SUN ART RETAIL GROUP LIMITED
高鑫零售有限公司

(Incorporated in Hong Kong with limited liability)
(Stock code: 06808)

FINANCIAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS OF ANNUAL RESULTS

	For the year ended 31 December		
	2018	2017	**Change**
	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		
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%
Current Ratio (4)	**0.85**	0.78	

Notes:

(1) Gross Sales Proceeds consist of gross proceeds from product sales including consignment sales and rental income, excluding value-added tax. For further information, please refer to the analysis of revenue on Page 18.

(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 investment and time deposits minus bank loans.

(4) Current Ratio = Current Assets/Current Liabilities

The board (the "**Board**") of directors (the "**Directors**") of Sun Art Retail Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017 which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") as below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

		Year ended 31 December	
		2018	2017
	Note	***RMB million***	*RMB million*
Revenue	*4*	**99,359**	102,320
Cost of sales		**(74,240)**	(77,646)
Gross profit		**25,119**	24,674
Other income	*5*	**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	*6(a)*	**(10)**	(13)
Share of results of associates and joint ventures		**(8)**	(5)
Profit before taxation	*6*	**4,178**	4,469
Income tax	*7(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	*8*	**RMB0.27**	RMB0.29

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION(CONTINUED)

At 31 December 2018

	At 31 December	
	2018	2017
	RMB million	*RMB million*
		Note
Non-current liabilities		
Bank loans	**–**	1
Other financial liabilities	**50**	50
Deferred tax liabilities	**207**	124
	257	175
Net assets	**25,101**	23,549
Capital and reserves		
Share capital	**10,020**	10,020
Reserves	**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

Note: The Group has initially applied HKFRS 9 and HKFRS 15 since 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 3.

NOTES:

1. STATEMENT OF COMPLIANCE

The Group's consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the requirements of Hong Kong Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "**Companies Ordinance**"). These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 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 consolidated financial statements.

The financial information relating to the years ended 31 December 2018 and 2017 included in this preliminary announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2018 in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

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

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

3. 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.

Further 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.

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.

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-commence platforms which historically settle within one month, so this change in accounting policy does not have a significant impact.

(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.

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.

Further 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.

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.

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.

4. 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 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
	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

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

5. 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	**473**	392
Government grants	**200**	165
Compensation received	**–**	18
	1,743	1,630

6. PROFIT BEFORE TAXATION

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

(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	**1,121**	1,039
Contributions to Employee Trust Benefit Schemes *(i)*	**335**	379
Share-based payments	**1**	1
	10,350	9,717

(i) 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.

(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 *(i)*	**255**	167
– goodwill	**27**	55
	282	222
Operating lease charges		
(i) contingent rents	**851**	837
(ii) minimum lease payments	**2,096**	2,077
(iii) fees to Contracted Store Owners	**16**	13
Total	**2,963**	2,927
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)

(i) As at 31 December 2018, the carrying amounts of the leasehold improvements and equipment of certain stores of the Group were written down to their estimated recoverable amounts of RMB94 million. The impairment losses of RMB255 million for the year ended 31 December 2018 (2017: RMB167 million) were recognised in "Operating costs".

7. 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 years	**–**	4
Current tax – PRC income tax		
Provision for the year	**1,284**	1,383
(Over)/under-provision in respect of prior years	**(7)**	9
	1,277	1,396
Deferred tax		
Origination of temporary differences	**83**	53
	1,360	1,449

(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 Customs and the State Administration of Taxation, five PRC subsidiaries of the Group are entitled to a preferential income tax rate of 15% during the years 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 dividend declared by certain of its subsidiaries to companies 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.

(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
Statutory tax concession	**(7)**	(8)
(Over)/under-provision in respect of prior years	**(7)**	13
Non-deductible expenses, less non-assessable income	**14**	48
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 unrecognized temporary differences	**(9)**	–
Reversal of previously recognised deferred tax assets	**64**	4
PRC dividend withholding tax	**63**	87
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

8. 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 year and therefore, diluted earnings per share is equivalent to basic earnings per share.

9. DIVIDENDS

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

	2018	2017
	RMB million	*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 10 May 2018, and the payment was made in June 2018 for an amount equivalent to RMB1,238 million.

10. 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.

11. 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	**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 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.

12. 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 principal, fixed or determinable returns and having maturity periods over three months from date of issue.

13. CASH AND CASH EQUIVALENTS

	At 31 December 2018 RMB million	2017 RMB million
Time 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	**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 three months from date of issue.

14. 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	**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 3(ii)). Note 15 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 advanced 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

15. 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	–
Advanced 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 14) 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 prepaid cards, it is expected that most of the prepaid cards will be redeemed within one year from purchase.

ii) The amount 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 purchase. 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 valid terms of the loyalty points.

MANAGEMENT DISCUSSION AND ANALYSIS

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	2017	**Change**
	(RMB million)		
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 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.

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.

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.

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 ACI and 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.

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 announcement on page 29.

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 fast-moving consumer goods ("**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 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, and one in Northeastern China and one in Southern China.

He Xiao Ma combines and leverages Alibaba’s technology and traffic and Sun Art’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.

OTHER INFORMATION

Corporate Governance

The Board of Directors 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 provision 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.

Further information about the Corporate Governance practices of the Company will be set out in the Corporate Governance Report to be included in the Annual Report of the Company for the year ended 31 December 2018.

Audit Committee

The Company established the Audit Committee on 27 June 2011 with written terms of reference in compliance with 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; (iii) the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and (iv) agree with internal auditors for their annual plan of work and the results of this work. The Audit Committee currently consists of five Non-executive Directors, three of whom are independent. The members currently are Mr. Xavier, Marie, Alain Delom de Mezerac, Mr. Wilhelm, Louis Hubner, Ms. Karen Yifen Chang, Mr. He Yi and Mr. Desmond Murray. Mr. Desmond Murray, an independent non-executive director, is the Chairman of the Audit Committee. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and also discussed auditing, internal controls and financial reporting matters including the review of the consolidated results of the Group for the year ended 31 December 2018.

Nomination Committee

The Company established a nomination committee ("**Nomination Committee**") on 27 June 2011 with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to identify individuals suitably qualified to become Board members, consider and assess the possible contribution to be brought by the individual to the diversity of the Board and make recommendations to the Board on the selection of individuals nominated for directorships. The Nomination Committee currently consists of five Non-executive Directors, three of whom are independent. The members currently are Mr. Chen Jun, Mr. Wilhelm, Louis Hubner, Ms. Karen Yifen Chang, Mr. Desmond Murray and Mr. He Yi. Mr. He Yi, an independent non-executive Director, is the Chairman of the Nomination Committee.

Remuneration Committee

The Company established a remuneration committee ("**Remuneration Committee**") on 27 June 2011 with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee are to review and make recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee currently consists of five Non-executive Directors, three of whom are independent. The members currently are Mr. Chen Jun, Mr. Wilhelm, Louis Hubner, Mr. He Yi, Mr. Desmond Murray and Ms. Karen Yifen Chang. Ms. Karen Yifen Chang, an independent non-executive Director, is the Chairman of the Remuneration Committee.

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.

Purchase, Sale and Redemption of the Company's Listed Securities

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Annual General Meeting ("AGM")

The 2019 AGM will be held on 17 May 2019 (Friday). A notice convening the AGM will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

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 AGM to be held on 17 May 2019 (Friday).

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).

Publication of 2018 Final Results and Annual Report of the Company

The final results announcement of the Company is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.sunartretail.com). The Annual Report of the Company for the year ended 31 December 2018 will be dispatched to the shareholders of the Company and make available for review on the aforesaid websites in due course.

By order of the Board
Sun Art Retail Group Limited
Ludovic, Frédéric, Pierre HOLINIER
Executive Director
and
Chief Executive Officer

For purpose of this announcement, the exchange rate of HKD1 = RMB0.8530 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rates or any other rates or at all on the date or dates in question or any other date.

Hong Kong, 1 March 2019

As at the date of this announcement, the Directors of the Company are:

Executive Directors:
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