Sun Art Retail Group Ltd.

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

2018
ANNUAL REPORT

ADVANCING PHYGITAL DEVELOPMENT
ACROSS CHINA

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Director

Ludovic, Frédéric, Pierre HOLINIER
(Chief Executive Officer)

Non-Executive Directors

ZHANG Yong *(Chairman)*
Benoit, Claude, Francois, Marie, Joseph LECLERCQ
Xavier, Marie, Alain DELOM de MEZERAC
Wilhelm, Louis HUBNER
CHEN Jun

Independent Non-Executive Directors

Karen Yifen CHANG
Desmond MURRAY
HE Yi

AUDIT COMMITTEE

Desmond MURRAY *(Chairman)*
Xavier, Marie, Alain DELOM de MEZERAC
Karen Yifen CHANG
HE Yi
Wilhelm, Louis HUBNER

REMUNERATION COMMITTEE

Karen Yifen CHANG *(Chairman)*
CHEN Jun
Wilhelm, Louis HUBNER
Desmond MURRAY
HE Yi

NOMINATION COMMITTEE

HE Yi *(Chairman)*
CHEN Jun
Wilhelm, Louis HUBNER
Karen Yifen CHANG
Desmond MURRAY

COMPANY SECRETARY

CHAN Wai Ling, FCIS, FCS (PE)

AUTHORISED REPRESENTATIVES

Ludovic, Frédéric, Pierre HOLINIER
CHAN Wai Ling

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200436, Shanghai, China

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HONG KONG SHARE REGISTRAR

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Hopewell Centre
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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		
	2018	2017	Change
	RMB million	*RMB million*	
Gross Sales Proceeds[1]	**101,315**	102,320	(1.0)%
Revenue	**99,359**	102,320	(2.9)%
Gross Profit	**25,119**	24,674	1.8%
Profit from Operations	**4,196**	4,487	(6.5)%
Profit for the Year	**2,818**	3,020	(6.7)%
Profit Attributable to Equity Shareholders of the Company	**2,588**	2,793	(7.3)%
Earnings Per Share ("EPS")			
– Basic and diluted[2]	**RMB0.27**	RMB0.29	

	As at 31 December		
	2018	2017	Change
	RMB million	*RMB million*	
Total Assets	**61,779**	59,737	3.4%
Total Liabilities	**36,678**	36,188	1.4%
Net Assets	**25,101**	23,549	6.6%
Net Financial Position [3]	**13,483**	10,492	28.5%
Gearing Ratio [4]	**0.54**	0.45	
Current Ratio [5]	**0.85**	0.78	

Notes:

(1) Gross Sales Proceeds consist of gross proceeds from products sales including consignment sales and rental income, excluding value-added tax. For further information, please refer to the analysis of revenue on page 8.

(2) The calculation of basic and diluted EPS for the year ended 31 December 2018 and 2017 is based on the weighted average number of 9,539,704,700 ordinary shares in issue during the year.

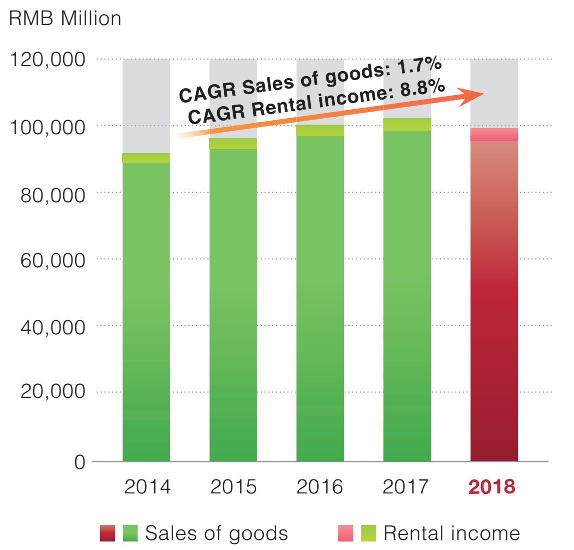
(3) The balance of net financial position is calculated as the sum of cash and cash equivalents and investments and time deposit minus bank loan.

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

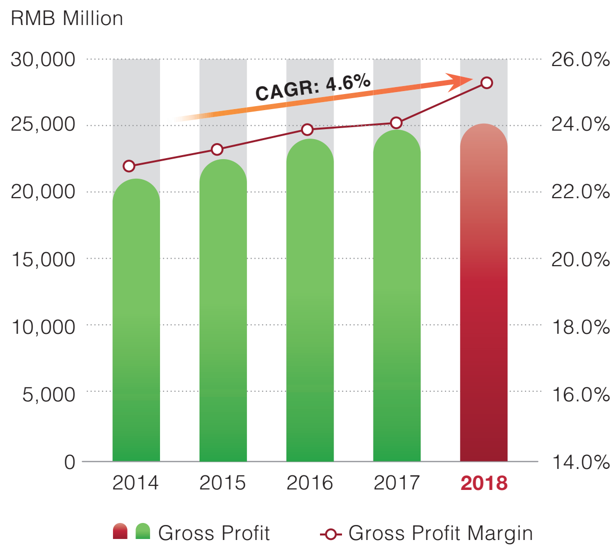
(5) Current Ratio = Current Assets/Current Liabilities

FINANCIAL HIGHLIGHTS

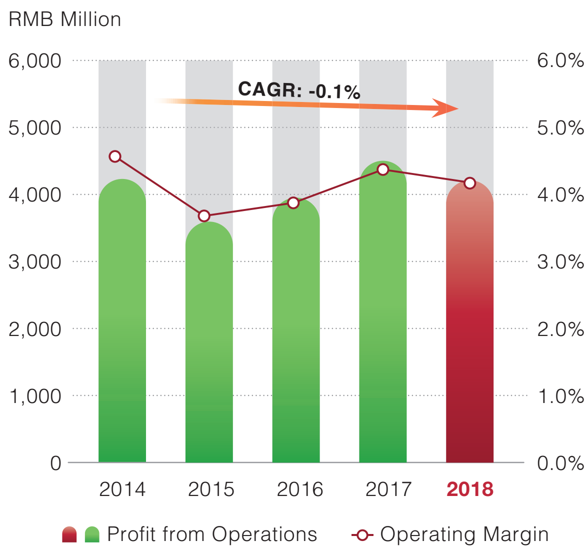
Revenue



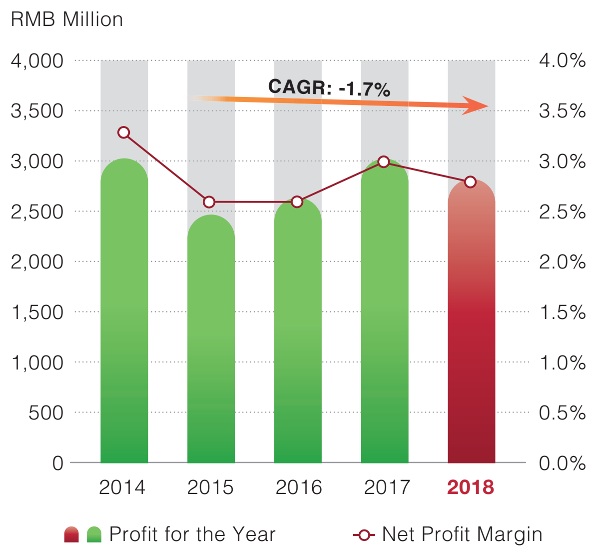
Gross Profit & Margin



Operating Margin



Net Profit and Margin



Dear Shareholders,

Thank you for your continuous support for Sun Art Retail.

Over the past year, the Group has embarked on a digital transformation and a comprehensive upgrade of its commercial infrastructure, resulting in a number of notable achievements. For example, we completed the digital transformation of all the RT-Mart physical stores and connected them with Alibaba's Taoxianda business to launch online services. That enabled RT-Mart to serve not only in-store customers, but all other customers within a three-kilometer radius as well.

Thanks to the closely aligned business philosophies, strong determination and execution that Sun Art Retail and Alibaba Group share, many creative initiatives have been successfully rolled out since the two companies joined hands last year. These accomplishments have demonstrated the power of integrating the internet and digital technology with our retail business.

As a pioneer who is pushing the boundaries of "New Retail," Mr. Huang Ming-Tuan, the founder of RT-Mart, has not only transformed the Company into one of China's leading retail enterprises, but has also spearheaded the Company's digital transformation. I hereby announce that, with approval from Sun Art Retail's Board of Directors, Mr. Huang Ming-Tuan has been appointed as new Chief Executive Officer of Sun Art Retail*. Mr. Huang will lead both Auchan and RT-Mart, enhancing the synergy between them and working to drive them forward, to further accelerate the transformation of Sun Art Retail as a whole.

Looking ahead to 2019, Sun Art Retail will further leverage the digitalization capabilities of the "Alibaba Business Operating System" to continuously explore opportunities in the New Retail sector. I believe that, with the solid progress made on Sun Art Retail's digital transformation over the past year, the front-end business will be significantly more efficient and will provide consumers with unique experiences and services, while at the same time, delivering a solid business performance and result.

ZHANG Yong
Chairman of the Board
1 March 2019

* The appointment of Mr. Huang will be effective from the approval of amendments to the Articles of Association by the shareholders at the Annual General Meeting to be held in May 2019.

Dear Shareholders, associates and customers,

Congratulations and thank you to over 140,000 associates for working day by day with the commitment of making the life of our customers easier and better everyday. Also, a huge thanks to all our customers, who are pushing us to transform in order to deliver better services and products.

Since day one Sun Art Retail has been pursuing an important mission: **to enable people to eat well and live better**.

Sun Art Retail is a leading retailer with hypermarket and fast growing E-commerce business in China. As of December 2018, we have a total of 484 outlets in China and 302 Auchan Minute Unmanned stores, covering 233 cities across 29 provinces, autonomous regions and municipalities. Sun Art Retail is operating its hypermarket and shopping malls businesses under two recognized banners – "Auchan" and "RT- Mart".

Retail in China is transforming, and the magnitude of change and influence on our industry is stronger than ever. Almost everyday new technology appears or new competitors are entering the market. At the same time, customers expectations evolved faster and faster, paying more attention to the shopping experience, expecting convenience, customization and interactivity. They are more health and brand conscious, demanding not only low prices on merchandise but also transparency, quality and safety.

Sun Art Retail has a strong and profitable business, with unique strengths and assets. Our people, stores and supply chain, combined with customer relationships and willingness to change, provide opportunities for us to win with customers continuously. As a leading New Retail company, Sun Art Retail is investing in innovation and technology to connect customers with convenience and efficiency, and offer seamless and digital experience. We have been preparing ourselves to take advantage of the opportunities presented and, that is why we have redefined our strategy around our 3 priorities and 2 necessities.

REINVENT HYPERMARKET

In order to reinvent hypermarket, Sun Art Retail chooses to firstly reinforce our strengths on low prices, and to offer a wide assortment of fresh product. Our offer is to focus on being more exclusive with homemade products and our private label range, but also diversified. That's why we upgraded our range through cooperation with the best in class partners such as Suning, T-mall and Taobao Xinxuan.

At the end of this year, a brand new retail concept, "**Lifestore**" was launched in two reinvented hypermarkets opened in Jiaxing and Wenzhou, Zhejiang Province. These lifestores of Sun Art Retail offer new services, new activities, new ranges and it is a combination of 3 ingredients: Everyday Low Price as always, Eat Better Live Better more than ever and New Technology, New Service for new retail, which provides an innovative shopping experience and upgraded care friendly services to our customers.

Reinvent Hypermarket is just a start, Sun Art Retail is also working on shopping malls to build complex community centers for shopping, eating, sharing and learning within the hypermarket complex.

ONLINE TO OFFLINE ("O2O")

2018 is a year of launching and expanding our delivery service. The alliance with Alibaba allowed us to accelerate this transformation. At present, we have a one-hour delivery service from all of our 484 stores through Taoxianda, RT-Mart Fresh, Auchan Dao Jia and Eleme. In 2018, we have delivered more than 45 million orders.

DEVELOP NEW FORMATS

Business to Business ("**B2B**") is a model of the future. With over 6 million independent stores in our catchment areas, we have decided to make them as contact points within our ecosystem by providing them a business delivery service with discount prices according to their loyalty. The goal is to expand the influence of our brands to extended areas and increase purchasing volumes from suppliers to reach a triple-win result. We have already finished deploying this solution at the end of July to all stores under Sun Art Retail.

Auchan Minute, unmanned convenience store, is a digital concept based on technology. At the date of this report, we have opened 330 Auchan Minute across China and have already recruited over 1 million customers.

He Xiao Ma is a model to combine and leverage Alibaba's technology and traffic and Sun Art Retail's supply chain and store operation expertise. He Xiao Ma integrates the online and offline platforms to enhance operational efficiency and competitiveness among local rivals. The first He Xiao Ma store was opened in early June 2018. By the end of 2018, Sun Art has rolled out nine He Xiao Ma stores, of which three are self-operated and six are cooperative stores.

COMMON BACK OFFICE

At the beginning of 2018, we piloted a joint Buying Office for fast-moving consumer goods ("**FMCG**") under Sun Art Retail. At the end of 2018, with the support of the board, we have decided to accelerate the consolidation of our back office to leverage our strengths in the Buying Office, Supply Chain and IT to improve efficiency.

GET THE BEST TEAM

Our associates are key to our success. We rely on hundreds of thousands dedicated associates to be the representatives of our banners to customers, suppliers and communities every day. That is why we have invested 40 hours per year in training for each employee on average and hire new profile employees with trainee projects such as Smart Phygital for those Chinese graduates, who have studied abroad, to become the middle or high level managers within 30 months.

I would like to express my gratitude to all associates for their dedication to customers across all our brands, and for embracing change and innovation, which make us what we are today. I would also like to thank customers for inspiring us every day. And, of course, special thanks to our shareholders for their continued support of our company.

2018 was a major step forward on our journey to redefine our business model. In 2019, we have the plan, we have the assets and all above, we have people who are eager to embrace change and are fully engaged, which makes me very confident that Sun Art Retail is creating the Retail of Tomorrow.

Sincerely,

Ludovic, Frédéric, Pierre HOLINIER
Executive Director
and
Chief Executive Officer

1 March 2019

FINANCIAL REVIEW

Revenue

Revenue is derived from sales of goods and rental income from tenants. 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. Rental income from tenants 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 revenue for the years indicated:

	Year ended 31 December		
	2018 **(RMB million)**	2017 *(RMB million)*	Change
Revenue from sales of goods	**95,551**	98,775	(3.3)%
Rental income from tenants	**3,808**	3,545	7.4%
Total Revenue	**99,359**	102,320	(2.9)%

For the year ended 31 December 2018, revenue from sales of goods was RMB95,551 million, representing a decrease of RMB3,224 million, or 3.3%, from RMB98,775 million for the year ended 31 December 2017. Revenue from sales of goods was impacted by the arrangement entered into with Suning.com Group Co., Ltd. ("**Suning**") for the sale of electronic appliance. Gross sales proceeds, including cash collected from these consignment sales, amounted to RMB101,315 million for the year ended 31 December 2018.

Pursuant to the strategic agreement between Sun Art Retail Group Ltd (the "**Company**") together with its subsidiaries (the "**Group**") and Suning, the electronic appliance section in our stores have been operated by Suning since August 2018 under a consignment agreement. Under this agreement, each of our stores started to receive from Suning a commission fee which is determined after arm's length negotiation. The Group believes that this arrangement helps upgrade our product range in our electronic appliance section and improves the operation of this section.

For the year ended 31 December 2018, the Same Store Sales Growth[(1)] (the "**SSSG**"), calculated based on sales of goods excluding electronic appliances, was -1.72%, compared to -0.26% for the year ended 31 December 2017. The retail industry became more diversified in 2018 and the competition was quite fierce. The Group, through the roll-out of the Taoxianda business and the continuous development of mortar stores, attracted customers and gained market share.

For the year ended 31 December 2018, the Group continued to expand in various areas of China and opened 24 stores, which brought additional revenue in 2018.

For the year ended 31 December 2018, rental income from tenants was RMB3,808 million, representing an increase of RMB263 million, or 7.4%, from RMB3,545 million for the year ended 31 December 2017. This increase was primarily attributable to an increase in rentable area from new stores and an increase in revenue from tenants in existing stores as a result of better management of the tenant mix.

Notes:

(1) Same Store Sales Growth: For stores opened over 12 full months as of 31 December 2018, we calculated and compared the sales derived in those stores from their opening month to the end of year 2017 with the same period in year 2018.

Gross Profit

For the year ended 31 December 2018, gross profit was RMB25,119 million, representing an increase of RMB445 million, or 1.8%, from RMB24,674 million for the year ended 31 December 2017. The gross profit margin for the year ended 31 December 2018 was 25.3%, representing an increase of 1.2 percentage points from 24.1% for the year ended 31 December 2017. The Group has been working continuously to optimise the product mix in order to improve the gross profit margin.

Other Income

Other income consists of income from the release to income of unutilised aged balances on prepaid cards, service income, income from disposal of packaging materials, interest income, government grants and other miscellaneous income.

For the year ended 31 December 2018, other income was RMB1,743 million, an increase of RMB113 million, or 6.9%, from RMB1,630 million for year ended 31 December 2017. The income from disposal of packaging materials increased by RMB106 million since the selling price of cardboard boxes was higher than that in 2017. The income released from aged unutilised prepaid cards in 2018 was RMB127 million less than that in 2017, which was mainly due to the fact that the release of income from prepaid card in 2017 was an accumulative recognition. This decrease was partially offset by the increase in interest income of RMB81 million, primarily from the increased level of investment in financial products and higher return rate available in the market.

Operating Costs

Operating costs represent the costs related with the operations of the stores and Online to Offline ("**O2O**") businesses. 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 the depreciation of property, plant and equipment.

For the year ended 31 December 2018, operating costs were RMB19,815 million, representing an increase of RMB893 million, or 4.7%, from RMB18,922 million for the year ended 31 December 2017.

This increase was primarily attributable to the increase in the number of stores in accordance with the on-going expansion of the hypermarket network and the development of the O2O businesses which required investment in personnel and other related projects. Meanwhile, the Group followed government guidance in relation to an increase in the minimum wage of staff. These developments led to an increase in personnel expenses, operating lease charges, amortisation of land use rights, depreciation of property, plant and equipment and other operational expenses.

To express as a percentage, the amount of operating costs for the year ended 31 December 2018 was 19.9% of revenue, representing an increase of 1.4 percentage points, from 18.5% for the year ended 31 December 2017.

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 2018, administrative expenses were RMB2,851 million, representing a decrease of RMB44 million, or 1.5%, from RMB2,895 million for the year ended 31 December 2017.

To express as a percentage, the amount of administrative expenses for the year ended 31 December 2018 was 2.9% of revenue, representing an increase of 0.1 percentage point, from 2.8% for the year ended 31 December 2017.

Profit from Operations

For the year ended 31 December 2018, profit from operations was RMB4,196 million, representing a decrease of RMB291 million, or 6.5%, from RMB4,487 million for the year ended 31 December 2017. The operating margin for the year ended 31 December 2018 was 4.2%, representing a decrease of 0.2 percentage points from 4.4% for the year ended 31 December 2017. Besides the development of mortar stores network, the Group also invested in its O2O business through the Taoxianda project which resulted in additional personnel cost, depreciation of new equipment and other operational costs. All stores of the Group have been covered by Taoxianda as at the end of 2018 and are expected to contribute to revenue of the Group in the following period. At the same time, the arrangement with Suning in electronic products helped improve the operating margin although the related gross sales proceeds were not recognized in full within revenue.

Finance Costs

Finance costs primarily consist of interest expenses on borrowings and other financial liabilities. For the year ended 31 December 2018, the finance costs were RMB10 million, representing a decrease of RMB3 million, or 23.1% from RMB13 million for the year ended 31 December 2017.

Income Tax

For the year ended 31 December 2018, income tax expense was RMB1,360 million, representing a decrease of RMB89 million, or 6.1%, from RMB1,449 million for the year ended 31 December 2017. The effective income tax rate was 32.6% for the year ended 31 December 2018, representing an increase of 0.2 percentage points, compared to 32.4% for the year ended 31 December 2017.

Profit for the Year

For the year ended 31 December 2018, profit for the year was RMB2,818 million, representing a decrease of RMB202 million, or 6.7%, from RMB3,020 million for the year ended 31 December 2017. Net profit margin for the year ended 31 December 2018 was 2.8%, decreasing by 0.2 percentage points from 3.0% for the year ended 31 December 2017.

Profit Attributable to Equity Shareholders of the Company

For the year ended 31 December 2018, the profit attributable to equity shareholders of the Company was RMB2,588 million, representing a decrease of RMB205 million, or 7.3%, from RMB2,793 million for the year ended 31 December 2017.

Profit Attributable to Non-Controlling Interests

For the year ended 31 December 2018, the profit attributable to non-controlling interest was RMB230 million, representing an increase of RMB3 million, or 1.3%, from RMB227 million for the year ended 31 December 2017. The profit attributable to non-controlling interests consisted of: (i) interests in Auchan (China) Investment Co., Ltd ("**ACI**") and Concord Investment (China) Co., Ltd ("**CIC**") from the Auchan Scheme and the RT-Mart Scheme[*]; (ii) the interest held by independent third parties in two of the subsidiaries, People's RT-Mart Limited Jinan and Fields Hong Kong Limited ("**Fields HK**"); (iii) the interest held by Oney Bank S.A. ("**Oney Bank**") in Oney Accord Business Consulting (Shanghai) Co., Ltd. ("**Oney Accord**"); and (iv) the interest held by Alibaba (China) Network Technology Co., Ltd. in Shanghai Run He Internet Technology Co., Ltd.

* 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 119 of the annual report.

Liquidity and Financial Resources

For the year ended 31 December 2018, cash flow generated from operating activities was RMB6,417 million, representing a decrease of RMB573 million, or 8.2%, from RMB6,990 million for the year ended 31 December 2017.

As at 31 December 2018, the net current liabilities decreased to RMB5,408 million from RMB7,991 million as of 31 December 2017. The decrease was primarily attributed to: (i) an increase in current assets of RMB2,991 million, which was mainly from cash and cash equivalents; and partially offset by (ii) an increase in current liabilities of RMB408 million.

For the year ended 31 December 2018, the inventory turnover days and trade payable turnover days were approximately 71 days and 94 days, respectively, and were approximately 70 days and 95 days for the year ended 31 December 2017, respectively.

Investing Activities

For the year ended 31 December 2018, cash flow used in investing activities was RMB2,109 million, representing a decrease of RMB146 million, or 6.5%, from RMB2,255 million for the year ended 31 December 2017.

The cash flow used in investing activities mainly reflected the capital expenditure related to: (i) new stores and projects of RMB1,534 million; (ii) the upgrading and remodeling of the existing hypermarkets complexes of RMB439 million; (iii) the investment in distribution centers and offices of RMB187 million; and (iv) the investment in digitalization of RMB430 million.

Financing Activities

For the year ended 31 December 2018, cash flow used in financing activities was RMB1,201 million, representing a decrease of RMB1,272 million, or 51.4%, from RMB2,473 million for the year ended 31 December 2017. The decrease was mainly attributable to the decrease in the dividend distribution of RMB846 million in 2018. Meanwhile, the Group paid RMB353 million in 2017 to purchase the Non-controlling interests in subsidiaries while the amount was nil in 2018.

Dividends

The Board proposed a final dividend of HKD0.14 (equivalent to RMB0.12) per ordinary share (the "**Final Dividend**") for the year ended 31 December 2018, amounting to approximately HKD1,336 million (equivalent to RMB1,139 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 this annual report on page 24.

BUSINESS REVIEW

Operating Environment

During 2018, China's gross domestic product ("**GDP**") continued to slow down, but still grew by 6.6% to approximately RMB90,030.9 billion. The overall consumer price index ("**CPI**") was up by 2.1% compared to 2017, in which the food section was up by 1.8%, compared to down by 1.4% for the previous year, driven mainly by increases in lamb by 12.6%, vegetables by 7.1% and eggs by 12.0%. The non-food section observed an increase of 2.2%.

Total retail sales of consumer goods in China reached RMB38,098.7 billion, representing a growth of 9.0% year on year. Catering services achieved RMB4,271.6 billion, a growth of 9.5% compared to 2017; national online retail sales reached RMB9,006.5 billion, increasing by 23.9%; online physical goods retail sales for the year 2018 amounted to RMB7,019.8 billion, representing an increase of 25.4% and accounted for 18.4% of total retail sales. All the sectors noted above have achieved a higher growth rate than total retail sales.

Further Convergence between Two Banners under Sun Art

RT-Mart and Auchan, as brother companies under Sun Art, have already cooperated in many areas. In order to improve the effectiveness and efficiency of the operations, respond to the difficult competitive environment and better serve our customers, after a discussion by the board of directors of the Group, in December 2018, the Group has decided to converge the headquarters for both banners and establish a single joint operation headquarter. In addition, RT-Mart will assist Auchan in upgrading its IT system and the supply chain for the two banners will be integrated.

This convergence is focused on resource and business integration within the Group, the nature of the convergence is not the merger of corporate entities. Therefore, the brand and corporate identities under both the RT-Mart and Auchan banner remain unchanged.

The integration will improve the use of technology and management, together with a more efficient utilization of our overall resources, with the purpose of enhancing efficiency of the Group and ultimately benefiting its shareholders and employees.

Digitalization of Physical Stores

After the success of the two pilot stores of the Taoxianda project, a fresh food service that offers an integrated online and offline solution to retailers to digitize their operations and raise efficiency, in March 2018, Taoxianda was rolled out apace to all stores under the RT-Mart banner and Auchan banner in the following nine months. Currently, each store offers 13,000 to 15,000 SKUs respectively through the Taoxianda platform. Product offering mainly covers fresh products and FMCG.

While accelerating the expansion of Taoxianda, the Group still pays great attention to the quality of service to our customers. The three key indicators related to customers' shopping experience and satisfaction was as follows: the ratio of on-time delivery within one hour remains over 99%, the ratio of mobile application ("**APP**") out-of-stock ("**OOS**") remains less than 3%, and the ratio of delivery OOS remains less than 0.1%.

Through the digitalization of the physical stores, the Taoxianda initiative powers the physical stores by integrating the membership system, payment, inventory, marketing, logistic and supply chain. Driven by technology and data, we are able to enhance the efficiency of our physical stores while acquiring a clearer customer portrait, and build a solid foundation for personalized and accurate marketing in the future.

Restructure the Hypermarket

Restructure our functions:

From now on, physical stores no longer satisfy offline customers only, but will meet the requirement of online customers and B2B clients. In addition, hypermarkets can be recognized as hubs. As a result, this can improve the productivity per square meter by fully leveraging the sales space, in order to enhance the efficiency of hypermarket.

Restructure our categories:

Our target is to become an expert in each category. Specialized categories are supposed to be managed by professionals, such as the collaboration with Suning. Regarding apparel and daily necessities, the offering we provide is going to possess high value for money. As a result, we have introduced white labels such as Taobao Xinxuan ("淘寶心選") and LÄTT LIV ("生活無憂"). We are going to spend more time on fresh products and FMCG, and expect to become a specialist in food retailing.

Restructure mindset:

The new positioning of hypermarkets features professionalism, quality, value for money and the New Retail concept.

Three pilot stores have accomplished the initiative, of which two existing stores named Yangpu store ("楊浦店") under the RT-Mart banner and Jiaxing store ("嘉興店") under the Auchan banner and one new store named Lucheng store ("鹿城店") under the RT-Mart banner.

Development of Multi-formats and Omni-channels

About He Xiao Ma

The first He Xiao Ma store was opened in early June 2018. By the end of 2018, the Group has rolled out nine He Xiao Ma stores, of which three are operated by Sun Art and six are cooperative stores. Geographically speaking, seven were located in Eastern China, one in Northeastern China and one in Southern China.

He Xiao Ma combines and leverages Alibaba's technology and traffic and the Group's supply chain and store operation expertise. Furthermore, by integrating the online and offline platform, this new prototype is also capable of acquiring online orders and providing home-delivery locating within three-kilometer radius to customers. This enhances their operational efficiency and competitiveness with local competitors.

Next year, the Group will be making efforts to enhance the He Xiao Ma model to establish a solid ground for future accelerated development.

About Frehippo (formerly known as He Ma)

The first Frehippo store operated by the Group was opened on 28 September 2018 with a sales area of approximately 4,000 square meters. As of 31 December 2018, online orders was approaching to 50%.

Reform of Home Appliances

In August 2018, Suning commenced trading the appliance section of the RT-Mart stores, and approximately 400 RT-Mart stores were transformed within two months. Prior to the "Double 11" event, more than 70 Auchan stores have deployed the Suning model. This covers all home appliances such as black appliances, white appliances, small appliances, 3C products and kitchen and bathroom appliances.

From June 2018, Suning began to rejuvenate the stores. By the end of 2018, the stores have been showing a positive growth in home appliances sales after the renovation.

Relying on Suning's expertise and scale in home appliances, both parties are going to deepen this collaboration. They will further enhance the supply chain, providing diversified and precise product offering and services to different customers. This will improve productivity and sales growth are expected.

About the B2B Business

At the end of August 2018, all stores under the Auchan banner have launched the B2B business. As of 31 December 2018, the revenue generated from B2B has achieved a growth of 200% compared to that of last year.

For the year ended 31 December 2018, B2B registered users have exceeded 480,000. By leveraging supply chain and procurement scale, the B2B business earned a profit while protecting its price advantage.

Expansion Status

During the year under review, the Group opened 24 new hypermarket complexes, all of which were under the RT-Mart banner. Among the new stores, six were located in Eastern China, four were located in Northern China, two were located in Northeastern China, three were located in Central China, four were located in Western China and five were located in Southern China. For the year ended 31 December 2018, the Group closed one store under the RT-Mart banner in Changxing County, Huzhou City.

As of 31 December 2018, the Group had a total of 484 hypermarket complexes in China with a total gross floor area ("**GFA**") of approximately 13 million square meters. Approximately 70.0% of the GFA was operated as leased space, 29.8% of the GFA was in self-owned properties and 0.2% of the GFA was in Contracted Stores. Please refer to note 1 below for definitions of regional zones.

As of 31 December 2018, approximately 8.0% of the Group's stores were located in first-tier cities, 16.7% in second-tier cities, 45.7% in third-tier cities, 21.7% in fourth-tier cities and 7.9% in fifth-tier cities. Please refer to note 2 below for definitions of tiers.

As of 31 December 2018, through the execution of lease contracts or acquisition of land plots, the Group had identified and secured 55 sites to open hypermarket complexes, of which 37 were under construction. Given that more and more new stores are going to be opened in lower tier cities, in order to ensure the quality of the stores, the Group has upgraded site selection standards.

As of 31 December 2018, the number of stores and their GFA in each major region of China are set out below:

Region	Number of hypermarket complexes (As of 31 December 2018)				Total GFA of hypermarket complexes (sq.m.) (As of 31 December 2018)			
	Auchan	RT-mart	Total	Percentage	Auchan	RT-mart	Total	Percentage
Eastern China	51	139	190	39%	2,067,785	3,357,185	5,424,970	42%
Northern China	5	46	51	11%	151,064	1,137,050	1,288,114	10%
Northeastern China	1	51	52	11%	32,033	1,413,972	1,446,005	11%
Southern China	5	84	89	18%	124,523	2,047,350	2,171,873	17%
Central China	10	66	76	16%	293,766	1,642,455	1,936,221	15%
Western China	5	21	26	5%	223,839	495,920	719,759	5%
Total	**77**	**407**	**484**	**100%**	**2,893,010**	**10,093,932**	**12,986,942**	**100%**

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)
Northeastern 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

Human Resources

As of 31 December 2018, the Group had 143,143 employees.

Training, internal promotion, and incentive schemes allow the Group to maintain a high quality and sufficient workforce for future development.

Outlook

2018 was a year where the digitalization of our retail business began, and also a year to plan future development. In the future, innovation and digitalization will become the key to the retail industry. Through digital management, supply will be closely tied with demand to provide customers with the right product offering, good prices, and enhance their shopping experience. The Group is forging New Retail and becoming the leader in digital transformation in China's retail industry.

Executive Director

Mr. Ludovic, Frédéric, Pierre HOLINIER, aged 51, is the Chief Executive Officer and Executive Director of the Company since 11 July 2017. Mr. Holinier has over 21 years of experience in retail management ever since having joined the Group in July 1995. He has been the Chief Performance Officer at Auchan Retail International S.A. since October 2015. Also, since June 2014, he has been the Director of Planning and Group Management Control, Chairman of the GIE computing group and Chairman of the Indirect Purchasing Group of Auchan Retail International S.A., one of the ultimate controlling shareholders of the Company. From July 2003 to May 2014, he was the Chief of Operations, Chief Performance and Planning Officer and store director at Auchan Russia. From July 2001 to June 2003, he served as the Management Control Director at Auchan USA. From July 1995 to June 2001, he served as the Deputy Store Director and Management Control Director at Auchan Luxembourg. From June 2014 to February 2016, he served as the Chairman of Auchan Luxembourg. From 1991 to 1995, he served as the department store manager at Auchan Villeneuve d'Ascq.

Mr. Holinier obtained a Master of Business Administration from SKEMA Business School in 1990. He is also non-executive chairman of the board of each of RT Mart Taiwan International and Auchan Retail Vietnam. Mr. Holinier is also a director of certain subsidiaries of the Group, including Feiniu E-Commerce Hong Kong Limited ("**Feiniu HK**"), Fields HK, Auchan (China) Hong Kong Ltd. ("**ACHK**"), ACI, Concord Champion International Ltd. ("**CCIL**"), RT-Mart Holdings Limited ("**RT-Mart Holdings**"), Feiniu E-Commerce (Shanghai) Co., Ltd. ("**FESH**"), and Shanghai Fields Trading Co., Ltd. as well as various other operating subsidiaries in the PRC under the "Auchan" banner.

Non-Executive Director

Mr. ZHANG Yong, aged 47, is the Chairman and a Non-executive Director of the Company since 30 January 2018. Mr. Zhang has been appointed as the chief executive officer of Alibaba Group, a company incorporated in the Cayman Islands with its American depositary shares listed on the New York Stock Exchange (stock code: BABA), since May 2015, and he currently also serves on the board of directors of Alibaba Group. Prior to his current position, Mr. Zhang has held several other senior positions within Alibaba Group, including the chief financial officer of Taobao marketplace after joining in August 2007. He was appointed as the chief operating officer of Taobao marketplace and general manager of Tmall.com (then the Taobao Mall) in April 2008, and then as the president of Tmall.com in June 2011 before his appointment as the chief operating officer of Alibaba Group in September 2013. Before joining Alibaba Group, Mr. Zhang served as a senior manager at PricewaterhouseCoopers' audit and business advisory division in Shanghai from 2002 to 2005, and later the chief financial officer of Shanda Interactive Entertainment Limited (an online game developer and operator then listed on NASDAQ) from August 2005 to August 2007. Mr. Zhang has served as a director of Weibo Corporation (a company listed on NASDAQ, stock code: WB) since May 2014. He was also a non-executive director of Haier Electronics Group Co., Ltd. (a company listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), stock code: 1169) from 25 March 2014 to 21 June 2017; a non-executive director of Alibaba Health Information Technology Limited (formerly known as CITIC 21CN COMPANY LIMITED, a company listed on the Stock Exchange, stock code: 241) from 30 April 2014 to 7 September 2015; and a non-executive director of Intime Retail (Group) Company Limited (a company then listed on the Stock Exchange and delisted on 19 May 2017) from 7 July 2014 to 19 May 2017.

Mr. Zhang received a bachelor's degree in finance from Shanghai University of Finance and Economics. Mr. Zhang is also a member of the Chinese Institute of Certified Public Accountants.

Non-Executive Director

Mr. Benoit, Claude, Francois, Marie, Joseph LECLERCQ, aged 47, is a Non-executive Director of the Company since 12 September 2012. Mr. Leclercq has been a managing director of Crehol China Consultancy Co., Ltd. since 2011. Crehol China Consultancy Co., Ltd. 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 such as Auchan Holding S.A. Through various companies under Auchan Holding S.A., the Mulliez Family conducts or pursues various business interests in food retail activities, real estate development, and banking.

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 International Ltd. ("**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. since 5 March 2015, the ultimate controlling shareholders. With effect from 2 December 2015 and 7 March 2016, Mr. Leclercq resigned as directors of Auchan Holding S.A. and Auchan Retail International S.A. respectively. 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.

Non-Executive Director

Mr. CHEN Jun, aged 45, is a Non-executive Director of the Company since 30 January 2018. Mr. Chen currently serves as a vice president of Alibaba Group, and is also a managing director of Alibaba strategic investment division and the investment head and Chief Investment Officer of Alibaba new retail fund. He has more than 20 years of experience in strategy management, strategic market development, and business and financial advisory services. He has been in charge of strategic investments by Alibaba Group in various types of companies, including high-growth private companies and public companies listed in the PRC and overseas. The portfolio companies he manages are in a wide spectrum of industries such as retail, logistics, travel, healthcare, sports, and software and solutions. Prior to joining Alibaba Group in 2011, Mr. Chen worked for SAP, a Fortune 500 high-tech software company from 1999 to 2011, taking roles including strategic adviser in the office of CEO and industry director. From 1995 to 1998, he worked as an auditor for Arthur Andersen Consulting Co. Ltd. Mr. Chen was a non-executive director of Alibaba Health Information Technology Limited (formerly known as CITIC 21CN COMPANY LIMITED, a company listed on the Stock Exchange, stock code: 241) from 30 April 2014 to 7 September 2015, and he is currently also a director of Best Inc. (a company listed on the New York Stock Exchange, stock code BSTI), and a director of Singapore Post Limited (a company listed on the Singapore Stock Exchange, stock code: S08.SI). Mr. Chen received an EMBA degree from INSEAD.

Non-Executive Director

Mr. Xavier, Marie, Alain DELOM de MEZERAC, aged 63, is a Non-executive Director of the Company since 8 February 2001. 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., 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 A-RT, which is one of the controlling shareholders of the Company, and a director of certain of the subsidiaries of the Group, including RT-Mart Holdings and CCIL.

Non-Executive Director

Mr. Wilhelm, Louis HUBNER, aged 56, 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 Hypermarche S.A.S. (formerly "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 Hypermarche S.A.S., 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.

From November 2015 to October 2018, 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 had also been member and president of the executive board of Auchan Holding S.A. from December 2015 until 31 December 2017.

On 11 December 2015, Mr. Hubner has been appointed as board members of ACHK. From January 2016 to October 2018, he was appointed as board member of RT-Mart Int'l, a subsidiary of the Company and from February 2016 to December 2018, he was appointed as board member of A-RT, the immediate controlling shareholder of the Company.

Independent Non-Executive Director

Mr. Desmond MURRAY, aged 64, 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.

Independent Non-Executive Director

Ms. Karen Yifen CHANG (張挹芬), aged 55, is an Independent Non-executive Director of the Company and has been a director of the Company since 27 June 2011. Ms. Chang serves as the chief executive officer of Jack Wolfskin Trading (Shanghai) Co, Ltd, a leading international outdoor brand, since August 2017 after being the non-executive director for 2 years. As a veteran from retail and consumer industry, she was chief executive officer for Natural Beauty Bio-Technology Limited (Stock Code: 157), the chief financial officer, the chief executive officer and the chief executive director of Pou Sheng International (Holdings) Limited (Stock Code: 3813) from October 2007 to December 2015. In addition, Ms. Chang 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 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.

Independent Non-Executive Director

Mr. HE Yi (何毅), aged 65, 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, a director of Essilor International since 2010 and the chairman of Essilor Hong Kong Limited since 2018.

Senior Management

Mr. HUANG Ming-Tuan (黃明端), aged 63, is the Chairman of Group of subsidiaries operating under the "RT-Mart" banner in China. Mr. Huang resigned as an Executive Director of the Company on 30 January 2018 and remains as a member of the Investment Committee, the Operations Committee and Disclosure Committee of the Company. 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 was a director of the Company during the period from 28 April 2011 to 30 January 2018. 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. Mr. Huang is also a director of certain of the subsidiaries of the Group, including Feiniu HK, Fields HK, ACHK, CCIL, RT-Mart Holdings, and CIC.

Prior to joining the Group in 2001, Mr. Huang was the general manager of Ruentex Industries Limited ("**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.

On 1 March 2019, Mr. Huang was appointed as new Chief Executive Officer of the Company by the board of directors of the Company and the appointment is to be effective from the approval of amendments to the Articles of Association by shareholders at the Annual General Meeting to be held in May 2019.

Senior Management

Mr. HSU Sheng-Yu (徐盛育), aged 63, 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, previous 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., Ruentex Construction and Engineer Co., Ltd. and Runhong Engineering Co., Ltd. respectively.

Senior Management

Mr. Vincent MIGNOT, aged 47, has been the Chief Operation Officer of Auchan banner since June 2017. He is responsible for the strategic direction and overall performance of Auchan banner. Joining the Group as a section manager in France in 1997, Mr. Mignot has worked as Division Manager, Store Manager and the Operation Director in different stores in Auchan France. From 2010 to 2015, he worked as General Manager of Auchan France and was also the board member of Immochan France. Mr. Mignot started his working in Auchan China since 2016 as the Director of Customer and Innovation. At the same time, Mr. Mignot is a board member of Auchan Vietnam and Oney China since 2016. Mr. Mignot received a degree of Management and Marketing in IFAG Business School.

Senior Management

Mr. Jean CHAUSSE, aged 55, 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, Chief Executive Officer of the Asset Management Branch, and then Chief Financial Officer. He joined Auchan Holding S.A. in 2008, as Head of Treasury and Funding. He was subsequently promoted to Deputy Chief Financial Officer of Auchan Holding S.A. overseeing accounting consolidation, risk management and insurance, treasury and investors relations.

Senior Management

Mr. CHIANG Yeong-Fang (蔣永芳), aged 62, 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, previous 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), is a director of Corporate Services of Tricor Services Limited. Ms. Chan is a Chartered Secretary and Fellow of both The Hong Kong Institute of Chartered Secretaries ("**HKICS**") and The Institute of Chartered Secretaries and Administrators ("**ICSA**") in the United Kingdom. Ms. Chan is a holder of the Practitioner's Endorsement from HKICS. Ms. Chan is currently the joint company secretary of SITC International Holdings Company Limited (Stock Code: 1308), IMAX China Holdings, Inc. (Stock Code: 1970) and Razer Inc. (Stock Code: 1337) as well as the company secretary of China Polymetallic Mining Limited (Stock Code: 2133). Ms. Chan was also a former company secretary of TCC International Holdings Limited (Stock Code: 1136, delisted on 20 November 2017) and China Maple Leaf Education Systems Limited (Stock Code: 1317).

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 2018.

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 117.

Financial Statements

The results of the Group for the year ended 31 December 2018 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 74.

The financial position of the Group as at 31 December 2018 is set out in the Consolidated Statement of Financial Position of the Group on pages 75 to 76. The financial position of the Company as at 31 December 2018 is set out in note 26 to the consolidated financial statements on page 158.

The cash flows of the Group for the year ended 31 December 2018 are set out in the Consolidated Cash Flow Statement on pages 79 to 80.

Final Dividend

At the Board meeting held on 1 March 2019 (Friday), the Directors proposed that a final dividend ("**Final Dividend**") of HKD0.14 (equivalent to RMB0.12) per ordinary share for the year ended 31 December 2018, amounting to approximately HKD1,336 million (equivalent to RMB1,139 million) be paid no later than 12 July 2019 (Friday) 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 23 May 2019 (Thursday). 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 17 May 2019 (Friday).

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 2018 are set out in the Consolidated Statement of Changes in Equity on pages 77 to 78 and note 21(a) to the consolidated financial statements.

As at 31 December 2018, the Company's reserves available for distribution to the shareholders amounted to RMB1,197 million in accordance with the Company's new articles of association ("**Articles of Association**") adopted on 14 May 2015.

Fixed Assets

Details of the movements in the fixed assets of the Group during the year ended 31 December 2018 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 2018, there are 111 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 2018, the total fair value of such properties together with the land use rights associated was RMB39,205 million. And the fair value of investment property was RMB5,307 million.

Details of the fair value of the investment properties as at 31 December 2018 and 2017 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 2018 are set out in note 19 to the consolidated financial statements.

Donations

Donations made by the Group during the year ended 31 December 2018 amounted to RMB1 million.

Share Capital

Details of the movements in share capital of the Company during the year ended 31 December 2018 are set out in note 21(c) 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 and Record Date

(a) For determining the entitlement to attend and vote at the 2019 AGM

The Company's register of members will be closed from 14 May 2019 (Tuesday) to 17 May 2019 (Friday), 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 2019 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 10 May 2019 (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 2019 AGM. For determining the entitlement to the proposed Final Dividend, the record date is fixed on 23 May 2019 (Thursday). 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 23 May 2019 (Thursday).

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 2018.

Directors

The Directors during the year ended 31 December 2018 and as of the date of this annual report were as follows:

Executive Director:

Ludovic, Frédéric, Pierre HOLINIER *(Chief Executive Officer)* (Appointed on 11 July 2017)
(Xavier, Marie, Alain DELOM de MEZERAC, Benoit, Claude, Francois, Marie, Joseph LECLERCQ and Wilhelm, Louis HUBNER as his alternates, all were appointed on 11 July 2017)

Non-executive Directors:

ZHANG Yong *(Chairman)* (Appointed on 30 January 2018)
(CHEN Jun as his alternate, appointed on 30 January 2018)

Benoit, Claude, Francois, Marie, Joseph LECLERCQ (Appointed on 12 September 2012)
(Xavier, Marie, Alain DELOM de MEZERAC, Wilhelm, Louis HUBNER and Ludovic, Frédéric, Pierre HOLINIER were appointed as his alternates on 12 September 2012, 11 December 2015 and 11 July 2017 respectively)

Xavier, Marie, Alain DELOM de MEZERAC (Appointed on 8 February 2001)
(Benoit, Claude, Francois, Marie, Joseph LECLERCQ, Wilhelm, Louis HUBNER and Ludovic, Frédéric, Pierre HOLINIER were appointed as his alternates on 12 September 2012, 11 December 2015 and 11 July 2017 respectively)

Wilhelm, Louis HUBNER (Appointed on 11 December 2015)
(Benoit, Claude, Francois, Marie, Joseph LECLERCQ, Xavier, Marie, Alain DELOM de MEZERAC and Ludovic, Frédéric, Pierre HOLINIER as his alternates, save for Ludovic, Frédéric, Pierre HOLINIER who was appointed on 11 July 2017, all were appointed on 11 December 2015)

CHEN Jun (Appointed on 30 January 2018)
(ZHANG Yong and XU Panhua as his alternates, appointed on 30 January 2018)

Independent Non-executive Directors:

Karen Yifen CHANG (Appointed on 27 June 2011)
(Desmond MURRAY as her alternate, appointed on 2 March 2018)

Desmond MURRAY (Appointed on 27 June 2011)
(Karen Yifen CHANG as his alternate, appointed on 2 March 2018)

HE Yi (Appointed on 27 June 2011)
(Ludovic, Frédéric, Pierre HOLINIER as his alternate, appointed on 28 March 2018)

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 annual report on pages 17 to 23.

In accordance with the Articles of Association, Mr. Wilhelm, Louis HUBNER, Ms. Karen Yifen CHANG and Mr. Desmond MURRAY will retire as Non-executive Director and Independent Non-executive Directors. Save for Mr. Wilhelm, Louis HUBNER who has not offered himself for re-election at the 2019 AGM, each of the other two retiring Directors will offer themselves for re-election at the meeting. Following the retirement of Mr. Hubner, Mr. Benoit, Claude, Francois, Marie, Joseph LECLERCQ, Mr. Xavier, Marie, Alain, DELOM de MEZERAC and Mr. Ludovic, Frédéric, Pierre HOLINIER will cease to act as his alternates immediately after the conclusion of the 2019 AGM. The Board will comprise nine Directors. The Board intends to nominate a new Director to be elected at the forthcoming 2019 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 2018 or during the period from 1 January 2019 up to the date of this annual 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/en/about/cg/listofdirectorsofsubsidiaries.pdf).

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 Statement, Chief Executive Officer's Statement, Financial Review, Business Review respectively from pages 5 to 16 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 48 to 52.

Particulars of important events affecting the Company that have occurred since the end of the financial year 2018, 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 Statement and Chief Executive Officer's Statement from pages 5 to 7 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 36 and 45 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 46 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 provisions stipulated in the Company's Articles of Association.

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.

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

As at 31 December 2018, the interests or short positions 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
Ludovic, Frédéric, Pierre HOLINIER	Auchan Holding S.A.[2]	Beneficial owner	736(L)[3]	0.0025%
Xavier, Marie, Alain DELOM de MEZERAC	Auchan Holding S.A.[2]	Beneficial owner	736(L)[4]	0.0025%
	Oney Bank S.A.[5]	Beneficial owner	938(L)[6]	0.0647%
Wilhelm, Louis HUBNER	Auchan Holding S.A.[2]	Beneficial owner	975(L)[7]	0.0032%
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 our ultimate controlling shareholder. 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 (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.

(ii) 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 29,565,168 shares as at 31 December 2018.

(3) This represents stock options in respect of 736 shares in Auchan Holding S.A. granted pursuant to the Auchan Holding S.A. Stock Option Plan (2019).

(4) This represents stock options in respect of 736 shares in Auchan Holding S.A. granted pursuant to the Auchan Holding S.A. Stock Option Plan (2019).

(5) Oney Bank S.A. (formerly "**Banque Accord S.A.**") is a company incorporated in France and a subsidiary of Auchan Holding S.A.. The major business of Oney Bank S.A. includes financial products and services as well as electronic banking provided to clients; and tailor-made solutions on payment and customer portfolio management provided to business partners. The issued share capital of Oney Bank S.A. as at 31 December 2018 is 1,449,749 shares.

(6) This represents 938 free shares in Oney Bank S.A. exercised on 25 August 2018.

(7) This represents 975 free shares in Auchan Holding S.A. exercised on 25 August 2018.

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) to the consolidated financial statements.

Calculated based on the actual paid-in capital, as at 31 December 2018, 0.897% of ACI and 7.17091% 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 2018, 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:

So far as is known to any Director or chief executive of the Company, as at 31 December 2018, 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 Retail Holding Limited [2] ("**A-RT**")	Beneficial owner	4,865,338,686(L)[11]	51.0009%
Auchan Retail International S.A. [3] ("**Auchan Retail**")	Interest in a controlled corporation	4,865,338,686(L)[11]	51.0009%
Auchan Holding S.A. [4]	Interest in a controlled corporation	4,865,338,686(L)[11]	51.0009%
Au Marché S.A.S [5]	Interest in a controlled corporation	4,865,338,686(L)[11]	51.0009%
Mulliez Family [6]	Interest in controlled corporations	4,865,338,686(L)[11]	51.0009%
Taobao China [7]	Beneficial owner	2,001,753,643(L)[12]	20.9834%
Taobao Holding Limited [8] ("**Taobao Holding**")	Interest in a controlled corporation	2,001,753,643(L)[12]	20.9834%
New Retail Strategic Opportunities Investments 1 Limited [9] ("**New Retail**")	Beneficial owner	480,369,231(L)[13]	5.0355%
New Retail Strategic Opportunities Fund, L.P. [9]	Interest in a controlled corporation	480,369,231(L)[13]	5.0355%

Name of substantial shareholder	Nature of interest	Number and class of shares[1]	Approximate percentage of shareholding
New Retail Strategic Opportunities Fund GP, L.P. [9]	Interest in a controlled corporation	480,369,231(L)[13]	5.0355%
New Retail Strategic Opportunities GP Limited [9]	Interest in a controlled corporation	480,369,231(L)[13]	5.0355%
Alibaba Investment Limited [9]	Interest in a controlled corporation	480,369,231(L)[13]	5.0355%
Alibaba Group [10]	Interest in a controlled corporation	2,482,122,874(L)	26.0189%

Notes:

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

(2) A-RT is directly owned by Auchan Retail as to 55.74% interest, therefore Auchan Retail 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 owned by Taobao China as to 19.90%, Concord Greater China Limited ("**CGC**") as to 4.75%, Kofu International Limited ("**Kofu**") as to 4.41% and Monicole Exploitatie Maatschappij BV ("**Monicole BV**") as to 15.20%.

Monicole BV is a company incorporated in the Netherlands, which is directly wholly-owned by Auchan Retail.

Kofu is a company incorporated in the British Virgin Islands, which is indirectly wholly-owned by Mr. YIN Chung Yao, and had an interest of 2.4228% in the Company as of 31 December 2017, which was acquired by New Retail on January 29, 2018.

CGC is a company incorporated in the British Virgin Islands and a company under Ruentex (Ruentex Development Co., Ltd., Ruentex Industries Limited, CGC and Kofu collectively) and had an interest of 2.6127% in the Company as of 31 December 2017, which was acquired by New Retail on January 29, 2018.

Taobao China is a company incorporated in Hong Kong with limited liability, and is directly wholly-owned by Taobao Holding, which is in turn owned by Alibaba Group.

(3) Auchan Retail is a company incorporated in France which is wholly-owned by Auchan Holding S.A. A-RT is 55.74% directly owned by Auchan Retail, therefore Auchan Retail 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 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 65.73% owned by Au Marché S.A.S, therefore Au Marché 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., Gerard Mulliez, and other members of the Mulliez family in France. Au Marché S.A.S is wholly-owned by the Mulliez Family through certain intermediate holding companies. No member of the Mulliez Family is solely able to exert a dominant influence over other members in their voting rights in Au Marché 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 Marché S.A.S.

(7) Taobao China is a company incorporated in Hong Kong with limited liability, and is directly wholly-owned by Taobao Holding, which is in turn owned by Alibaba Group, and as at 31 December 2018 had a long interest of 20.98% in the Company.

(8) Taobao Holding is a company incorporated in Cayman Islands, which is wholly owned by Alibaba Group. Taobao China is wholly owned by Taobao Holding, therefore Taobao Holding is deemed to be interested in all the shares in which Taobao China is interested in by virtue of Part XV of the SFO.

(9) New Retail is an investment vehicle wholly-owned by New Retail Strategic Opportunities Fund, L.P.. New Retail Strategic Opportunities Fund, L.P. is controlled by New Retail Strategic Opportunities Fund GP, L.P. as general partner, and in turn controlled by its general partner, New Retail Strategic Opportunities GP Limited and ultimately controlled by Alibaba Investment Limited (a wholly-owned subsidiary of Alibaba Group).

(10) Alibaba Group is a company incorporated in the Cayman Islands and its American depositary shares are listed on the New York Stock Exchange. Each of Taobao China and New Retail is ultimately controlled by Alibaba Group, therefore Alibaba Group is deemed to be interested in all the shares in which Taobao China and New Retail are interested in by virtue of Part XV of the SFO.

(11) Such 4,865,338,686 shares belong to the same batch of shares.

(12) Such 2,001,753,643 shares belong to the same batch of shares.

(13) Such 480,369,231 shares belong to the same batch of shares.

Save as disclosed above, as at 31 December 2018, 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 2018, 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, 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. and Shanghai Run He Internet Technology Co., Ltd.. And the shareholding interest of Oney Accord is partially held by Oney Bank S.A., 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 2018, 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
HKD3,500,001 – HKD4,000,000	1
HKD5,000,001 – HKD5,500,000	1
HKD7,000,001 – HKD7,500,000	1
HKD13,000,001 – HKD13,500,000	1
HKD13,500,001 – HKD14,000,000	1

Remuneration Policy

As at 31 December 2018, the Group employed a total of 143,143 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 2018, the Group had the following non-exempt continuing connected transactions.

Agency Agreement and Subcontracting Agreement with Patinvest

According to the agreement entered into between the Company and Patinvest on 18 January 2018 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 18 January 2018 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.

Each of the Agreements had a term commencing from 1 January 2018 and ending on 31 December 2018. 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 the 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 Company to strengthen the negotiations and bargaining power with selected international suppliers in Asia, and the Company 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.

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.

The Company has made an announcement on 18 January 2018 to disclose this continuing connected transaction. The Board have had proposed an aggregated cap of EUR22 million for the transactions under the two Agreements.). During the year 2018, the total fees paid by Patinvest to the Group was EUR12.6 million (equivalent to RMB98 million).

Membership Agreement with SNC OIA

Pursuant to the Membership Agreement entered into between the Company and SNC OIA on 18 January 2018 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**").

The Membership Agreement had a term commencing from 1 January 2018 and ending on 31 December 2018. 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) a service fee was payable to SNC OIA in respect of the Ancillary Services, 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 favorable than those offered by the independent third parties to the Group.

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 under the Listing Rules. Accordingly, the Membership Agreement constituted a continuing connected transaction of the Company.

The Company has made an announcement on 18 January 2018 to disclose this continuing connected transaction. The Board have had proposed an aggregated cap of RMB130 million for the transactions under the Agreement ("**the Proposed Cap**"). During the year 2018, the total fee paid by the Group to SNC OIA was nil.

Business Cooperation Agreement with Alibaba Zetai Information Technology Company Limited

On 7 December 2017, Hangzhou Alibaba Zetai Information Technology Company Limited ("**Alibaba Zetai**") (being an indirect wholly-owned subsidiary of Taobao China), the Company, ACI and CIC entered into a business cooperation agreement (the "**Business Cooperation Agreement**"), pursuant to which Alibaba Zetai has agreed to provide services including, among others, (a) granting access by the stores operated by ACI and CIC to its business model and online platform; (b) data sharing; (c) integration of systems and POS hardware; and (d) last-mile delivery services. The Business Cooperation Agreement has a term commencing from 7 December 2017 for a fixed term of three years.

On 19 March 2018, Taobao (China) Software Co., Ltd. ("**Taobao Software**") (being a direct wholly owned subsidiary of Taobao China) entered into two implementation agreements (the "**Implementation Agreements**") with ACI and CIC, respectively, for the implementation of the cooperation contemplated in the Business Cooperation Agreement. The Implementation Agreements have a term commencing from 19 March 2018 and ending on 18 March 2021 and are extendable by further agreement between the parties subject to the Company's Compliance with the Listing Rules.

Pursuant to the Implementation Agreements, ACI and CIC agreed to cooperate with Taobao Software to adopt the "Taobao Daojia" ("淘寶到家") model across the Auchan Stores and the RT Stores, including, amongst others: (a) the Auchan Stores and the RT Stores accessing the business model and the online Platform; (b) completing the integration of the corresponding software systems in the Auchan Stores and the RT Stores; (c) Taobao Software supplying to the Auchan Stores and the RT Stores necessary hardware including POS hardware and providing maintenance support; (d) delivery services provided by delivery agent(s) designated by Taobao Software to deliver products sold on the Platform; and (e) other areas of cooperation such as assistance in procurement or sourcing, participation in marketing and promotional activities and the usage of Alipay.

Based on the announcement on 15 January 2019, the proposed annual caps (the "**Proposed Annual Caps**") for the Implementation Agreements as well as the transactions contemplated thereunder, being the amounts payable by ACI and CIC to Taobao Software for it and its associates (as defined under the Listing Rules) as principal under the Implementation Agreements on an aggregate basis, were:

Period	**Proposed Annual Cap for the corresponding period**
From 19 March 2018 and ending 31 December 2018	RMB350,000,000
From 1 January 2019 and ending 31 December 2019	RMB1,500,000,000
From 1 January 2020 and ending 31 December 2020	RMB1,700,000,000
From 1 January 2021 and ending 18 March 2021	RMB300,000,000

From 19 March 2018 to 31 December 2018, the amount payable by the Group to Taobao Software for it and its associates (as defined under the Listing Rules) as principal under the Implementation Agreements on an aggregate basis was approximately RMB305 million.

Taobao China directly holds approximately 20.98% of the total issued Shares of the Company and is therefore a substantial shareholder and a connected person of the Company under the Listing Rules. Accordingly, each of Taobao Software and Alibaba Zetai, as a subsidiary of Taobao China, is a connected person of the Company under the Listing Rules. The Business Cooperation Agreement, the Implementation Agreements and the transactions contemplated thereunder therefore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the applicable percentage ratios under the Listing Rules for the Proposed Annual Caps exceed 0.1% but not 5%, the Business Cooperation Agreement, the Implementation Agreements and the transactions contemplated thereunder are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Consignment Agreements with Zhejiang Tmall Supply Management Co., Ltd

On 14 June 2018 and 10 September 2018, Zhejiang Tmall Supply Management Co., Ltd ("**Tmall Supply**") entered into the consignment agreements with CIC and Shanghai New Auchan Hypermarket Co., Ltd. Jiading Branch ("**Auchan Jiading**"), respectively. Both the Consignment Agreements have a term commencing from 1 April 2018 and ending on 31 December 2018.

Pursuant to the Implementation Agreements, CIC and Auchan Jiading (as consignors) were allowed by Tmall Supply (as consignee) to sell the consigned products at Tmall Online Supermarket to customers in consideration of a consignment fee payable by CIC and Auchan Jiading to Tmall Supply. The fees payable by CIC and Auchan Jiading to Tmall Supply include consignment fee, logistic service fee, sharing of marketing expenses and promotion service fee which were determined after arms-length negotiation.

Taobao China holds approximately 20.98% of the total issued Shares of the Company and is therefore a substantial shareholder and a connected person of the Company under the Listing Rules. Accordingly, Tmall Supply, as an indirect wholly-owned subsidiary of Taobao China, is a connected person of the Company under the Listing Rules. The Supply Agreement and the transactions contemplated thereunder therefore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Company made announcements on 14 June 2018 and 10 September 2018, respectively to disclose the continuing connected transaction. The Board have had proposed an aggregated cap for the period from 1 April 2018 to 31 December 2018 of RMB500,300,000, being the aggregated amount of the cap for the Auchan consignment agreement of RMB300,000, and the cap for the RT-Mart consignment agreement of RMB500,000,000.

From 1 April 2018 to 31 December 2018, the amount payable by the Group to Tmall Supply on an aggregate basis is nil.

Supply Agreements with connected persons of Taobao China

Pursuant to the supply agreements signed between the Group and the connected persons of Taobao China during the period from December 2017 to December 2018, the Group agreed to purchase and the connected persons of Taobao China agreed to supply dedicated products to the Group. The summary of those supply agreements are as follows:

a). Tmall Supply Agreement

On 29 December 2017, CIC and Tmall Supply entered into the supply agreement, pursuant to which CIC agreed to purchase and Tmall Supply agreed to supply certain products to CIC. The RT-Mart Supply Agreement has a term commencing from 31 December 2017 and ending on 31 December 2018.

On 9 April 2018, ACI and Tmall Supply entered into the supply agreement, pursuant to which ACI agreed to purchase and Tmall Supply agreed to supply certain products to ACI. The Auchan Supply Agreement has a term commencing from 1 April 2018 and ending on 31 December 2018.

The products supplied by Tmall Supply mainly represent packaged food, poultry products, processed meat, edible oil, grain, vegetable, fresh and preserved fruits, groceries and any other merchandise customarily sold in hypermarkets which may be required by CIC and ACI, and which Tmall Supply may be able to supply in circumstances which are of commercial benefit to CIC and ACI.

b). Xinxuan Supply Agreement

On 27 June 2018, CIC and Hangzhou Xinxuan E-Commerce Co., Ltd ("**Hangzhou Xinxuan**") (an indirect wholly-owned subsidiary of Taobao China) entered into the supply agreement, pursuant to which CIC agreed to purchase and Hangzhou Xinxuan agreed to supply the Xinxuan products to CIC. The RT-Mart Xinxuan Supply Agreement has a term commencing from 1 June 2018 and ending on 31 December 2018 and is extendable by further written agreement between the parties subject to the Company's compliance with the Listing Rules.

On 10 September 2018, ACI and Hangzhou Xinxuan entered into the supply agreement, pursuant to which ACI agreed to purchase and Hangzhou Xinxuan agreed to supply Xinxuan products to ACI. The Auchan Xinxuan Supply Agreement has a term commencing from 1 August 2018 and ending on 31 December 2018 and is extendable by further written agreement between the parties subject to the Company's compliance with the Listing Rules.

The Xinxuan products mainly represent home furnishing, personal care products, travel and accessories, electronics, mother care products and other household products under the label named "Taobao Xinxuan" (淘寶心選), which may be required by CIC or ACI (as the case maybe), and which Hangzhou Xinxuan may be able to supply in circumstances which are of commercial benefit to CIC and ACI.

On 21 December 2018, ACI and CIC entered into the supply agreements having the same terms as the previous supply agreements with Hangzhou Xinxuan for the term commencing from 1 January 2019 to 31 December 2019.

c). Win-Chain Supply Agreement

On 27 June 2018, CIC and Shanghai Win-Chain Supply Chain Management Co., Ltd ("**Shanghai Win-Chain**") entered into i) the Win-Chain Meat and Aquatic Supply Agreement and ii) the Win-Chain Fruit Supply Agreement, pursuant to which CIC agreed to purchase and Shanghai Win-Chain agreed to supply fresh and preserved meat products, fresh and frozen aquatic products, and fresh and preserved fruits products to CIC. As Alibaba Group Holding Limited (an ultimate holding company of Taobao China) controls more than 30% equity interest of Shanghai Win-Chain, Shanghai Win-Chain is therefore an associate of Taobao China and a connected person of the Company under the Listing Rules. These two Supply Agreements have a term commencing from 27 June 2018 and ending on 31 December 2018 and is extendable by further written agreement between the parties subject to the Company's compliance with the Listing Rules.

d). Yuanniu Supply Agreement

On 27 June 2018, CIC and Hangzhou Yuanniu E-Commerce Co., Ltd ("**Hangzhou Yuanniu**") (an indirect wholly-owned subsidiary of Taobao China) entered into i) the Yuanniu Grocery Supply Agreement and ii) the Yuanniu Agricultural Supply Agreement, pursuant to which CIC agreed to purchase and Hangzhou Yuanniu agreed to supply the grocery and agricultural products to CIC which may be required by CIC, and which Hangzhou Yuanniu may be able to supply in circumstances which are of commercial benefit to CIC. These two Supply Agreements each has a term commencing from 27 June 2018 and ending on 31 December 2018 and is extendable by further written agreement between the parties subject to the Company's compliance with the Listing Rules.

e). Hangzhou Alibaba Supply Agreement

On 25 October 2018, CIC and Hangzhou Alibaba International Trading Co., Ltd ("**Hangzhou Alibaba**") (an indirect wholly-owned subsidiary of Taobao China) entered into the Hangzhou Alibaba Supply Agreement, pursuant to which CIC agreed to purchase and Hangzhou Alibaba agreed to supply the imported Fast Moving Consumer Goods, household products and 3C electrical appliances, which may be required by CIC, and which Hangzhou Alibaba may be able to supply in circumstances which are of commercial benefit to CIC. The Hangzhou Alibaba Supply Agreement have a term commencing from 1 September 2018 and ending on 31 December 2019 and is extendable by further written agreement between the parties subject to the Company's compliance with the Listing Rules.

f). Theland Supply Agreement

On 21 December 2018, CIC and ACI entered into the Theland Supply Agreements with Theland New Cloud Shanghai Digimart Ltd ("**Theland**"), pursuant to which CIC and ACI agreed to purchase and Theland agreed to supply the milk powder products, the fresh milk products and the ultra-high temperature ("**UHT**") milk products, which may be required by CIC, and which Hangzhou Alibaba may be able to supply in circumstances which are of commercial benefit to CIC and ACI. As the Alibaba Group Limited (the ultimate holding company of Taobao China) controls 40% equity interest of Theland, Theland is an associate of Taobao China and a connected person of the Company under the Listing Rules. The Theland Supply Agreements, including Auchan Milk Powder Supply Agreement, Auchan Fresh Milk Supply Agreement, Auchan UHT Milk Supply Agreement, RT-Mart Milk Powder and UHT Milk Supply Agreement, RT-Mart Fresh Milk Supply Agreement, have a term commencing from 1 January 2018 and ending on 31 December 2018.

Taobao China holds approximately 20.98% of the total issued Shares of the Company and is therefore a substantial shareholder and a connected person of the Company under the Listing Rules. Accordingly, the above mentioned companies, which are Tmall Supply, Hangzhou Xinxuan, Shanghai Win-Chain, Hangzhou Yuanniu, Hangzhou Alibaba and Theland, are connected persons of the Company under the Listing Rules. The Supply Agreements and the transactions contemplated thereunder therefore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Company has made relevant announcements on the signing dates of the above mentioned connected transactions and the board proposed the following caps for these connected transactions.

	For the year ending 31 December	
	2018	**2019**
	(RMB million)	***(RMB million)***
RT-Mart Tmall Supply Agreement	200	N.A
Auchan Tmall Supply Agreement	40	N.A
RT-Mart Xinxuan Supply Agreement	8.1	70
Auchan Xinxuan Supply Agreement	4	5
Win-Chain Meat and Aquatic Supply Agreement	80	N.A
Win-Chain Fruit Supply Agreement	100	N.A
Yuanniu Grocery Supply Agreement	5	N.A
Yuanniu Agricultural Supply Agreement	5	N.A
Hangzhou Alibaba Supply Agreement	100	2,000
Auchan Milk Powder Supply Agreement	2	N.A
Auchan Fresh Milk Supply Agreement	0.2	N.A
Auchan UHT Milk Supply Agreement	0.6	N.A
RT-Mart Milk Powder and UHT Milk Supply Agreement	75	N.A
RT-Mart Fresh Milk Supply Agreement	2	N.A

During 2018, the purchase made by the Group under those supply agreements were disclosed as follows:

	For the year ending 31 December 2018 ***(RMB million)***
RT-Mart Tmall Supply Agreement	121
Auchan Tmall Supply Agreement	18
RT-Mart Xinxuan Supply Agreement	2
Auchan Xinxuan Supply Agreement	3
Win-Chain Meat and Aquatic Supply Agreement	24
Win-Chain Fruit Supply Agreement	12
Yuanniu Grocery Supply Agreement	3
Yuanniu Agricultural Supply Agreement	5
Hangzhou Alibaba Supply Agreement	Nil
Auchan Milk Powder Supply Agreement	0.2
Auchan Fresh Milk Supply Agreement	0.2
Auchan UHT Milk Supply Agreement	4
RT-Mart Milk Powder and UHT Milk Supply Agreement	96
RT-Mart Fresh Milk Supply Agreement	2

For the year ended 31 December 2018, the purchases from Theland under Auchan UHT Milk Supply Agreement and RT-Mart Milk Powder and UHT Milk Supply Agreement amounted to approximately RMB3,762,529 and RMB96,084,163, respectively, which exceeded the proposed CAPs of RMB0.6 million and RMB75 million. The Company has made an announcement on 11 January 2019 for illustration.

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 letter containing the findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 37 to 45 of this 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 auditor has reported to the Directors that (i) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Group's Board of Directors; (ii) for transactions involving the provision of services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group; (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of the continuing connected transactions, except for the purchase under Auchan UHT Milk Supply Agreement and RT-Mart Milk Powder and UHT Milk Supply Agreement for the year ended 31 December 2018 which exceeded the proposed cap of RMB0.6 million and RMB75 million set by the Group, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap disclosed in the announcements made by the Group during the year ended 31 December 2018.

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 "**Convenantors**") and the Company, each of the Convenantors 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 Convenantors during the year ended 31 December 2018.

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 2018.

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 2018 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 2018 have been audited by KPMG, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming 2019 AGM.

A resolution for the re-appointment of KPMG as auditors of the Company will be proposed at the forthcoming 2019 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

Environment, Social and Governance ("**ESG**") factors are three key benchmarks to evaluate an enterprise. As a responsible corporate citizen, the Group believes that ESG initiatives are very important to bring success of our business and to create a long-term value for the Group. The ESG practices build a transparent, accountable and trusted enterprise to the society and to our consumers. We also believe that sustainability is a fundamental to our future.

Detail information on the ESG 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 32 to the consolidated financial statements.

By order of the Board

Ludovic, Frédéric, Pierre HOLINIER
Executive Director
and
Chief Executive Officer

1 March 2019

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.

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 revenue 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. As all of our revenue 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 revenue. 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, revenue, 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 revenue 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 2018.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency 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 Directors, the Company has complied with all the code provisions as set out in the CG Code for the year ended 31 December 2018, save and except for the deviation of code C.3.7(a) of the CG Code.

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 the 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 the relevant employees and they have confirmed that they have complied with the Model Code and the Company Code throughout the year ended 31 December 2018.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

The Board currently comprises nine Directors, consisting of one Executive Director, five Non-Executive Directors and three Independent Non-executive Directors.

The composition of the Board is set out below:

Executive Director

Ludovic, Frédéric, Pierre HOLINIER, *Chief Executive Officer*

Non-executive Directors

ZHANG Yong, *Chairman*
Benoit, Claude, Francois, Marie, Joseph LECLERCQ
Xavier, Marie, Alain DELOM de MEZERAC
Wilhelm, Louis HUBNER
CHEN Jun

Independent Non-executive Directors

Karen Yifen CHANG
Desmond MURRAY
HE Yi

The biographical information of the Directors are set out in the section headed "Profiles of Directors and Senior Management" on pages 17 to 23 of the Annual Report for the year ended 31 December 2018.

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. ZHANG Yong and Mr. Ludovic, Frédéric, Pierre HOLINIER 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 2018, 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 Re-election of Directors

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 provisions stipulated in the Articles of Association.

Responsibilities of the Directors

The Board should assume responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

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.

The Independent Non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

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

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

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.

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 would be arranged and reading material on relevant topics would 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 2018, the Company organized training sessions for all directors. Such training sessions cover a wide range of relevant topics including business ethics for listed companies and amendments to Corporate Governance Code and Related Listing Rules. In addition, relevant reading materials including legal and regulatory update have been provided to the directors for their reference and study.

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 specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Board Committees 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 terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. 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.

During the year ended 31 December 2018, the Audit Committee held four meetings to review the annual and interim financial results and reports for the year ended 31 December 2017 and for the six months ended 30 June 2018 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 once without the presence of the Executive Directors.

Remuneration Committee

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. 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 2018, the Remuneration Committee held two meetings 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 terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, considering and assessing the possible contribution to be brought by the individual to the diversity of the Board and making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of the Independent Non-executive Directors.

During the year, the Company has formulated a policy for nomination of directors with the following procedures:

1. The Nomination Committee shall consider suitability of an individual pursuant to the Listing Rules, the Board Nomination Policy and Board Diversity Policy, and the independence of an individual for the position of independent non-executive director.

2. The Nomination Committee shall make recommendation to the Board's for consideration.

3. The Board shall consider the individual recommended by the Nomination Committee pursuant to the Listing Rules (including the corporate governance code as Appendix 14 to the Listing Rules), the Board Nomination Policy and Board Diversity Policy.

4. For casual vacancy and addition of new directors, the Board shall confirm the appointment of the individual and the new director shall be subjected to re-election by shareholders of the Company at the next annual general meeting in accordance with the articles of association of the Company.

5. For re-appointment of retiring directors, the Board shall, based on the recommendation of Nomination Committee, recommend the retiring directors to stand for re-election at the annual general meeting. The appointment of retiring directors shall be subjected to the approval of shareholder at the annual general meeting.

6. The Board reserves the right to final decision on the matters in relation to the selection and appointment of directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

During the year ended 31 December 2018, the Nomination Committee held two meetings to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors and to consider the qualifications of the retiring directors standing for election at the Annual General Meeting. The Nomination Committee 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.

During the year ended 31 December 2018, 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

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 2018 are set out below:

	Attendance/Number of Meetings				
Name of Director	**Board**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**Annual General Meeting**
Ludovic, Frédéric, Pierre HOLINIER	7/7	N/A	N/A	N/A	1/1
HUANG Ming-Tuan *(resigned on 30 January 2018)*	2/2	N/A	N/A	N/A	0/0
Cheng Chuan-Tai *(resigned on 30 January 2018)*	2/2	0/0	1/1	1/1	0/0
ZHANG Yong *(appointed on 30 January 2018)*	5/5	N/A	N/A	N/A	1/1
Benoit, Claude, Francois, Marie, Joseph LECLERCQ	6/7	N/A	N/A	N/A	1/1
Xavier, Marie, Alain DELOM de MEZERAC	7/7	4/4	N/A	N/A	1/1
Wilhelm, Louis HUBNER	6/7	3/3	2/2	1/2	1/1
CHEN Jun *(appointed on 30 January 2018)*	5/5	N/A	1/1	1/1	1/1
Karen Yifen CHANG	7/7	4/4	2/2	2/2	1/1
Desmond MURRAY	7/7	4/4	2/2	2/2	0/1
HE Yi	7/7	4/4	2/2	2/2	1/1

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 2018.

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 64 to 73.

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 2018 is shown on note 4(c) of the "Notes to the Consolidated Financial Statements" on page 122.

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 quarterly and confirmed the effectiveness of the risk management and internal control systems of the Company and its subsidiaries for the year ended 31 December 2018, 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 2018.

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 2018, the risk management and internal control systems of the Company are effective and adequate.

The Company has developed its disclosure policy which provides a general guideline to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

Employees are required to keep confidential and are not permitted to the unauthorized use of all information relating to our suppliers, clients, transactions and the use of confidential information for the benefit of themselves and any third party is restricted.

DIVIDEND POLICY

The Company has adopted a policy on payment of dividends on 11 December 2018. The Board has absolute discretion as to whether to declare any dividend for any year and, if it decides to declare a dividend, how much dividend to declare. The rate of dividend payout of the Company is not less than 30% of the annual distributable profit attributable to the Company's shareholders. The Board will re-evaluate the dividend policy in light of the Company's financial position and the prevailing economic climate. However, the determination to pay dividends will be made at the discretion of the Board and will be based upon the Company's earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that the Board deems relevant. In addition, the declaration and payment of dividends may be limited by legal restrictions or financial instruments that the Company may enter into in the future.

COMPANY SECRETARY

The Company has engaged Tricor Services Limited, external service provider, and Ms. CHAN Wai Ling, was appointed as the Company's company secretary with effect from 10 August 2016. Her primary contact persons at the Company are Mr. Jean CHAUSSE, the Chief Financial Controller, and Ms. Helen HO of the legal department of the Company.

The biographical details of Ms. Chan is set out in the section of "Profiles of Directors and Senior Management" on page 23 of this annual report. During the year ended 31 December 2018, 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:	2/F, No. 19 Jiang Chang Er Road, Jing'an District, 200436, Shanghai, China (For the attention of Ms. GU Xiaobei, Investor Relations Manager)
Email:	gu.xiaobei@auchan.com

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 74 to 167, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018 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)

Supplier arrangements

Refer to the accounting policies set out in notes 1(p) and 1(y) to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
The Group has agreements with suppliers with several types of different arrangements. The arrangements vary in nature and size and include trade or volume discounts and rebates that are earned when the goods are purchased, and reimbursement of costs incurred by the Group to sell the goods, such as costs incurred for marketing campaigns, warehousing and deliveries. Volume based discounts and rebates are recognised as a deduction from the cost of purchase of merchandise when the performance obligations associated with them are met. These performance conditions generally require the Group to meet certain volume thresholds. Trade discounts and rebates that are earned after the related goods are sold are recognised as a deduction from the cost of sales. Reimbursements from suppliers of selling costs incurred by the Group are offset against the respective costs incurred when the costs relate to a marketing campaign initiated by the supplier or carried out in collaboration with the supplier. Any surplus from the reimbursement over the expenses incurred is recognised as a reduction of the cost of sales. Fees earned for services that are separate from the purchase of goods are recognised as other income when the services are delivered. We identified the treatment of supplier arrangements as a key audit matter because of the complexity and volume of the arrangements and because for some arrangements judgement is required in determining the period over which the reduction in cost of sales should be recognised, requiring both a detailed understanding of the contractual arrangements themselves as well as complete and accurate source data to apply the arrangements to.	Our audit procedures to assess the recognition of supplier arrangements included the following: • Understanding and evaluating the design, implementation and operating effectiveness of management's key internal controls in place within the process relating to supplier arrangements; • assessing the accounting treatment in respect of the supplier arrangements by inspecting the terms and obligations 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; • testing, on a sample basis, the recognition of trade discounts and rebates which are not directly relating to the volume of purchase, reimbursement of costs to sell the goods and service fees earned by inspecting underlying documentation, including supplier confirmations of the billings in respect of the fulfilment of the respective obligations; • comparing, on a sample basis, the amount of discounts and rebates and reimbursements earned from suppliers 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 and tax information systems, where available; and • testing, on a sample basis, any material fees for services that are separate from the purchase of goods that are recognised in other income by inspecting underlying documentation, and comparing the amount of the consideration to the fair value of the services provided.

KEY AUDIT MATTERS (CONTINUED)

<table>
<tr><td colspan="2">Valuation of inventories</td></tr>
<tr><td colspan="2">Refer to note 13 and the accounting policies set out in note 1(p) to the consolidated financial statements.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>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 where the respective purchase agreements indicate that they are returnable to suppliers at their original cost.

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.</td><td>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;

• 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.</td></tr>
</table>

KEY AUDIT MATTERS (CONTINUED)

<table>
<tr><th colspan="2">Potential impairment of property, plant and equipment of certain of the Group's stores</th></tr>
<tr><td colspan="2">Refer to notes 4(c) and 10 and the accounting policies as set out in note 1(o)(ii) to the consolidated financial statements.</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The performance of certain of the Group's hypermarket stores has been decreasing.

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 ("impairment indicators"). Such indicators include:

– negative gross cash flows from operations for two consecutive years for older stores;
– gross cash flows for newer stores are significantly below the original forecast or the performance of stores in comparative locations.

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 costs of disposal of these assets.

In determining the value in use of leased stores, a discounted cash flow forecast is prepared by management for each store where indicators of impairment are identified.</td><td>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 with reference to the requirements of the prevailing accounting standards and the valuations performed by independent professional valuers;

• 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;

• 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;</td></tr>
</table>

KEY AUDIT MATTERS (CONTINUED)

Potential impairment of property, plant and equipment of certain of the Group's stores (continued)	
The Key Audit Matter	**How the matter was addressed in our audit**
For owned stores where an indicator of impairment is identified, a valuation of the related property is 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 stores are determined by management taking into consideration factors which include contributions from all retail streams, committed 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.	• 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.

KEY AUDIT MATTERS (CONTINUED)

<table>
<tr><th colspan="2">Other income arising from recognition of unutilised balances on aged prepaid cards</th></tr>
<tr><td colspan="2">Refer to notes 3, 17 and 18 the accounting policies in note 1 (y) (iii) to the consolidated financial statements.</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>As at 31 December 2018, the Group had approximately RMB9.1 billion of "advance receipts from customers" classified within "contract liabilities" which were primarily attributable to unutilised balances of prepaid cards issued by the Group.

The Group's accounting policy is to recognise revenue from prepaid cards as and when the cards are used by customers to purchase goods or services. Most prepaid cards are used by customers within the Group's stores shortly after they have been purchased. The remaining balance of the prepaid cards may be used in a later period or remain unused indefinitely.

The Group recognises income from prepaid cards which have been inactive for an extended period according to the "remote recognition" method. Under this policy, the unutilised balance on the card will be recognised as other income once it is possible to determine with a sufficiently high degree of probability that the likelihood of future utilisation is remote.

The Group engages an independent actuarial firm each year to assist in employing statistical methods to analyse the patterns of usage of prepaid cards. Using this additional information about the utilisation patterns and trends of prepaid cards, management estimates the amount of the outstanding balances on aged prepaid cards which are unlikely ever to be utilised. As a result, the Group has recognised RMB333 million as other income in the consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2018 (2017: RMB460 million).</td><td>Our audit procedures to assess the recognition of other income arising from the recognition of unutilised balances on aged prepaid cards included the following:

• assessing whether the Group's revenue recognition accounting policies were consistent with the requirements of the prevailing accounting standards;

• assessing whether other income recognised up to the end of the reporting period was determined in a manner consistent with the Group's revenue recognition accounting policies by recalculating the other income recognised based on the parameters in the Group's revenue recognition accounting policies;

• assessing the reasonableness of management's estimation of the amount of balances of aged prepaid cards which are unlikely to ever be utilised by comparing, on a sample basis, management's estimation of utilisation at the end of the prior year with the actual utilisation in the current year;

• assessing, on a sample basis, whether the data in the prepaid card systems' issuance and utilisation records was consistent with the corresponding cash receipts and store sales recorded in the Group's financial systems by test checking the Group's reconciliations between the respective systems;</td></tr>
</table>

KEY AUDIT MATTERS (CONTINUED)

<table>
<tr><th colspan="2">Other income arising from recognition of unutilised balances on aged prepaid cards (continued)</th></tr>
<tr><td colspan="2">Refer to notes 3, 17 and 18 the accounting policies in note 1 (y) (iii) to the consolidated financial statements.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>We identified the recognition of other income arising from the recognition of unutilised balances on aged prepaid cards as a key audit matter because of the inherent forecasting uncertainty in estimating amounts which are unlikely to ever be utilised in the future and the exercise of significant judgement by management in determining the length of time that needs to elapse before the risk of reversal of other income for each group of prepaid cards where income has been recognised can be considered remote.</td><td>• using our internal actuarial specialists to assist us in evaluating and assessing the experience, competence, capabilities and objectivity of the independent actuary engaged by management and the methodology used in the preparation of the estimates of future utilisation of prepaid cards;

• testing that the issuance and utilisation data used by the actuary was consistent with the records in the Group's systems; and

• assessing the relevant disclosures in the consolidated financial statements in relation to the contract liability and other income arising from the recognition of unutilised balances on prepaid cards with reference to the requirements of the prevailing accounting standards.</td></tr>
</table>

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 John Paul Chattock.

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

1 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 RMB million	2017 RMB million
		Year ended 31 December	
Revenue	*2*	**99,359**	102,320
Cost of sales		**(74,240)**	(77,646)
Gross profit		**25,119**	24,674
Other income	*3*	**1,743**	1,630
Operating costs		**(19,815)**	(18,922)
Administrative expenses		**(2,851)**	(2,895)
Profit from operations		**4,196**	4,487
Finance costs	*4(a)*	**(10)**	(13)
Share of results of associates and joint ventures		**(8)**	(5)
Profit before taxation	*4*	**4,178**	4,469
Income tax	*5(a)*	**(1,360)**	(1,449)
Profit for the year		**2,818**	3,020
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**2,818**	3,020
Profit attributable to:			
Equity shareholders of the Company		**2,588**	2,793
Non-controlling interests		**230**	227
Profit for the year		**2,818**	3,020
Total comprehensive income attributable to:			
Equity shareholders of the Company		**2,588**	2,793
Non-controlling interests		**230**	227
Total comprehensive income for the year		**2,818**	3,020
Earnings per share			
Basic and diluted	*9*	**RMB0.27**	RMB0.29

The accompanying notes set out on pages 81 to 167 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).

	Note	**31 December 2018 RMB million**	31 December 2017 RMB million (Note)
Non-current assets			
Investment properties	*10*	**3,718**	3,503
Other property, plant and equipment	*10*	**20,386**	21,556
Land use rights	*10*	**5,843**	5,759
		29,947	30,818
Intangible assets	*11*	**39**	51
Goodwill	*12*	**99**	126
Equity-accounted investees		**41**	25
Trade and other receivables	*14*	**185**	240
Deferred tax assets	*20*	**455**	455
		30,766	31,715
Current assets			
Inventories	*13*	**14,468**	14,201
Trade and other receivables	*14*	**3,061**	3,326
Investments and time deposits	*15*	**15**	133
Cash and cash equivalents	*16*	**13,469**	10,362
		31,013	28,022
Current liabilities			
Trade and other payables	*17*	**26,764**	35,446
Contract liabilities	*18*	**9,107**	–
Bank loans	*19*	**1**	2
Income tax payables	*5(c)*	**549**	565
		36,421	36,013
Net current liabilities		**(5,408)**	(7,991)
Total assets less current liabilities		**25,358**	23,724

The accompanying notes set out on pages 81 to 167 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	31 December 2018 RMB million	31 December 2017 RMB million (Note)
Non-current liabilities			
Bank loans	19	**–**	1
Other financial liabilities		**50**	50
Deferred tax liabilities	20	**207**	124
		257	175
Net assets		**25,101**	23,549
Capital and reserves			
Share capital	21(c)	**10,020**	10,020
Reserves	21(d)	**13,645**	12,295
Total equity attributable to equity shareholders of the Company		**23,665**	22,315
Non-controlling interests		**1,436**	1,234
Total equity		**25,101**	23,549

Approved and authorised for issue by the board of directors on 1 March 2019.

Ludovic, Frédéric, Pierre HOLINIER
Chief Executive Officer
& Executive Director

Xavier, Marie, Alain DELOM de MEZERAC
Non-Executive Director

Note: The Group has initially applied HKFRS 15 and HKFRS 9 on 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 1(c).

The accompanying notes set out on pages 81 to 167 form part of these financial statements.

		Attributable to equity shareholders of the Company							
		Share capital	**Capital reserve**	**Exchange reserve**	**Statutory reserve**	**Retained profits**	**Total**	**Non-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 2017		10,020	2,171	45	1,212	8,337	21,785	1,024	22,809
Changes in equity for 2017:									
Profit for the year		–	–	–	–	2,793	2,793	227	3,020
Other comprehensive income		–	–	–	–	–	–	–	–
Total comprehensive income		–	–	–	–	2,793	2,793	227	3,020
Dividend declared and paid in respect of previous years	*21(b)(ii)*	–	–	–	–	(1,948)	(1,948)	–	(1,948)
Dividends declared and payable to non-controlling shareholders		–	–	–	–	–	–	(111)	(111)
Profit appropriation to statutory reserve	*21(d)(iii)*	–	–	–	66	(66)	–	–	–
Acquisition of non-controlling interests	*21(d)(i)*	–	(336)	–	–	–	(336)	88	(248)
Cash injection from Employee Trust Benefit Schemes	*4(b)*	–	23	–	–	–	23	6	29
Share-based payment		–	(2)	–	–	–	(2)	–	(2)
Balance at 31 December 2017 *(Note)*		10,020	1,856	45	1,278	9,116	22,315	1,234	23,549

Note: The Group has initially applied HKFRS 15 and HKFRS 9 on 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 1(c).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

		Attributable to equity shareholders of the Company							
		Share capital	Capital reserve	Exchange reserve	Statutory reserve	Retained profits	Total	Non-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 2018		**10,020**	**1,856**	**45**	**1,278**	**9,116**	**22,315**	**1,234**	**23,549**
Changes in equity for 2018:									
Profit for the year		–	–	–	–	2,588	2,588	230	2,818
Other comprehensive income		–	–	–	–	–	–	–	–
Total comprehensive income		–	–	–	–	2,588	2,588	230	2,818
Dividend declared and paid in respect of previous years	*21(b)(ii)*	–	–	–	–	(1,238)	(1,238)	–	(1,238)
Dividends declared and payable to non-controlling shareholders		–	–	–	–	–	–	(77)	(77)
Profit appropriation to statutory reserve	*21(d)(iii)*	–	–	–	132	(132)	–	–	–
Cash injection from the non-controlling shareholder		–	–	–	–	–	–	49	49
Balance at 31 December 2018		**10,020**	**1,856**	**45**	**1,410**	**10,334**	**23,665**	**1,436**	**25,101**

The accompanying notes set out on pages 81 to 167 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

	Note	Year ended 31 December **2018** **RMB million**	2017 RMB million (Note)
Operating activities			
Profit before taxation		**4,178**	4,469
Adjustments for:			
Income from aged unutilised prepaid cards		**(333)**	(460)
Depreciation		**2,952**	3,017
Amortisation		**226**	246
Impairment losses on property, plant and equipment		**255**	167
Impairment losses on goodwill		**27**	55
Finance costs		**10**	13
Interest income		**(473)**	(392)
Loss on disposal of property, plant and equipment		**37**	124
Share-based payments		**–**	(2)
Share of results of associates and joint ventures		**8**	5
Net foreign exchange (gain)/loss		**(4)**	45
		6,883	7,287
Changes in working capital:			
(Increase)/decrease in inventories		**(267)**	1,208
Decrease in trade and other receivables		**236**	446
Decrease in trade and other payables		**(68)**	(482)
Increase in contract liabilities		**926**	–
Cash generated from operations		**7,710**	8,459
Income tax paid	*5(c)*	**(1,293)**	(1,469)
Net cash generated from operating activities		**6,417**	6,990

The accompanying notes set out on pages 81 to 167 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

	Note	2018 RMB million	2017 RMB million (Note)
Investing activities			
Payment for purchase of investment properties, other property, plant and equipment and land use rights		**(2,679)**	(2,509)
Payments for investment in an associate and a joint venture		**(24)**	(15)
Net changes in time deposits with maturity over three months		**18**	3
Proceeds from sale of property, plant and equipment		**14**	2
Payment for purchase of intangible assets		**(11)**	(32)
Interest received		**473**	392
Payment of purchase of investments		**–**	(200)
Proceeds from maturity of investments		**100**	100
Proceeds from sale of available-for-sale securities		**–**	4
Net cash used in investing activities		**(2,109)**	(2,255)
Financing activities			
Payment for acquisition of non-controlling interests		**–**	(353)
Cash injection from the non-controlling shareholder		**49**	–
Repayment of bank loans and other borrowings	*19*	**(2)**	(23)
Interest paid		**(10)**	(13)
Dividends paid to shareholders of the Company	*21(b)*	**(1,238)**	(1,965)
Dividends paid to non-controlling shareholders		**–**	(119)
Net cash used in financing activities		**(1,201)**	(2,473)
Net increase in cash and cash equivalents		**3,107**	2,262
Cash and cash equivalents at 1 January		**10,362**	8,100
Effect of foreign exchange rate changes		**–**	–
Cash and cash equivalents at 31 December	*16*	**13,469**	10,362

Note: The Group has initially applied HKFRS 15 and HKFRS 9 on 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 1(c).

The accompanying notes set out on pages 81 to 167 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. *These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")*. Significant accounting policies adopted by the Company and its subsidiaries (together referred to as the "**Group**") are disclosed 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. 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 2018 comprise the Group and the Group's interest in associates and joint ventures.

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 financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of 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 29.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Change in accounting policies and estimates

Change in accounting policies

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

- *HK (IFRIC) 22, Foreign currency transactions and advance consideration*
- *HKFRS 9, Financial instruments*
- *HKFRS 15, Revenue from contracts with customers*

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

HK (IFRIC) 22 does not have a material effect on how the Group's results and financial position for the current or prior period have been prepared or presented in this financial report.

(i) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The adoption of HKFRS 9 does not have any material impact on the consolidated financial position or the consolidated financial results of the Group.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Change in accounting policies and estimates (continued)

Change in accounting policies (continued)

(i) HKFRS 9, Financial instruments (continued)

Details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

Because the significant financial assets of the Group subject to HKFRS 9 at 1 January 2018 were cash and cash equivalents, there is no material impact on the carrying amounts of the assets on adoption of HKFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see the respective accounting policy notes in notes 1(m), (n), (o)(i), (r) and (u).

The measurement categories for all financial liabilities remain the same.

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Change in accounting policies and estimates (continued)

Change in accounting policies (continued)

(i) HKFRS 9, Financial instruments (continued)

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables). The Group's credit risk is limited by the fact that trade receivables mainly relate to credit card sales and sales through E-commerce platforms which historically settle within one month, so this change in accounting policy does not have a significant impact.

For further details on the Group's accounting policy for accounting for credit losses, see note 1(o)(i).

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statement to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Change in accounting policies and estimates (continued)

Change in accounting policies (continued)

(ii) HKFRS 15, Revenue from contracts with customers (continued)

The Group has elected to use the cumulative effect transition method. Comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied new requirements only to contracts that were not completed before 1 January 2018.

Details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on the timing of revenue recognition of the Group.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Change in accounting policies and estimates (continued)

Change in accounting policies (continued)

(ii) HKFRS 15, Revenue from contracts with customers (continued)

b. Presentation of contract assets and contract liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see note 1(q)).

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

"Advance receipts from customers" amounting to RMB8,514 million as at 1 January 2018, which were mainly related to sales of prepaid cards and previously included in trade and other payables are now shown as a separate line item as contract liabilities on the face of the consolidated statement of financial position and the estimated related VAT payable of RMB999 million is classified under accruals and other payables.

c. Other impacts

The Group's assessment is that the impact of HKFRS 15 in other areas including customer rights of return, principal vs agent arrangements, customer financing and recognition of income from aged unutilised prepaid cards is not significant as the respective volume of transactions are either not material or the new standard has not led to a change in accounting treatment.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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)(ii)), 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). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. 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)(ii)). 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 any other 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)(ii)), 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess 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)(ii)).

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.

(i) Investment property

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)(ii)). 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)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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)(ii)).

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(aa)). 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.

(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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(ii) Depreciation (continued)

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. Both the useful life of an asset and its residual value, if any, 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)(ii)).

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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Leased assets (continued)

(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 recognised/derecognised on the date the group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 22(e). These investments are subsequently accounted for as follows, depending on their classification:

(A) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(y)(v)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(A) Policy applicable from 1 January 2018 (continued)

Investments other than equity investments (continued)

– fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(y)(vii).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see note 1(o)(i) – policy applicable prior to 1 January 2018).

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period, the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in notes 1(y)(vii) and 1(y)(v), respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see note 1(o)(i) – policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(n) Derivative financial instruments

Derivative financial instruments are recognised 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 hedges of 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- Financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to associates);
- Contract assets as defined in HKFRS 15;
- Debt securities measured at FVOCI (recycling); and
- Lease receivables.

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

(A) Policy applicable from 1 January 2018 (continued)

Measurement of ECLs (continued)

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– Fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– Variable-rate financial assets: current effective interest rate; and

– Lease receivables: discount rate used in the measurement of the lease receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

(A) Policy applicable from 1 January 2018 (continued)

Measurement of ECLs (continued)

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– Failure to make payments of principal or interest on their contractually due dates;

– An actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– An actual or expected significant deterioration in the operating results of the debtor; and

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

(A) Policy applicable from 1 January 2018 (continued)

Significant increases in credit risk (continued)

– Existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 1(y)(v) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

(A) Policy applicable from 1 January 2018 (continued)

Basis of calculation of interest income (continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

– Significant financial difficulties of the debtor;

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

– It becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– The disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– 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;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

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

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was 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, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

(B) Policy applicable prior to 1 January 2018 (continued)

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

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current 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;

– intangible assets;

– goodwill; and

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

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).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets (continued)

– 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.

(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 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 less the estimated costs of completion and the estimated costs necessary to make the sale.

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.

(q) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 1(y)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(o)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(r)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 1(y)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(r)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(y)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Contract assets and contract liabilities (continued)

Policy prior to 1 January 2018

In the comparative period, amounts received before the related goods were provided were presented as "advance receipts from customers" under "trade and other payables". These balances have been reclassified on 1 January 2018 as shown in note 18 (see note 1(c)(ii)).

(r) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 1(q)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(o)(i)).

(s) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(aa)).

(t) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) 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. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(o)(i).

(v) 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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Employee benefits (continued)

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(w) 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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Income tax (continued)

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)

(w) 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.

(x) Provisions, contingent liabilities and onerous contracts

(i) Provisions and contingent liabilities

Provisions are recognised when the group 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.

(ii) Onerous contracts

An onerous contract exists when the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Revenue and other income (continued)

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

In the comparative period, revenue from sales of goods was recognised when the goods were delivered to the customers' premises, which was taken to be the point in time when the customer had accepted the goods and the related risks and rewards of ownership.

For sales of goods to certain customers, the Group operates a customer loyalty program where points can be earned by customers which can be used to reduce the cost of future purchases. The Group allocates a portion of the consideration received to loyalty points based on the estimated relative stand-alone selling prices. The amount allocated to the loyalty programme is deferred, and is recognised as revenue when loyalty points are redeemed or expire. The deferred revenue is included in contract liabilities.

(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) Other income arising from recognition of unutilised balances on aged prepaid cards

Other income arising from recognition of unutilised balances on aged prepaid cards is recognised according to the "remote recognition" method. Under this policy, the unutilised balance on the card will be recognised as other income once it is possible to determine with a sufficiently high degree of probability that the likelihood of future utilisation is remote.

(iv) Service income

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Revenue and other income (continued)

(v) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(o)(i)).

(vi) 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.

(vii) Dividend income

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

(z) 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. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Translation of foreign currencies (continued)

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.

(aa) 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.

(bb) 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;

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(bb) Related parties (continued)

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

(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); and

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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.

(cc) 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 revenue from customers and revenue from leasing areas in the hypermarket buildings. Disaggregation of revenue from contracts with customers by major products or services is as follows:

	Year ended 31 December	
	2018	2017
		(Note)
	RMB million	*RMB million*
Revenue from contracts with customers within the scope of HKFRS 15 – sales of goods	**95,551**	98,775
Revenue from other sources – rental income from tenants	**3,808**	3,545
	99,359	102,320

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 1(c)(ii)).

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	
	2018	2017
	RMB million	*RMB million*
Income from aged unutilised prepaid cards	**333**	460
Service income	**427**	391
Disposal of packaging materials	**310**	204
Interest income on financial assets measured at amortised cost	**473**	392
Government grants	**200**	165
Compensation received	**–**	18
	1,743	1,630

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Interest expense on bank loans and other financial liabilities	**10**	13

(b) Staff costs

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Salaries, wages and other benefits	**8,893**	8,298
Contributions to defined contribution retirement plans (i)	**1,121**	1,039
Contributions to Employee Trust Benefit Schemes (ii)	**335**	379
Share-based payments (iii)	**1**	1
	10,350	9,717

(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 Schemes 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.

4 PROFIT BEFORE TAXATION (CONTINUED)

(b) Staff costs (continued)

(iii) Share-based payments

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, RMB1 million has 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 2018 (RMB3 million of staff cost expenses for the year ended 31 December 2017).

In addition to the above, share-based payments includes nil (2017: RMB2 million credit) 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.

4 PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Cost of inventories	**74,175**	77,598
Depreciation	**2,952**	3,017
Amortisation		
– land use rights	**202**	183
– intangible assets	**24**	63
	226	246
Impairment losses		
– other property, plant and equipment	**255**	167
– goodwill	**27**	55
	282	222
Operating lease charges		
– contingent rents	**851**	837
– minimum lease payments	**2,096**	2,077
– fees to Contracted Store Owners	**16**	13
	2,963	2,927

4 PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items (continued)

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Loss on disposal of property, plant and equipment	**37**	124
Net foreign exchange (gain)/loss	**(4)**	45
Auditors' remuneration		
– audit services	**25**	32
– non-audit services	**1**	1
Donations	**1**	4
Rental income from investment properties		
– gross (including property management fee)	**(1,357)**	(1,291)
– direct operating expenses	**40**	31
Net rental income from investment properties	**(1,317)**	(1,260)

5 INCOME TAX

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

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Current tax – Hong Kong Profits Tax		
Provision for the year	**–**	–
Under-provision in respect of prior year	**–**	4
Current tax – PRC income tax		
Provision for the year	**1,284**	1,383
(Over)/under-provision in respect of prior year	**(7)**	9
	1,277	1,396
Deferred tax		
Origination of temporary differences *(note 20(a))*	**83**	53
	1,360	1,449

5 INCOME TAX (CONTINUED)

(a) (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 (2017: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

(ii) Most of the PRC subsidiaries are subject to income tax at 25% for the year ended 31 December 2018 (2017: 25%) under the Enterprise Income Tax law ("**EIT law**").

Pursuant to the related regulations in respect of the Notice of Certain Tax Policies for Implementation of Exploration and Development of Western Region (Cai Shui [2011] No.58) jointly issued by the Ministry of Finance, the General Administration of Customers and the State Administration of Taxation in the PRC, five PRC subsidiaries of the Group are entitled to a preferential income tax rate of 15% for the year ended 31 December 2018 and 2017.

(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.

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.

The Group has provided RMB63 million withholding tax in relation to the dividends declared by certain of its subsidiaries to outside of the Mainland of China for 2018.

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 (Note 20(d)).

5 INCOME TAX (CONTINUED)

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

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Profit before taxation	**4,178**	4,469
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%	**1,045**	1,117
Non-deductible expenses, less non-assessable income	**14**	48
PRC dividend withholding tax	**63**	87
Current year losses for which no deferred tax assets were recognised	**189**	176
Temporary differences for which no deferred tax assets were recognised	**54**	61
Utilisation of previously unrecognised tax losses	**(46)**	(49)
Recognition of previously unrecognised temporary differences	**(9)**	–
Reversal of previously recognised deferred tax assets	**64**	4
Statutory tax concession	**(7)**	(8)
(Over)/under-provision in respect of prior years	**(7)**	13
Actual tax expenses	**1,360**	1,449

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

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Balance at beginning of the year	**565**	638
(Over)/under-provision in respect of prior years	**(7)**	13
Provision for current income tax for the year	**1,284**	1,383
Payments during the year	**(1,293)**	(1,469)
Income tax payables at the end of the year	**549**	565

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:

	For the year ended 31 December 2018					
	Directors' fees	Salaries, allowances and benefits in kind	Retirement schemes contributions	Discretionary bonus	Share-based payments *(note 7)*	2018 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Ludovic, Frédéric, Pierre HOLINIER	–	2,438	655	189	–	3,282
HUANG Ming-Tuan *(effective until 30 January 2018)*	–	997	–	–	–	997
Non-executive directors						
ZHANG Yong *(effective from 30 January 2018)*	–	–	–	–	–	–
Benoit, Claude, Francois, Marie, Joseph LECLERCQ	–	–	–	–	–	–
Xavier, Marie, Alain DELOM de MEZERAC	–	–	–	–	–	–
Wilhelm, Louis HUBNER	–	–	–	–	–	–
CHEN Jun *(effective from 30 January 2018)*	–	–	–	–	–	–
Independent non-executive directors						
Karen Yifen CHANG	306	–	–	–	–	306
HE Yi	306	–	–	–	–	306
Desmond MURRAY	377	–	–	–	–	377
Total	989	3,435	655	189	–	5,268

6 DIRECTORS' EMOLUMENTS (CONTINUED)

	For the year ended 31 December 2017					
	Directors' fees	Salaries, allowances and benefits in kind	Retirement schemes contributions	Discretionary bonus	Share-based payments *(note 7)*	2017 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Ludovic, Frédéric, Pierre HOLINIER *(effective from 11 July 2017)*	–	878	162	–	–	1,040
HUANG Ming-Tuan *(effective until 30 January 2018)*	–	12,093	–	–	–	12,093
Bruno, Robert MERCIER *(effective until 11 July 2017)*	–	2,282	624	477	–	3,383
Non-executive directors						
CHENG Chuan-Tai *(effective until 30 January 2018)*	–	–	–	–	–	–
Benoit, Claude, Francois, Marie, Joseph LECLERCQ	–	–	–	–	–	–
Xavier, Marie, Alain DELOM de MEZERAC	–	–	–	–	–	–
Wilhelm, Louis HUBNER	–	–	–	–	–	–
Independent non-executive directors						
Karen Yifen CHANG	289	–	–	–	–	289
HE Yi	289	–	–	–	–	289
Desmond MURRAY	354	–	–	–	–	354
Total	932	15,253	786	477	–	17,448

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 (2017: one) of whom was a director of the Company at some time during the year, are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**41,290**	41,435
Retirement schemes contributions	**–**	–
Discretionary bonus	**–**	–
Share-based payments	**–**	–
	41,290	41,435

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:

	2018 Number of individuals	2017 Number of individuals
HKD6,000,001 – HKD6,500,000	**1**	1
HKD7,000,001 – HKD7,500,000	**2**	2
HKD13,000,001 – HKD13,500,000	**1**	–
HKD13,500,001 – HKD14,000,000	**1**	2
	5	5

8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB1,015 million for the year ended 31 December 2018 (2017: a profit of RMB1,217 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 RMB2,588 million (2017: RMB2,793 million) and the weighted average of 9,539,704,700 ordinary shares (2017: 9,539,704,700) in issue during the year:

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 2017	11,485	4,547	17,729	2,312	298	1,078	37,449	4,882	6,884	49,215
Additions	228	42	525	131	8	931	1,865	74	202	2,141
Transfer from construction in progress	8	94	285	129	19	(580)	(45)	40	–	(5)
Disposals	(3)	(123)	(300)	(70)	(19)	–	(515)	–	–	(515)
At 31 December 2017	11,718	4,560	18,239	2,502	306	1,429	38,754	4,996	7,086	50,836
At 1 January 2018	**11,718**	**4,560**	**18,239**	**2,502**	**306**	**1,429**	**38,754**	**4,996**	**7,086**	**50,836**
Additions	**139**	**73**	**742**	**428**	**8**	**739**	**2,129**	**175**	**286**	**2,590**
Transfer from construction in progress	**447**	**72**	**404**	**158**	**15**	**(1,353)**	**(257)**	**256**	**–**	**(1)**
Disposals	**(10)**	**(27)**	**(283)**	**(100)**	**(32)**	**–**	**(452)**	**(1)**	**–**	**(453)**
At 31 December 2018	**12,294**	**4,678**	**19,102**	**2,988**	**297**	**815**	**40,174**	**5,426**	**7,372**	**52,972**

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 2017	(3,000)	(2,265)	(7,634)	(1,517)	(213)	–	(14,629)	(1,267)	(1,144)	(17,040)
Charge for the year	(439)	(421)	(1,605)	(290)	(36)	–	(2,791)	(226)	(183)	(3,200)
Written back on disposals	2	52	253	66	16	–	389	–	–	389
Impairment losses	–	(125)	(39)	(3)	–	–	(167)	–	–	(167)
At 31 December 2017	(3,437)	(2,759)	(9,025)	(1,744)	(233)	–	(17,198)	(1,493)	(1,327)	(20,018)
At 1 January 2018	**(3,437)**	**(2,759)**	**(9,025)**	**(1,744)**	**(233)**	**–**	**(17,198)**	**(1,493)**	**(1,327)**	**(20,018)**
Charge for the year	**(425)**	**(368)**	**(1,603)**	**(309)**	**(31)**	**–**	**(2,736)**	**(216)**	**(202)**	**(3,154)**
Written back on disposals	**8**	**26**	**241**	**95**	**31**	**–**	**401**	**1**	**–**	**402**
Impairment losses	**–**	**(80)**	**(124)**	**(6)**	**–**	**(45)**	**(255)**	**–**	**–**	**(255)**
At 31 December 2018	**(3,854)**	**(3,181)**	**(10,511)**	**(1,964)**	**(233)**	**(45)**	**(19,788)**	**(1,708)**	**(1,529)**	**(23,025)**
Net book value:										
At 31 December 2018	**8,440**	**1,497**	**8,591**	**1,024**	**64**	**770**	**20,386**	**3,718**	**5,843**	**29,947**
At 31 December 2017	8,281	1,801	9,214	758	73	1,429	21,556	3,503	5,759	30,818

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 2018, the Group had not obtained land use rights certificates for certain land use rights with an aggregate carrying amount of RMB496 million (2017: RMB561 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 2018 and 2017.

(iii) As at 31 December 2018, the Group was in the process of obtaining property ownership certificates for certain buildings with an aggregate carrying amount of RMB2,104 million (2017: RMB2,653 million). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these buildings as at 31 December 2018 and 2017.

(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 2018, the total fair value of the investment properties were RMB5,307 million (2017: RMB4,609 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 compared to that used in the 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 5.25% to 7.50% (2017: 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	
	2018	2017
	RMB million	*RMB million*
Within 1 year	**3,406**	3,018
After 1 year but within 5 years	**1,191**	1,426
After 5 years	**425**	612
	5,022	5,056

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 2018, the carrying amount of leasehold improvements and equipment in certain stores of the Group were written down to their estimated recoverable amount of RMB 94 million. The impairment losses of RMB255 million (2017: RMB167 million) were recognised in "Operating costs". during the year ended 31 December 2018.

The estimates of recoverable amount were determined based on the higher of the stores' value in use and its fair value less costs of disposal. In determining the value in use, the post-tax discount rate of 10.86% (2017: 8.63%) 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 assumptions on which management based the estimates are disclosed in note 10(v).

11 INTANGIBLE ASSETS

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Software cost:		
At 1 January	**184**	147
Additions	**11**	32
Transfer from construction in progress	**1**	5
	196	184
Accumulated amortisation:		
At 1 January	**(133)**	(70)
Charge for the year	**(24)**	(63)
	(157)	(133)
Net book value:		
At 1 January	**51**	77
At 31 December	**39**	51

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.

13 INVENTORIES

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

	At 31 December	
	2018	2017
	RMB million	*RMB million*
Trading merchandise	**14,468**	14,201

(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	
	2018	2017
	RMB million	*RMB million*
Carrying amount of inventories sold	**74,133**	77,554
Write down of inventories	**42**	44
	74,175	77,598

All inventories are expected to be sold within one year.

14 TRADE AND OTHER RECEIVABLES

	At 31 December	
	2018	2017
	RMB million	*RMB million*
Non-current		
Rental prepayments	**185**	240
Current		
Trade receivables	**372**	543
Amounts due from related parties *(note 25(d))*	**128**	78
Other debtors	**837**	775
Value-added tax recoverable	**892**	915
Prepayments:		
– rentals	**790**	889
– property, plant and equipment and intangible assets	**42**	126
Sub-total	**3,061**	3,326
Trade and other receivables	**3,246**	3,566

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

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 or occupation 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 INVESTMENTS AND TIME DEPOSITS

	At 31 December	
	2018	2017
	RMB million	*RMB million*
Time deposits	**15**	33
Other financial assets	**–**	100
	15	133

Time deposits have original maturity over three months.

Other financial assets represent investments in short-term financial products issued by banks with guaranteed repayment of principals, fixed or determinable returns and having maturity periods over three months from date of issue.

Prior to 1 January 2018, other financial assets over three months were classified as loans and receivables and measured at amortised cost in accordance with HKAS 39.

16 CASH AND CASH EQUIVALENTS

	At 31 December	
	2018	2017
	RMB million	*RMB million*
Deposits with banks within three months of maturity	**175**	126
Cash at bank and on hand	**5,686**	5,061
Other financial assets and cash equivalents	**7,608**	5,175
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	**13,469**	10,362

Other financial assets represent investments in short-term financial products issued by banks, with principals guaranteed, fixed or determinable returns and having periods to maturity less than 3 months from date of issue.

17 TRADE AND OTHER PAYABLES

	At 31 December 2018 **RMB million**	At 1 January 2018 RMB million	At 31 December 2017 RMB million
Current			
Trade payables	**18,588**	19,468	19,468
Advance receipts from customers	**–**	–	9,513
Amounts due to related parties *(note 25(d))*	**297**	191	191
Construction costs payable	**1,273**	1,446	1,446
Dividends payable to non-controlling interests	**193**	116	116
Accruals and other payables	**6,413**	5,711	4,712
Trade and other payables	**26,764**	26,932	35,446

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

As at 31 December 2017, advance receipts from customers mainly represented the unutilised balance of prepaid cards issued by the Group. As a result of the adoption of HKFRS 15, these balances are classified as contract liabilities and are shown as a separate line on the consolidated statement of financial position (Note 1(c)). Note 18 disclosed the details of contract liabilities.

As at 31 December 2018 and 1 January 2018, the estimated VAT payable of RMB1,235 million and RMB999 million respectively, in relation to the unused prepaid cards and advance receipts from customers are included in accruals and other payables.

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

	At 31 December	
	2018 **RMB million**	2017 RMB million
Due within six months	**18,293**	18,874
Due after six months but within 12 months	**295**	594
	18,588	19,468

18 CONTRACT LIABILITIES

	note	**At 31 December 2018** **RMB million**	At 1 January 2018 RMB million	At 31 December 2017 RMB million
Prepaid cards	*i)*	**8,690**	8,225	–
Advance receipts from customers for sales of merchandise	*ii)*	**404**	289	–
Customer loyalty program points liability	*iii)*	**13**	–	–
Contract liabilities		**9,107**	8,514	–

The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

Upon the adoption of HKFRS 15, sales of prepaid cards and consideration received in advance from merchandise customers previously included as "Advance receipts from customers" under "Trade and other payables" (note 17) were reclassified to contract liabilities.

i) Revenue is recognised when customers accept the products so revenue from prepaid cards is recognised when the prepaid cards are redeemed by customers or when the likelihood of future utilisation can be determined to be remote with a sufficiently high degree of probability. Based on recent trends in redemption by customers of the prepaid cards, it is expected that most of the prepaid cards will be redeemed within one year from purchase.

ii) The amounts of consideration received in advance as prepayments by merchandise customers are short term as the respective revenue is expected to be recognised within a few days when the goods are delivered to customers.

iii) The Group operates a customer loyalty programme for sales to Business to Business ("**B2B**") customers where points can be earned by customers and to be used to reduce the cost of future purchases. The contract liability in respect of unredeemed B2B customer loyalty points will be recognised as revenue when the points are redeemed by those customers or expire, which is expected to occur before the end of the following year based on the expiry terms of the loyalty points.

18 CONTRACT LIABILITIES (CONTINUED)

Movements in contract liabilities:

	Year ended 31 December 2018			
	Prepaid cards	Advance receipts from customers	Loyalty program points liability	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*
Balance at 1 January	**8,225**	**289**	**–**	**8,514**
Decrease in contract liabilities as a result of recognising revenue or other income during the year that was included in the contract liabilities at the beginning of the year	**(4,449)**	**(289)**	**–**	**(4,738)**
Increase in contract liabilities excluding amounts recognised as revenue during the year	**4,914**	**404**	**13**	**5,331**
Balance at 31 December	**8,690**	**404**	**13**	**9,107**

Except for the disclosures above related to redemptions of prepaid cards, advance receipts from customers and customer loyalty program points, the Group applies the practical expedient in paragraph 121 of IFRS 15 for other sales contracts and does not disclose information about remaining performance obligations that have original expected duration of one year or less.

19 BANK LOANS

	At 31 December	
	2018	2017
	RMB million	*RMB million*
Current		
Bank loans repayable within one year guaranteed by a related party	**1**	2
Sub-total	**1**	2
Non-current		
Bank loans guaranteed by a related party	**–**	1
Bank loans	**1**	3

Bank loans guaranteed by a related party, Oney Bank S.A. ("Oney Bank", formerly known as "Banque Accord S.A."), carried interest at 5.80% to 6.05% per annum as at 31 December 2018 (2017: 5.80%~6.05% per annum).

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	Income recognized from aged unutilized prepaid cards	Accruals and other timing differences	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
At 1 January 2017	20	(10)	232	(1)	–	143	384
(Charged)/credited to profit or loss	(4)	1	29	1	(115)	35	(53)
At 31 December 2017	16	(9)	261	–	(115)	178	331
At 1 January 2018	**16**	**(9)**	**261**	**–**	**(115)**	**178**	**331**
(Charged)/credited to profit or loss	**19**	**–**	**(37)**	**–**	**(83)**	**18**	**(83)**
At 31 December 2018	**35**	**(9)**	**224**	**–**	**(198)**	**196**	**248**

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

	At 31 December	
	2018	2017
	RMB million	*RMB million*
Net deferred tax assets	**455**	455
Net deferred tax liabilities	**(207)**	(124)
	248	331

20 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(w), the Group has not recognised deferred tax assets in respect of unused tax losses of RMB3,543 million as at 31 December 2018 (2017: RMB3,155 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	
	2018	2017
	RMB million	*RMB million*
2018	**–**	181
2019	**428**	482
2020	**762**	813
2021	**926**	972
2022	**671**	707
2023	**756**	–
	3,543	3,155

(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 2018, such undistributed profits amounted to RMB7,459 million (2017: RMB5,865 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 2017	10,020	13,322	(425)	2,151	25,068
Changes in equity for 2017:					
Profit for the year	–	–	–	1,217	1,217
Other comprehensive income	–	–	–	–	–
Total comprehensive income	–	–	–	1,217	1,217
Dividends declared and paid in respect of the previous year	–	–	–	(1,948)	(1,948)
Balance at 31 December 2017	10,020	13,322	(425)	1,420	24,337
Balance at 1 January 2018	**10,020**	**13,322**	**(425)**	**1,420**	**24,337**
Changes in equity for 2018:					
Profit for the year	**–**	**–**	**–**	**1,015**	**1,015**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**–**	**1,015**	**1,015**
Dividends declared and paid in respect of the previous year	**–**	**–**	**–**	**(1,238)**	**(1,238)**
Balance at 31 December 2018	**10,020**	**13,322**	**(425)**	**1,197**	**24,114**

21 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

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

	2018 **RMB million**	2017 *RMB million*
Final dividend proposed after the end of the reporting period of HKD0.14 (equivalent to RMB0.12) per ordinary share (2017: HKD0.16 (equivalent to RMB0.13) per ordinary share)	**1,139**	1,235

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 2017 was approved on 9 May 2018, and the payment was made on 15 June 2018 for an amount equivalent to RMB1,238 million.

A final dividend of HKD0.23 (equivalent to RMB0.20) per ordinary share in respect of the year ended 31 December 2016 was approved on 10 May 2017, and the payment was made in June 2017 for an amount equivalent to RMB1,948 million.

(c) Share capital

	2018			2017		
	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.

21 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(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));
- accumulated 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)); and
- acquisition of additional non-controlling interests.

(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(z).

(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 these 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 2018, 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 RMB1,197 million (2017: RMB1,420 million). After the end of the reporting period the directors proposed a final dividend of HKD0.14 (equivalent to RMB0.12) per ordinary share, amounting to RMB1,139 million (see note 21(b)). This dividend has not been recognised as a liability at the end of the reporting period.

21 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(f) Capital 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.

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

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

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, time deposits and trade and other receivables. Financial liabilities of the Group include loans and other financial liabilities 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

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

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 and other cash equivalents 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 OF FINANCIAL INSTRUMENTS (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 RMB5,408 million as at 31 December 2018 (2017: RMB7,991 million). The Group generated net cash from operating activities amounting to RMB6,417 million for the year ended 31 December 2018 (2017: RMB6,990 million), and had RMB3,686 million of unutilised loan facilities available as at 31 December 2018 (2017: RMB4,600 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 OF FINANCIAL INSTRUMENTS(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 2018					
	Contractual undiscounted cash flow					
	Within 1 year or on demand *RMB million*	More than 1 year but less than 2 years *RMB million*	More than 2 years but less than 5 years *RMB million*	More than 5 years *RMB million*	Total *RMB million*	Financial statement carrying amount *RMB million*
Bank loans	1	–	–	–	1	1
Trade and other payables	26,764	–	–	–	26,764	26,764
Other financial liabilities	–	–	–	50	50	50
At 31 December 2018	26,765	–	–	50	26,815	26,815

	At 31 December 2017					
	Contractual undiscounted cash flow					
	Within 1 year or on demand *RMB million*	More than 1 year but less than 2 years *RMB million*	More than 2 years but less than 5 years *RMB million*	More than 5 years *RMB million*	Total *RMB million*	Financial statement carrying amount *RMB million*
Bank loans	2	1	–	–	3	3
Trade and other payables	35,446	–	–	–	35,446	35,446
Other financial liabilities	–	–	–	50	50	50
At 31 December 2017	35,448	1	–	50	35,499	35,499

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS(CONTINUED)

(c) Interest rate risk

(i) Interest rate profile

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate.

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 2018 and 2017 are set out as follows:

	2018		2017	
	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%~2.90%**	**5,470**	0%~1.50%	4,705
Other financial assets	**1.80%~4.45%**	**6,858**	1.00%~4.80%	5,109
		12,328		9,814
Fixed rate instruments:				
Financial assets and time deposits over three months of maturity	**0.50%~0.80%**	**15**	0.50%~4.35%	133
Other financial assets	**3.95%~4.10%**	**472**	3.65%~4.50%	66
Bank loans	**5.80%~6.05%**	**(1)**	5.80%~6.05%	(3)
		486		196

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS(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 RMB92 million for the year ended 31 December 2018 (2017: RMB74 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 2018 and 2017.

(d) 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.

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 OF FINANCIAL INSTRUMENTS(CONTINUED)

(e) Fair value measurement

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.

The fair value of the Group's financial instruments are measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuation: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuation: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuation: Fair value measured using significant 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 2018 and 2017, 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 2018 and 2017, 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	
	2018	2017
	RMB million	*RMB million*
Contracted for	**1,524**	2,423
Authorised but not contracted for	**1,550**	2,040
	3,074	4,463

(b) Operating leases

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

	At 31 December	
	2018	2017
	RMB million	*RMB million*
Within 1 year	**1,795**	1,786
After 1 year but within 5 years	**6,739**	7,333
After 5 years	**8,722**	10,072
	17,256	19,191

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 2018, legal actions have commenced against the Group by certain customers and certain suppliers and landlords in respect of disputes on purchase agreements and property lease arrangements. The total amount claimed is RMB436 million (2017: RMB352 million). As at 31 December 2018, the legal actions were ongoing, with most of the actions not yet set for trial dates. Provision of RMB34 million (2017: RMB29 million) has been made within trade and other payables as at 31 December 2018, 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	
	2018	2017
	RMB million	*RMB million*
Short-term employee benefits	**80**	65
Post-employment benefits	**–**	–
Share-based payments	**–**	–
	80	65

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 2018 and 2017, the directors are of the view that the following entities are related parties of the Group:

Name of party	Relationship
Auchan Holding and its subsidiaries	Ultimate holding company and its subsidiaries
Hwabao Trust Co., Ltd.	Trustee of RT-Mart and Auchan Scheme trusts
Alibaba Group and its subsidiaries	The shareholder and its subsidiaries

(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	
	2018	2017
	RMB million	*RMB million*
Agency fees receivable *(i)*	**47**	116
Other fees receivable *(ii)*	**75**	–
Trademark fees payable *(iii)*	**23**	25
Other expenses payable for business cooperation *(iv)*	**230**	–
Purchase of goods *(v)*	**152**	4

The above related party transactions in respect of (i) agency fees receivable, (ii) other fees receivable, (iii) trademark fee payable, (iv) business cooperation payable and (v) purchase of merchandise from Alibaba Group and its subsidiaries above constitute 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. The trademark fees payable (iii) are continuing connected transactions but are exempted from these disclosure requirements as they are below the de minimis threshold under Rule 14A.76(1).

25 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Related party transactions (continued)

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Other related party transactions		
Purchase of goods	**4**	4
Purchase of fixed assets *(vi)*	**56**	–
IT services fees payable *(vii)*	**29**	14
Expenses payable *(viii)*	**111**	103
Contributions to Employee Trust Benefit Schemes *(note 4(b))*	**335**	379

(i) Agency fees receivable relates to amounts accrued from international suppliers by a subsidiary of Auchan Holding, net of fees payable to the subsidiary of Auchan Holding.

(ii) Other fees receivable represents fees receivable from a subsidiary of Alibaba Group.

(iii) Trademark fees payable represents the fees charged by a subsidiary of Auchan Holding for the grant of licenses to the Group to use the Auchan trademarks and domain names.

(iv) Other expenses payable represents expenses payable to Alibaba Group and its subsidiaries in respect of the services provided under the respective business cooperation agreements.

(v) Purchase of goods represents purchase of merchandise from subsidiaries of Alibaba Group.

(vi) Purchase of fixed assets represents purchase of equipment from a subsidiary of Alibaba Group.

(vii) IT services fees payable represents the fees charged by a subsidiary of Auchan Holding for IT support and services provided.

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

25 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Related party balances

	At 31 December	
	2018	2017
	RMB million	*RMB million*
Amounts due from Auchan Holding and its subsidiaries	**40**	16
Amounts due from Hwabao Trust Co., Ltd.	**–**	62
Amounts due from Alibaba Group and its subsidiaries	**88**	–
Amounts due to Auchan Holding and its subsidiaries	**197**	154
Amounts due to Hwabao Trust Co., Ltd.	**–**	33
Amounts due to Alibaba Group and its subsidiaries	**100**	4

26 COMPANY LEVEL STATEMENT OF FINANCIAL POSITION

	2018 **RMB million**	2017 *RMB million*
Non-current assets		
Investments in subsidiaries	**16,485**	16,512
Trade and other receivables	**–**	6,398
Investment in a joint venture	**2**	9
	16,487	22,919
Current assets		
Trade and other receivables	**7,553**	1,363
Cash and cash equivalents	**108**	88
	7,661	1,451
Current liabilities		
Trade and other payables	**34**	33
Net current assets	**7,627**	1,418
Net assets	**24,114**	24,337
Capital and reserves		
Share capital	**10,020**	10,020
Reserves	**14,094**	14,317
Total equity	**24,114**	24,337

Approved and authorised for issue by the board of directors on 1 March 2019.

Ludovic, Frédéric, Pierre HOLINIER
Chief Executive Officer
& Executive Director

Xavier, Marie, Alain DELOM de MEZERAC
Non-Executive Director

27 COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c).

28 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

The directors consider the immediate parent of the Group is A-RT Retail Holdings Limited, which is incorporated in Hong Kong. The ultimate controlling party of the Group is Auchan Holding, which is incorporated in France.

29 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.

29 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Income tax

Determining income tax provisions and the recognition of certain deferred tax assets involves judgement regarding the future tax treatment of certain transactions and the future recoverability. 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.

(d) 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 fixed assets, intangible assets and goodwill.

(e) Other income arising from recognition of unutilised balances on aged prepaid cards

As set out in note 18, the Group has “advance receipts from customers” classified within “contract liabilities” (2017: “trade and other payables”) which were primarily attributable to unutilised balances of prepaid cards issued by the Group. As stated in note 1 (y) (iii), other income arising from recognition of unutilised balances on aged prepaid cards is recognised according to the “remote recognition” method. Under this policy, the unutilised balance on the card will be recognised as other income once it is possible to determine with a sufficiently high degree of probability that the likelihood of future utilisation is remote.

Estimating amounts which are unlikely to ever be utilised in the future involves the exercise of significant judgement in determining the length of time that needs to elapse before the risk of future utilisation for each group of aged prepaid cards can be considered remote. Any change in these judgements would increase or decrease the amount of other income recognised and affect the Group’s net asset value.

30 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, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and have not been adopted in these financial statements. These include the following which may be relevant to the Group.

HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, Long-term interest in associates and joint ventures	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations 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.

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

HKFRS 16, *Leases*

As disclosed in note 1(l), 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 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

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 a material 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.

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

HKFRS 16, *Leases* (continued)

The Group has maintained an inventory of leases and their contract terms and is comparing the results of adopting different transition options as permitted by HKFRS 16. Up to the date of issue of the financial statements, the Group has not made a final decision about which transition approach to adopt for HKFRS 16.

31 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	
		2018	2017			*(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)*	**100%**	100%	E-commerce	RMB	1,122
Fields Hong Kong Limited	*(ii)*	**90.02%**	90.02%	E-commerce	HKD	125

31 INTEREST IN SUBSIDIARIES (CONTINUED)

Held directly or indirectly by CCIL:

Name of companies	*Note*	Effective interest of ownership attributable to the Group 2018	2017	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.	*(v)*	**92.83%**	92.83%	Investment holding and procurement center	USD	247
Beihai RT-MART Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	3
Changshu RT-MART Hypermarket Co., Ltd.		**92.83%**	92.83%	Retailing	USD	7
Changzhou Guanhe RT-MART Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Dafeng Ruentex Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	16
Foshan Shunde RT-Mart Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	7
Fuyang RT-MART Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Guangdong Ruenhua Commercial Co., Ltd.		**92.83%**	92.83%	Procurement center	USD	20/0.8
Guangzhou Ruenping Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Guangzhou Tianmei Ruenfu Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	3
Haikou Guoxing RT-MART Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Hainan RT-MART Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Hangzhou Xiaoshan Ruenhua RT-MART Hypermarket Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Hefei Feicui RT-MART Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Ji'nan Lixia RT-MART Commercial and Trading Co., Ltd.		**92.83%**	92.83%	Procurement center	USD	0.5
People's RT-MART Limited Jinan	*(iii)*	**88.86%**	88.86%	Retailing	USD	21
Jiaxing Xiuzhou Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	RMB	15
Jianhu RT-MART Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	10
Jiangsu Bairuen Logistics Co., Ltd.	*(iv)*	**92.83%**	92.83%	Retailing	RMB	1
Kunshan Qiandeng Ruenping Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	17
Kunshan Ruenhua Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	RMB	165
Liyang RT-MART Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Lianyungang Ruenliang Commercial and Trading Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Liuzhou Ruenping Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Nanjing Zhongshang Jinruenfa Longjiang Hypermarket Co., Ltd.	*(iv)*	**92.83%**	92.83%	Retailing	RMB	5
Nantong Tongruenfa Hypermarket Co., Ltd.	*(iv)*	**92.83%**	92.83%	Retailing	RMB	5
Nantong Tongzhou Ruentex Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	7
Pinghu RT-MART Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	12
Wuhu RT-MART Commercial and Trading Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2

31 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	
		2018	2017			*(million)*
Qingdao Ruentex Enterprises Co., Ltd.		**92.83%**	92.83%	Retailing	RMB	200
Rugao RT-MART Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Xiamen Ruenrui Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
RT-MART Limited Shanghai	*(iii)*	**92.83%**	92.83%	Retailing	USD	30
Shanghai Fengxian RT-MART Commercial and Trading Co., Ltd.		**92.83%**	92.83%	Retailing	USD	3
Shanghai Jiading Anting RT-MART Commercial and Trading Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Shanghai Sanlin RT-MART Commercial and Trading Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Shanghai Sijing RT-MART Commercial and Trading Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Shaoguan RT-MART Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Shenzhen RT-MART Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Shuyang Ruentex Commercial Co., Ltd.	*(iv)*	**92.83%**	92.83%	Retailing	RMB	15
Suzhou Xuguan Ruenhua Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Suzhou Ruende Commercial Co., Ltd.	*(iv)*	**92.83%**	92.83%	Retailing	RMB	3
Suzhou Ruenrui Commercial Co., Ltd.	*(iv)*	**92.83%**	92.83%	Retailing	RMB	9
Taixing Ruentex Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Tonglu RT-MART Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	6
Wuxi Tianruenfa Hypermarket Co., Ltd.	*(iv)*	**92.83%**	92.83%	Retailing	RMB	10
Wujiang Ruenliang Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Wujiang Ruentex Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Wuhan RT-MART Jianghan Hypermarket Development Co., Ltd.		**92.83%**	92.83%	Procurement center	USD	8
Suqian Ruenliang Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Xuzhou Ruenping Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	4
Yangzhou Ruenliang Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Yongkang Ruentex Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	7
Zhaoqing RT-MART Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Zhenjiang RT-MART Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2
Zibo RT-MART Commercial Co., Ltd.		**92.83%**	92.83%	Retailing	USD	2

31 INTEREST IN SUBSIDIARIES (CONTINUED)

Held directly or indirectly by ACHK:

Name of companies	Note	Effective interest of ownership attributable to the Group 2018	2017	Principal activities	Registered capital/issued and fully paid up capital (million)	
Shanghai Auchan Hypermarkets Co., Ltd.	(iii)	**99.10%**	99.10%	Retailing	USD	18
Suzhou Auchan Hypermarkets Co., Ltd.		**99.10%**	99.10%	Retailing	RMB	220
Auchan (China) Investment Co., Ltd.	(v)	**99.10%**	99.10%	Consulting service, investment and wholesale	USD	367/353
Chengdu Auchan Hypermarkets Co., Ltd.		**99.10%**	99.10%	Retailing	RMB	110
Beijing Auchan Hypermarkets Co., Ltd.		**99.10%**	99.10%	Retailing	RMB	146
Shanghai New Auchan Hypermarkets Co., Ltd.		**99.10%**	99.10%	Retailing	RMB	128
Nanjing Auchan Hypermarkets Co., Ltd.		**99.10%**	99.10%	Retailing	RMB	50
Ningbo Auchan Hypermarkets Co., Ltd.		**99.10%**	99.10%	Retailing	RMB	72
Taizhou Auchan Hypermarkets Co., Ltd.		**99.10%**	99.10%	Retailing	USD	10
Changzhou Auchan Hypermarkets Co., Ltd.		**99.10%**	99.10%	Retailing	RMB	122
Anhui Auchan Hypermarkets Co., Ltd.		**99.10%**	99.10%	Retailing	USD	12
Zhenjiang Auchan Hypermarkets Co., Ltd.		**99.10%**	99.10%	Retailing	USD	12
Wuxi Auchan Hypermarkets Co., Ltd.		**99.10%**	99.10%	Retailing	USD	10/8
Nantong Auchan Hypermarkets Co., Ltd.		**99.10%**	99.10%	Retailing	USD	14

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

Name of companies	Note	Effective interest of ownership attributable to the Group 2018	2017	Principal activities	Registered capital/issued and fully paid up capital (million)	
Feiniu E-Commerce (Shanghai) Co., Ltd.		**100%**	100%	E-commerce	RMB	1,550/1,093
Ruenguo Information Technology (Shanghai) Co., Ltd.	(iv)	**100%**	100%	E-commerce	RMB	10

31 INTEREST IN SUBSIDIARIES (CONTINUED)

Held directly by Fields Hong Kong Limited:

Name of companies	Effective interest of ownership attributable to the Group		Principal activities	Registered capital/issued and fully paid up capital	
	2018	2017			*(million)*
Fields (Shanghai) Co., Ltd.	**90.02%**	90.02%	E-commerce	USD	10

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	
		2018	2017			*(million)*
Oney Accord	*(v)*	**48.66%**	48.66%	Financial service	EUR	13

Note:

(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.

(iv) These subsidiaries are domestic enterprises.

(v) CIC, ACI and Oney Accord are sino-foreign equity joint ventures.

Except for (iii), (iv) and (v), 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.

32 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				
	2018	2017	2016	2015	2014
	RMB million				
Revenue	**99,359**	102,320	100,441	96,414	91,885
Gross Profit	**25,119**	24,674	23,981	22,463	20,988
Profit from Operations	**4,196**	4,487	3,936	3,575	4,214
Profit for the Year	**2,818**	3,020	2,629	2,464	3,023
Profit attributable to:					
Equity shareholders of the Company	**2,588**	2,793	2,571	2,443	2,899
Non-Controlling Interests	**230**	227	58	21	124

	Year Ended 31 December				
	2018	2017	2016	2015	2014
	RMB million				
Total assets	**61,779**	59,737	60,341	55,509	52,492
Total liabilities	**36,678**	36,188	37,532	33,882	31,942
Equity attributable to:					
Equity shareholders of the Company	**23,665**	22,315	21,785	20,746	19,681
Non-Controlling Interests	**1,436**	1,234	1,024	881	869

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

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