within 6 months	**20,413**	17,940
Due after 6 months but within 12 months	**404**	307
	20,817	18,247

18 BANK LOANS

	At 31 December	
	2016	2015
	RMB million	*RMB million*
Current		
Bank loans repayable within 1 year guaranteed by a related party	**3**	5
Unsecured bank loans repayable within 1 year	**20**	633
Sub-total	**23**	638
Non-current		
Bank loans guaranteed by a related party	**3**	2
Bank loans	**26**	640

Unsecured bank loans carried interest at 3.92% per annum as at 31 December 2016 (2015: 2.26% to 3.92% per annum). Bank loans guaranteed by a related party, Oney Bank S.A. ("**Oney Bank**", formerly known as "**Banque Accord S.A.**"), carried interest at 6.05% per annum as at 31 December 2016 (2015: 6.05% to 6.30% per annum).

19 OTHER FINANCIAL LIABILITIES

	As at 31 December	
	2016	2015
	RMB million	*RMB million*
Put option liabilities on non-controlling interests of Fields HK	**–**	58
Others	**50**	56
	50	114

On 2 April 2015, as part of the Group's acquisition of Fields HK, the Group and some of the non-controlling shareholders of Fields HK entered into put and call option contracts. Pursuant to the contracts, the Group has been granted the right to purchase and the non-controlling shareholders have been granted the right to sell, the shares of Fields HK held by some of the non-controlling shareholders, at the pre-determined dates. The exercise prices are based on pre-defined calculation formula. The RMB77 million put option liabilities on non-controlling interests are measured at present value of exercise price and are recorded in "Other Financial Liabilities" on acquisition date with a corresponding amount debited to capital reserve within equity of the Group. All subsequent changes in the carrying amount of the "Other Financial Liabilities" are recorded in equity. As at 31 December 2016, the put option liabilities have been reduced to zero based on the pre-defined calculation formula.

Others mainly represent capital contributed in cash by the third-party shareholders of certain subsidiaries of the Group which are cooperative joint ventures in the PRC. In accordance with the respective agreements, these shareholders do not have any entitlement to the profit or loss of the subsidiaries, other than a prescribed annual return. The total annual prescribed returns of RMB6 million for the year ended 31 December 2016 are included in finance costs in the consolidated statement of profit or loss and other comprehensive income (2015: RMB6 million).

20 DEFERRED TAX ASSETS AND LIABILITIES

(a) The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements are as follows:

	Tax losses	Fair value adjustment in relation to business combinations	Depreciation charges in excess of depreciation allowances	PRC dividend withholding tax	Accruals and other timing differences	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
At 1 January 2015	40	(10)	155	(15)	110	280
(Charged)/credited to profit or loss	8	–	35	14*	26	83
At 31 December 2015	48	(10)	190	(1)	136	363
At 1 January 2016	**48**	**(10)**	**190**	**(1)**	**136**	**363**
(Charged)/credited to profit or loss	**(28)**	**–**	**42**	**–**	**7**	**21**
At 31 December 2016	**20**	**(10)**	**232**	**(1)**	**143**	**384**

* The amount includes the provision of withholding tax on profits of the PRC subsidiaries for the year amounting to RMB91 million (2015: RMB71 million) less the reversal of deferred tax liabilities on withholding tax in respect of dividends paid during the year amounting to RMB91 million (2015: RMB85 million).

20 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Reconciliation to the consolidated statement of financial position:

	At 31 December	
	2016	2015
	RMB million	*RMB million*
Net deferred tax assets	**395**	374
Net deferred tax liabilities	**(11)**	(11)
	384	363

(c) **Deferred tax assets not recognised**

In accordance with the accounting policy set out in note 1(v), the Group has not recognised deferred tax assets in respect of unused tax losses of RMB2,743 million as at 31 December 2016 (2015: RMB2,035 million), as it is not probable that future taxable profits against which these losses can be utilised will be available in the subsidiaries concerned.

The unused tax losses from PRC entities can be carried forward up to five years from the year in which the losses originated, and will expire in the following years:

	At 31 December	
	2016	2015
	RMB million	*RMB million*
2016	**–**	58
2017	**83**	112
2018	**198**	285
2019	**562**	646
2020	**871**	934
2021	**1,020**	–
	2,734	2,035

(d) **Deferred tax liabilities not recognised**

No deferred tax liabilities were provided on post-2007 undistributed profits of the Group's PRC subsidiaries for which the Group has no plan to distribute them outside the PRC in the foreseeable future. As at 31 December 2016, such undistributed profits amounted to RMB4,809 million (2015: RMB4,467 million).

21 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the years are set out as follows:

The Company:

	Share capital *RMB million*	Capital reserve *RMB million*	Exchange reserve *RMB million*	Retained profits *RMB million*	Total *RMB million*
Balance at 1 January 2015	10,020	13,322	(425)	1,330	24,247
Changes in equity for 2015:					
Profit for the year	–	–	–	1,520	1,520
Other comprehensive income	–	–	–	–	–
Total comprehensive income	–	–	–	1,520	1,520
Dividends declared	–	–	–	(1,223)	(1,223)
Balance at 31 December 2015	10,020	13,322	(425)	1,627	24,544
Balance at 1 January 2016	**10,020**	**13,322**	**(425)**	**1,627**	**24,544**
Changes in equity for 2016:					
Profit for the year	**–**	**–**	**–**	**2,045**	**2,045**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**–**	**2,045**	**2,045**
Dividends declared	**–**	**–**	**–**	**(1,521)**	**(1,521)**
Balance at 31 December 2016	**10,020**	**13,322**	**(425)**	**2,151**	**25,068**

21 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2016 RMB million	2015 RMB million
Final dividend proposed after the end of the reporting period of HKD0.23 (equivalent to RMB0.20) per ordinary share (2015: HKD0.19 (equivalent to RMB0.16) per ordinary share)	**1,908**	1,524
	1,908	1,524

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial years, approved during the year:

A final dividend of HKD0.16 (equivalent to RMB0.13) per ordinary share in respect of the year ended 31 December 2014 was approved on 14 May 2015, and the payment was made in June 2015 for an amount equivalent to RMB1,223 million.

A final dividend of HKD0.19 (equivalent to RMB0.16) per ordinary share in respect of the year ended 31 December 2015 was approved on 13 May 2016, and the payment was made in June 2016 for an amount equivalent to RMB1,521 million.

21 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital

	2016			2015		
	No. of shares	HKD million	RMB million	No. of shares	HKD million	RMB million
Ordinary shares, issued and fully paid:						
At 1 January and 31 December	**9,539,704,700**	**11,697**	**10,020**	9,539,704,700	11,697	10,020

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves

(i) Capital reserve

The capital reserve mainly arises from

- the issuance of ordinary shares to acquire the non-controlling interests in ACHK and CCIL;
- the excess of the cash injected by the trusts to CIC or ACI over the attributable share of their consolidated net assets acquired (see note 4(b)(ii));
- accumulative share-based payments in relation to stock options and shares granted by Auchan Holding to certain employees of the Group (see note 4(b)(iii));
- put option liabilities associated with acquisition of Fields HK (see note 19); and
- acquisition of additional non-controlling interest.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(y).

21 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves (continued)

(iii) Statutory reserve

The statutory reserve represents statutory reserves which are appropriated by the Group's PRC subsidiaries ("**PRC Companies**"). According to the relevant laws and regulations for foreign investment enterprises and the articles of association for the said PRC Companies, profits of the PRC Companies, as determined in accordance with the accounting rules and regulations in the PRC, are available for distribution in the form of cash dividends to investors after the PRC Companies have (1) satisfied all tax liabilities; (2) offset losses in previous years; and (3) made appropriation to the statutory reserve funds, including general reserve fund and enterprise expansion fund.

(e) Distributability of reserves

As at 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of section Part 6 of the CO was RMB2,151 million (2015: RMB1,627 million). After the end of the reporting period the directors proposed a final dividend of HKD0.23 (equivalent to RMB0.20) per ordinary share, amounting to RMB1,908 million (see note 21(b)). This dividend has not been recognised as a liability at the end of the reporting period.

(f) Capital risk management

The Group defines capital as its total equity. The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-equity ratio. This ratio is calculated as net debt divided by total equity. The Group defines debt as loans, borrowings, less cash and cash equivalents, investments and time deposits.

There were no changes in the Group's approach to capital management during the year.

21 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(f) Capital risk management (continued)

Net debt-to-equity ratios were as follows:

	At 31 December	
	2016	2015
	RMB million	*RMB million*
Bank loans *(note 18)*	**26**	640
Less: Time deposits	**(36)**	(36)
Cash and cash equivalents	**(8,100)**	(6,582)
Net debt	**(8,110)**	(5,978)
Total equity	**22,809**	21,627
Net debt-to-equity ratio*	**(36%)**	(28%)

* Net debt-to-equity ratio of the Group for the years ended 31 December 2016 and 2015 is negative due to the aggregation of cash and cash equivalents and time deposits exceed loans and borrowings of the Group.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Financial assets of the Group include cash and cash equivalents, time deposits, unquoted available for sale equity security and trade and other receivables. Financial liabilities of the Group include loans and borrowings and trade and other payables.

The Company's board of directors (the "**Board**") has overall responsibility for the establishment and oversight of the Group's risk management framework, and developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The risks are mitigated by various measures as disclosed below.

(a) Credit risk

The Group's cash and bank deposits and time deposits are held with banks located in the PRC and Hong Kong which management believes are of high credit quality. Accordingly, the Group's credit risk is primarily attributable to trade and other receivables. Management monitors the exposures to credit risk on an ongoing basis.

Credit risk in respect of trade receivables is limited as the balances mainly arise from credit card sales. Credit terms are offered in rare cases to corporate customers with whom the Group has an established and ongoing relationship.

Investments in short-term financial products are arranged with financial institutions, which management believes are of high credit quality. Pursuant to the agreements with the financial institutions, there is limited credit risk on the principal amounts, as these are guaranteed by the financial institutions.

Rental prepayments are placed with various landlords in the PRC and may be offset against future rental charges during the lease periods.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. The Group or the Company does not provide any other guarantees which would expose the Group or the Company to credit risk.

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The Group had net current liabilities of RMB10,371 million as at 31 December 2016 (2015: RMB11,111 million). The Group generated net cash from operating activities amounting to RMB6,952 million for the year ended 31 December 2016 (2015: RMB6,300 million), and had RMB4,264 million of unutilised loan facilities available as at 31 December 2016 (2015: RMB3,171 million). In view of the profitability, operating cash flows and availability of loan facilities of the Group, the directors consider the Group will have adequate liquid funds for its working capital and capital expenditure requirements for the foreseeable future.

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(b) Liquidity risk (continued)

The following are the contractual maturities of the Group's financial liabilities at each reporting date, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

	At 31 December 2016				
	Contractual undiscounted cash flow				
	Within 1 year or on demand	**More than 1 year but less than 5 years**	**More than 5 years**	**Total**	**Financial statement carrying amount**
	RMB million	***RMB million***	***RMB million***	***RMB million***	***RMB million***
Bank loans	**24**	**3**	**–**	**27**	**26**
Trade and other payables	**36,807**	**–**	**–**	**36,807**	**36,807**
Other financial liabilities	**–**	**–**	**50**	**50**	**50**
At 31 December 2016	**36,831**	**3**	**50**	**36,884**	**36,883**

	At 31 December 2015				
	Contractual undiscounted cash flow				
	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Financial statement carrying amount
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Bank loans	645	2	–	647	640
Trade and other payables	32,626	–	–	32,626	32,626
Other financial liabilities	6	63	50	119	114
At 31 December 2015	33,277	65	50	33,392	33,380

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(c) Interest rate risk

(i) Interest rate profile

Cash at bank, investments and time deposits, and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk.

The Group's cash at bank, investments and time deposits, interest-bearing borrowings and interest rates as at 31 December 2016 and 2015 are set out as follows:

	2016		2015	
	Effective interest rate	**Carrying Amount *RMB million***	Effective interest rate	Carrying Amount *RMB million*
Variable rate instruments:				
Cash at bank and time deposits within three months of maturity	**0%~4.00%**	**4,944**	0%~1.60%	4,077
Other financial assets	**1.35%~3.65%**	**2,589**	1.35%~5%	1,982
Bank loans	**3.92%**	**(20)**	6.30%	(7)
		7,513		6,052
Fixed rate instruments:				
Time deposits over three months of maturity	**0.50%~5.50%**	**36**	0.50%~5.50%	36
Other financial assets	**–**	**–**	3.2%-3.3%	35
Bank loans	**6.05%**	**(6)**	2.25-6.05%	(633)
		30		(562)

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

A general increase/decrease of 100 basis points in interest rates prevailing at the reporting dates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained earnings by approximately RMB56 million for the year ended 31 December 2016 (2015: RMB45 million).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at each reporting date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for the years ended 31 December 2016 and 2015.

(d) Foreign currency risk

The Group's businesses are principally conducted in RMB and most of the Group's monetary assets and liabilities are denominated in RMB. Accordingly, the directors consider the Group's exposure to foreign currency risk is not significant. The Group does not employ any financial instruments for hedging purposes.

On the other hand, RMB is not a freely convertible currency and the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. Changes in the foreign exchange control system may prevent the Group from satisfying sufficient foreign currency demand and the Group may not be able to pay dividends in foreign currencies to its shareholders.

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(e) Fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in note 10(v) – investment properties.

During the years ended 31 December 2015 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2016 and 2015, except for the amounts due from/to related parties which have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair value of such balances.

23 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding and not provided for in the financial statements were as follows:

	At 31 December	
	2016	2015
	RMB million	*RMB million*
Contracted for	**2,173**	2,611
Authorised but not contracted for	**2,597**	3,230
	4,770	5,841

(b) Operating leases

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December	
	2016	2015
	RMB million	*RMB million*
Within 1 year	**1,855**	2,223
After 1 year but within 5 years	**5,911**	5,833
After 5 years	**11,256**	10,422
	19,022	18,478

The Group leases certain land and buildings under operating leases. The leases typically run for an initial period of fifteen to twenty years, with an option to renew the lease after that date. The Group has the option to cancel the leases on payment of a penalty at various stages of the initial lease periods depending on the terms of the specific leases concerned.

In addition to the minimum rental payments disclosed above, for some of the hypermarkets leased, the Group has commitments to pay additional rent of a proportion of turnover if the turnover generated exceeds the predetermined levels. Contingent rental payables are not included in the above as it is not possible to estimate the amounts which may be payable.

24 CONTINGENCIES

Legal claims

As at 31 December 2016, legal actions have commenced against the Group by certain customers and certain suppliers in respect of disputes on purchase agreements. The total amount claimed is RMB137 million (2015: RMB222 million). As at 31 December 2016, the legal actions were ongoing, with most of the actions not yet set for trial dates. Provision of RMB32 million (2015: RMB21 million) has been made within trade and other payables as at 31 December 2016, which the directors believe is adequate to cover the amounts, if any, payable in respect of these claims.

25 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Short-term employee benefits	**67**	61
Post-employment benefits	**–**	–
Share-based payments	**–**	–
	67	61

Total remuneration is included in "staff costs" (see note 4(b)).

25 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Identity of related parties

During the years ended 31 December 2016 and 2015, the directors are of the view that the following companies are related parties of the Group:

Name of party	Relationship
Ruentex Development Co., Ltd., Ruentex Industries Ltd., Concord Greater China Limited and Kofu International Limited (collectively "**Ruentex**")	Major shareholder
Auchan Holding	Ultimate controlling shareholder
Auchan Retail International S.A. ("**Auchan Retail**")	Subsidiary of Auchan Holding
Auchan International Luxembourg	Subsidiary of Auchan Holding
Auchan France Croix	Subsidiary of Auchan Holding
Auchan Global Service	Subsidiary of Auchan Holding
Auchan International Technology	Subsidiary of Auchan Holding
RT-Mart International Limited	Subsidiary of Auchan Holding
Auchan International (Shanghai) International Trading Company Limited	Subsidiary of Auchan Holding
Oney Bank	Subsidiary of Auchan Holding
Patinvest	Subsidiary of Auchan Holding
SNC OIA	Subsidiary of Auchan Holding
Hwabao Trust Co., Ltd.	Trustee of RT-Mart and Auchan Scheme trusts

25 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Related party transactions

In addition to the related party information disclosed elsewhere in the notes to the financial statements, the Group entered into the following material related party transactions during the year.

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Agency fees receivable *(i)*	**52**	57
Trademark fee payable *(ii)*	**33**	27
IT services fee payable *(iii)*	**7**	1
Expenses payable *(iv)*	**101**	96
Contributions to Employee Trust Benefit Schemes trusts *(note 4(b))*	**431**	366
Purchase of goods *(v)*	**2**	5
Business combination under common control	**–**	75
Bank loans (repaid)/borrowed *(vi)*	**(7)**	8

(i) Agency fees receivable relate to amounts accrued from international suppliers by Patinvest starting from March 2015 and Auchan International Luxembourg for prior periods on behalf of the Group, net of fees payable to Patinvest and Auchan International Luxembourg, respectively.

(ii) Trademark fee payable represents the fee charged by Auchan Holding for the grant of licenses to the Group to use the Auchan trademarks.

(iii) IT services fee payable represents the fee charged by Auchan International Technology for IT support and services provided.

(iv) Expenses payable primarily relate to personnel and administrative costs paid by subsidiaries of Auchan Retail on behalf of the Group, which are reimbursed and expensed by the Group.

(v) This represents purchase of merchandise from Auchan International (Shanghai) International Trading Company Limited.

(vi) This represents the loan borrowed from Oney Bank in 2015 and the loan repaid to Oney Bank in 2016 by Oney Accord Consulting (Shanghai) Co., Ltd ("**Oney Accord**").

25 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Related party transactions (continued)

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

(d) Related party balances

	At 31 December	
	2016	2015
	RMB million	*RMB million*
Amounts due from subsidiaries of Auchan Holding	**88**	115
Amounts due to Auchan Holding and its subsidiaries	**121**	207

The above balances are all trade in nature.

(e) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of agency fee receivable and trademark fee payable above constitute non-exempt continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided under the section "Connected Transactions" in the Report of Directors.

26 COMPANY LEVEL STATEMENT OF FINANCIAL POSITION

	At 31 December	
	2016	2015
	RMB million	*RMB million*
Non-current assets		
Investments in subsidiaries	**16,096**	15,850
Trade and other receivables	**6,823**	7,124
Unquoted available-for-sale equity security	**4**	4
	22,923	22,978
Current assets		
Trade and other receivables	**2,162**	1,621
Cash and cash equivalents	**32**	29
	2,194	1,650
Current liabilities		
Trade and other payables	**49**	84
Net current assets	**2,145**	1,566
Net assets	**25,068**	24,544
Capital and reserves		
Share capital	**10,020**	10,020
Reserves	**15,048**	14,524
Total equity	**25,068**	24,544

Approved and authorised for issue by the board of directors on 17 February 2017.

Bruno, Robert MERCIER
Chief Executive Officer
& Executive Director

HUANG Ming-Tuan
Executive Director

27 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

The directors consider the immediate parent of the Group to be A-RT Retail Holdings Limited, which is incorporated in Hong Kong. Pursuant to the shareholders' agreement dated 12 December 2010 entered into by Auchan Holding and Ruentex, the directors consider the Group is controlled by Auchan Holding and Ruentex ultimately.

On 14 August 2013, Auchan Holding and Ruentex entered into a shareholders' agreement to amend the shareholders' agreement dated 12 December 2010, such that, among other things, the right of Ruentex to appoint a majority of the directors of CCIL, RT-Mart Holdings and CIC was expired on 31 December 2013 and a majority of the directors of CCIL, RT-Mart Holdings and CIC is recommended by Ruentex and appointed by Auchan Holding thereafter.

28 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Depreciation

Investment properties and other property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any, in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technology changes.

(b) Provision for inventories

The Group reviews the carrying amounts of the inventories at each reporting period end date to determine whether the inventories are carried at the lower of cost and net realisable value. Management estimates the net realisable value based on the current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-downs and affect the Group's net asset value.

28 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Impairment losses on trade and other receivables

Impairment losses on trade and other receivables are assessed and provided based on management's regular review of ageing analysis and evaluation of collectability. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the consolidated statement of profit or loss and other comprehensive income in future years.

(d) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

(e) Impairment of other assets (mainly investment properties and other property, plant and equipment, intangible assets and goodwill)

As stated in note 1(o)(ii), an impairment loss is recognised in profit and loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. At the end of each reporting period, the Group reviews the recoverable amount of investment properties and other property, plant and equipment, intangible assets and goodwill which involves judgement on the determination of their fair value less costs of disposal and value in use. The fair value less costs of disposal is determined based on market comparison approach by reference to recent market rents of comparable assets and the value in use is determined by discounting projected cash flow series associated with the assets using risk-adjusted discount rates. Any change in the assumptions would increase or decrease the recoverable amount of investment properties and other property, plant and equipment, intangible assets and goodwill.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and have not been adopted in these financial statements. These include the following which may be relevant to the Group.

Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, Revenue from contracts with customers	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
Amendments to HKFRS 4, *Insurance contracts: Applying HKFRS 9 Financial instrument with HKFRS 4*	1 January 2018
Amendments to HKAS 40, *Transfers of investment property*	1 January 2018
HKFRIC 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

- revenue from service – the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue

- accounting for certain costs incurred in fulfilling a contract – certain costs which are currently expensed may need to be recognised as an asset under HKFRS 15; and

- rights of return – HKFRS 15 requires separate presentation on the statement of financial position of the right to recover the goods from the customer and the refund obligation.

At the state, the Group is not able to estimate the impact of HKFRS 15 on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

HKFRS 16, *Leases*

As disclosed in note 1(m), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 23(b), at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB19,022 million for properties and other assets, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

30 INTEREST IN SUBSIDIARIES

The principal activity of the Company is investment holding.

Particulars of the Group's principal subsidiaries are as follows:

Held directly by the Company:

Name of companies	Note	Effective interest of ownership attributable to the Group		Principal activities	Registered capital/issued and fully paid up capital	
		2016	2015			*(million)*
CCIL	*(ii)*	**100%**	100%	Investment holding	USD	112
ACHK	*(ii)*	**100%**	100%	Investment holding	USD	216
Shanghai Art Management and Service Co., Ltd.		**100%**	100%	Consulting Service	USD	0.1
Feiniu E-Commerce Hong Kong Limited	*(ii)*	**74.18%**	70.9%	E-commerce	RMB	900
Fields Hong Kong Limited	*(ii)*	**57.25%**	57.25%	E-commerce	HKD	125

30 INTEREST IN SUBSIDIARIES (CONTINUED)

Held directly or indirectly by CCIL:

Name of companies	Note	Effective interest of ownership attributable to the Group 2016	2015	Principal activities	Registered capital/issued and fully paid up capital (million)	
RT-MART Holdings Limited	(ii)	**100.00%**	100.00%	Investment holding	USD	112
Concord Investment (China) Co., Ltd.		**92.99%**	93.02%	Investment holding and retailing	USD	247
Beihai RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	3
Changshu RT-MART Hypermarket Co., Ltd.		**92.99%**	93.02%	Retailing	USD	7
Changzhou Guanhe RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Cixi RT-MART Commercial and Trading Co., Ltd.		**92.99%**	93.02%	Retailing	USD	7
Dafeng Ruentex Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	16
Foshan Shunde RT-Mart Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	7
Fuyang RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Guangzhou Concord Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Guangzhou Ruenping Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Guangzhou Tianmei Ruenfu Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	3
Haikou Guoxing RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Hainan RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Hainan Longkun RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Hangzhou Xiaoshan Ruenhua RT-MART Hypermarket Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Hefei Feicui RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Huaibei RT-MART Commercial and Trading Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Ji'nan Lixia RT-MART Commercial and Trading Co., Ltd.		**92.99%**	93.02%	Retailing	USD	0.5

30 INTEREST IN SUBSIDIARIES (CONTINUED)

Held directly or indirectly by CCIL: (continued)

Name of companies	*Note*	Effective interest of ownership attributable to the Group		Principal activities	Registered capital/issued and fully paid up capital	
		2016	2015			*(million)*
People's RT-MART Limited Jinan	*(iii)*	**89.01%**	89.04%	Retailing	USD	21
Jinan Tianqiao RT-MART Commercial Co. Ltd.	*(iv)*	**92.99%**	93.02%	Retailing	RMB	5
Jiaxing Xiuzhou Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	RMB	15
Jianhu RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	10
Jiangsu Bairuen Logistics Co., Ltd.	*(iv)*	**92.99%**	93.02%	Retailing	RMB	1
Jinjiang Ruende Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	8
Kunshan Qiandeng Ruenping Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	17
Kunshan Ruenhua Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	RMB	165
Lanzhou RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Liyang RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Lianyungang Ruenliang Commercial and Trading Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Liuzhou Ruenping Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Nanjing Zhongshang Jinruenfa Longjiang Hypermarket Co., Ltd.	*(iv)*	**92.99%**	93.02%	Retailing	RMB	5
Nantong Tongruenfa Hypermarket Co., Ltd.	*(iv)*	**92.99%**	93.02%	Retailing	RMB	5
Nantong Tongzhou Ruentex Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	7
Pinghu RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	12
Qingdao Chunyang RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Qingdao Ruentex Enterprises Co., Ltd.		**92.99%**	93.02%	Retailing	RMB	200
Rugao RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Xiamen Ruenrui Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2

30 INTEREST IN SUBSIDIARIES (CONTINUED)

Held directly or indirectly by CCIL: (continued)

Name of companies	Note	Effective interest of ownership attributable to the Group		Principal activities	Registered capital/issued and fully paid up capital	
		2016	2015		*(million)*	
RT-MART Limited Shanghai	*(iii)*	**92.99%**	93.02%	Retailing	USD	30
Shanghai Fengxian RT-MART Commercial and Trading Co., Ltd.		**92.99%**	93.02%	Retailing	USD	3
Shanghai Jiading Anting RT-MART Commercial and Trading Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Shanghai Minhang Huacao RT-MART Commercial and Trading Co., Ltd.		**92.99%**	93.02%	Retailing	USD	12
Shanghai Sanlin RT-MART Commercial and Trading Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Shanghai Sijing RT-MART Commercial and Trading Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Shaoguan RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Shenzhen RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Shenyang Sujiatun RT-MART Commercial Co., Ltd.	*(iv)*	**92.99%**	93.02%	Retailing	RMB	128
Shuyang Ruentex Commercial Co., Ltd.	*(iv)*	**92.99%**	93.02%	Retailing	RMB	15
Suzhou Baodai Ruentex Commercial Co., Ltd.	*(iv)*	**92.99%**	93.02%	Retailing	RMB	15
Suzhou Xuguan Ruenhua Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Suzhou Ruende Commercial Co., Ltd.	*(iv)*	**92.99%**	93.02%	Retailing	RMB	3
Suzhou Ruenrui Commercial Co., Ltd.	*(iv)*	**92.99%**	93.02%	Retailing	RMB	9

30 INTEREST IN SUBSIDIARIES (CONTINUED)

Held directly or indirectly by CCIL: (continued)

Name of companies	*Note*	Effective interest of ownership attributable to the Group		Principal activities	Registered capital/issued and fully paid up capital	
		2016	2015		*(million)*	
Taixing Ruentex Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Tonglu RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	6
Wuxi Tianruenfa Hypermarket Co., Ltd.		**92.99%**	N/A	Retailing	RMB	10
Wujiang Ruenliang Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Wujiang Ruentex Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Wuhan RT-MART Jianghan Hypermarket Development Co., Ltd.		**92.99%**	93.02%	Retailing	USD	8
Suqian Ruenliang Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Xuzhou Ruenping Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	4
Yangzhou Ruenliang Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Yixing RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Yongkang Ruentex Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	7
Zhaoqing RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Zhenjiang RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2
Zibo RT-MART Commercial Co., Ltd.		**92.99%**	93.02%	Retailing	USD	2

30 INTEREST IN SUBSIDIARIES (CONTINUED)

Held directly or indirectly by ACHK:

Name of companies	*Note*	Effective interest of ownership attributable to the Group		Principal activities	Registered capital/issued and fully paid up capital	
		2016	2015		*(million)*	
Shanghai Auchan Hypermarkets Co., Ltd.	*(iii)*	**98.56%**	95.71%	Retailing	USD	18
Suzhou Auchan Hypermarkets Co., Ltd.		**98.56%**	95.71%	Retailing	RMB	220
Hangzhou Auchan Hypermarkets Co., Ltd.	*(iii)*	**98.56%**	95.71%	Retailing	USD	23
Auchan (China) Investment Co., Ltd.		**98.56%**	95.71%	Consulting service and investment	USD	367/353
Chengdu Auchan Hypermarkets Co., Ltd.		**98.56%**	95.71%	Retailing	RMB	110
Beijing Auchan Hypermarkets Co., Ltd.		**98.56%**	95.71%	Retailing	RMB	50
Shanghai New Auchan Hypermarkets Co., Ltd.		**98.56%**	95.71%	Retailing	RMB	128
Nanjing Auchan Hypermarkets Co., Ltd.		**98.56%**	95.71%	Retailing	RMB	50
Ningbo Auchan Hypermarkets Co., Ltd.		**98.56%**	95.71%	Retailing	RMB	72
Taizhou Auchan Hypermarkets Co., Ltd.		**98.56%**	95.71%	Retailing	USD	10
Changzhou Auchan Hypermarkets Co., Ltd.		**98.56%**	95.71%	Retailing	RMB	122
Anhui Auchan Hypermarkets Co., Ltd.		**98.56%**	95.71%	Retailing	USD	12
Zhenjiang Auchan Hypermarkets Co., Ltd.		**98.56%**	95.71%	Retailing	USD	12
Wuxi Auchan Hypermarkets Co., Ltd.		**98.56%**	95.71%	Retailing	USD	10/8
Nantong Auchan Hypermarkets Co., Ltd.		**98.56%**	95.71%	Retailing	USD	14/13

30 INTEREST IN SUBSIDIARIES (CONTINUED)

Held directly or indirectly by Feiniu E-Commerce Hong Kong Limited:

Name of companies	*Note*	Effective interest of ownership attributable to the Group		Principal activities	Registered capital/issued and fully paid up capital
		2016	2015		*(million)*
Feiniu E-Commerce (Shanghai) Co., Ltd	*(iii)*	**74.18%**	70.9%	E-commerce	RMB 1550/880
Ruenguo Information Technology (Shanghai) Co., Ltd	*(iii)*	**74.18%**	70.9%	E-commerce	RMB 10/10

Held directly by Fields Hong Kong Limited:

Name of companies	*Note*	Effective interest of ownership attributable to the Group		Principal activities	Registered capital/issued and fully paid up capital
		2016	2015		*(million)*
Fields (Shanghai) Co., Ltd.		**57.25%**	57.25%	E-commerce	USD 10

30 INTEREST IN SUBSIDIARIES (CONTINUED)

Held directly and jointly by CIC and ACI:

Name of companies	*Note*	Effective interest of ownership attributable to the Group		Principal activities	Registered capital/issued and fully paid up capital	
		2016	2015			*(million)*
Oney Accord		**48.59%**	48.00%	Financial service	EUR	13

Notes:

(i) The above list contains only the particulars of the subsidiaries which materially affect the results or financial position of the Group.

(ii) RT-Mart Holdings Limited, ACHK, Feiniu Hong Kong and Fields Hong Kong are incorporated in Hong Kong. CCIL is incorporated in the Cayman Islands. All other subsidiaries are established and operated in the PRC.

(iii) These subsidiaries are co-operative joint ventures. With the exception of People's RT-MART Limited Jinan, the joint venture partners are only entitled to fixed returns and do not otherwise participate in the profit or loss of these subsidiaries pursuant to the joint venture agreements (note 19).

(iv) These subsidiaries are domestic enterprises.

CIC, ACI and Feiniu E-Commerce (Shanghai) Co., Ltd. are sino-foreign equity joint ventures. Except for (iii) and (iv), all other subsidiaries of the Group which are established in the PRC are wholly foreign owned enterprises.

* The English translation of the names is for reference only. The official names of these entities are in Chinese.

31 SUBSEQUENT EVENTS

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 21(b).

FINANCIAL SUMMARY

A summary of the published consolidated results and assets, liabilities, equity and non-controlling interests of the Group for the last four financial years is set out below:

	Year Ended 31 December				
	2016	2015	2014 (Restated)	2013 (Restated)	2012 (Restated)
			RMB million		
Revenue	**100,441**	96,414	91,885	86,195	77,851
Gross Profit	**23,981**	22,463	20,988	18,613	16,150
Profit from Operations	**3,936**	3,575	4,214	4,152	3,520
Profit for the Year	**2,629**	2,464	3,023	2,947	2,535
Profit attributable to:					
Equity shareholders of the Company	**2,571**	2,443	2,899	2,777	2,410
Non-Controlling Interests	**58**	21	124	170	125

	At 31 December				
	2016	2015	2014 (Restated)	2013 (Restated)	2012 (Restated)
			RMB million		
Total assets	**60,341**	55,509	52,492	49,979	44,617
Total liabilities	**37,532**	33,882	31,942	30,563	27,243
Equity attributable to:					
Equity shareholders of the Company	**21,785**	20,746	19,681	18,765	16,838
Non-Controlling Interests	**1,024**	881	869	651	536

The consolidated financial statements of the Group have been prepared in accordance with HKFRSs.

The results for the years ended 31 December 2012, 2013 and 2014 have been restated to reflect the accounting treatment after the business combination under common control of Oney Accord completed on 7 December 2015.

The above summary does not form a part of the consolidated financial statements.

SUN ART
Retail Group Ltd.

(Incorporated in Hong Kong with limited liability)
Stock Code: 6808