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SUN ART

Retail Group Limited

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 2019

HIGHLIGHTS OF ANNUAL RESULTS

	For the year ended 31 December		
	2019	2018	Change
	<i>(Restated) ⁽¹⁾</i>		
	<i>RMB million</i>		
Gross Sales Proceeds ⁽²⁾	101,868	101,315	0.5%
Revenue	95,357	99,359	(4.0)%
Gross Profit	25,731	25,119	2.4%
Profit from Operations	4,890	4,698	4.1%
Profit for the Year	3,045	2,700	12.8%
Profit Attributable to Equity Shareholders of the Company	2,834	2,478	14.4%
Earnings Per Share (“EPS”) – Basic and diluted ⁽³⁾	RMB0.30	RMB0.26	
	As at 31 December		
	2019	2018	Change
	<i>(Restated) ⁽¹⁾</i>		
	<i>RMB million</i>		
Total Assets	71,186	69,875	1.9%
Total Liabilities	45,828	46,226	(0.9)%
Net Assets	25,358	23,649	7.2%
Net Cash Position ⁽⁴⁾	13,267	13,483	(1.6)%

Note:

- (1) The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 3.
- (2) 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 20.
- (3) The calculation of basic and diluted EPS for the year ended 31 December 2019 and 2018 is based on the weighted average number of 9,539,704,700 ordinary shares in issue during each year.
- (4) The balance of net cash position is calculated as the sum of cash and cash equivalents and short-term investments and time deposits minus bank loans.

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 2019, together with the comparative figures for the year ended 31 December 2018 which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) as below.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019 – Audited

		Year ended 31 December 2019	2018 Restated (Note)
	<i>Note</i>	RMB million	RMB million
Revenue	4	95,357	99,359
Cost of sales		(69,626)	(74,240)
Gross profit		25,731	25,119
Other income	5	1,489	1,743
Operating costs		(19,523)	(19,317)
Administrative expenses		(2,807)	(2,847)
Profit from operations		4,890	4,698
Finance costs	6(a)	(623)	(670)
Share of results of associates and joint ventures		(15)	(8)
Profit before taxation	6	4,252	4,020
Income tax	7(a)	(1,207)	(1,320)
Profit for the year		3,045	2,700
Other comprehensive income for the year		–	–
Total comprehensive income for the year		3,045	2,700
Profit attributable to:			
Equity shareholders of the Company		2,834	2,478
Non-controlling interests		211	222
Profit for the year		3,045	2,700
Total comprehensive income attributable to:			
Equity shareholders of the Company		2,834	2,478
Non-controlling interests		211	222
Total comprehensive income for the year		3,045	2,700
Earnings per share			
Basic and diluted	8	RMB0.30	RMB0.26

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019 – Audited

		At 31 December		As 1 January
		2019	2018	2018
			Restated	Restated
			(Note)	(Note)
Note	RMB million	RMB million	RMB million	RMB million
Non-current assets				
Investment properties		6,699	7,049	6,993
Other property, plant and equipment		28,572	31,104	32,941
		35,271	38,153	39,934
Intangible assets		25	39	51
Goodwill		99	99	126
Equity-accounted investees		17	41	25
Deferred tax assets		1,052	942	902
		36,464	39,274	41,038
Current assets				
Inventories	10	17,724	14,468	14,201
Trade and other receivables	11	2,962	2,649	2,998
Investments and time deposits		16	15	133
Restricted deposits	16	769	–	–
Cash and cash equivalents	12	13,251	13,469	10,362
		34,722	30,601	27,694
Current liabilities				
Trade and other payables	13	25,827	26,442	26,640
Lease liabilities	14	1,057	1,048	997
Contract liabilities	15	10,669	9,107	8,514
Bank loans		–	1	2
Income tax payables	7(c)	459	549	565
		38,012	37,147	36,718
Net current liabilities		(3,290)	(6,546)	(9,024)
Total assets less current liabilities		33,174	32,728	32,014

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION(CONTINUED)

At 31 December 2019 – Audited

		At 31 December		As 1 January
		2019	2018	2018
			<i>Restated</i>	<i>Restated</i>
			<i>(Note)</i>	<i>(Note)</i>
	<i>Note</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Non-current liabilities				
Lease liabilities	14	7,511	8,822	9,624
Bank loans		–	–	1
Other financial liabilities		50	50	50
Deferred tax liabilities		255	207	124
		<u>7,816</u>	<u>9,079</u>	<u>9,799</u>
Net assets		<u>25,358</u>	<u>23,649</u>	<u>22,215</u>
Capital and reserves				
Share capital		10,020	10,020	10,020
Reserves		13,905	12,267	11,027
Total equity attributable to equity shareholders of the Company		23,925	22,287	21,047
Non-controlling interests		<u>1,433</u>	<u>1,362</u>	<u>1,168</u>
Total equity		<u>25,358</u>	<u>23,649</u>	<u>22,215</u>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 3.

NOTES:

1. STATEMENT OF COMPLIANCE

Sun Art Retail Group Limited is a company incorporated in Hong Kong on 13 December 2000 with limited liability. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 27 July 2011.

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 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 2019 and 2018 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 2018 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 2019 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 2019 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 online sales channels 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 new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the full retrospective approach and has therefore applied the new standards retrospectively to the comparative information for each prior reporting period presented, utilizing the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Impacts on the consolidated financial position, and the financial results are summarised as follows:

(i) Consolidated statement of financial position

Impact on the consolidated statements of financial position (increase/(decrease)):

	At 1 January 2018		
	Previously reported RMB million	Adjustments RMB million	Restated RMB million
Non-current assets			
Investment properties	3,503	3,490	6,993
Other property, plant and equipment	21,556	11,385	32,941
Land use rights	5,759	(5,759)	–
	<u>30,818</u>	<u>9,116</u>	<u>39,934</u>
Intangible assets	51	–	51
Goodwill	126	–	126
Equity-accounted investees	25	–	25
Trade and other receivables	240	(240)	–
Deferred tax assets	455	447	902
	<u>31,715</u>	<u>9,323</u>	<u>41,038</u>

3. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(i) Consolidated statement of financial position (continued)

Impact on the consolidated statements of financial position (increase/(decrease))(continued):

	At 1 January 2018		
	Previously reported RMB million	Adjustments RMB million	Restated RMB million
Current assets			
Inventories	14,201	–	14,201
Trade and other receivables	3,326	(328)	2,998
Investments and time deposits	133	–	133
Cash and cash equivalents	10,362	–	10,362
	<u>28,022</u>	<u>(328)</u>	<u>27,694</u>
Current liabilities			
Trade and other payables	26,932	(292)	26,640
Lease liabilities	–	997	997
Contract liabilities	8,514	–	8,514
Bank loans	2	–	2
Income tax payables	565	–	565
	<u>36,013</u>	<u>705</u>	<u>36,718</u>
Net current liabilities	<u>(7,991)</u>	<u>(1,033)</u>	<u>(9,024)</u>
Total assets less current liabilities	<u>23,724</u>	<u>8,290</u>	<u>32,014</u>
Non-current liabilities			
Lease liabilities	–	9,624	9,624
Bank loans	1	–	1
Other financial liabilities	50	–	50
Deferred tax liabilities	124	–	124
	<u>175</u>	<u>9,624</u>	<u>9,799</u>
Net assets	<u>23,549</u>	<u>(1,334)</u>	<u>22,215</u>
Capital and reserves			
Share capital	10,020	–	10,020
Reserves	12,295	(1,268)	11,027
Total equity attributable to equity shareholders of the Company	22,315	(1,268)	21,047
Non-controlling interests	<u>1,234</u>	<u>(66)</u>	<u>1,168</u>
Total equity	<u>23,549</u>	<u>(1,334)</u>	<u>22,215</u>

3. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(i) Consolidated statement of financial position (continued)

Impact on the consolidated statements of financial position (increase/(decrease))(continued):

	At 31 December 2018		
	Previously reported RMB million	Adjustments RMB million	Restated RMB million
Non-current assets			
Investment properties	3,718	3,331	7,049
Other property, plant and equipment	20,386	10,718	31,104
Land use rights	5,843	(5,843)	–
	<u>29,947</u>	<u>8,206</u>	<u>38,153</u>
Intangible assets	39	–	39
Goodwill	99	–	99
Equity-accounted investees	41	–	41
Trade and other receivables	185	(185)	–
Deferred tax assets	455	487	942
	<u>30,766</u>	<u>8,508</u>	<u>39,274</u>
Current assets			
Inventories	14,468	–	14,468
Trade and other receivables	3,061	(412)	2,649
Time deposits	15	–	15
Cash and cash equivalents	13,469	–	13,469
	<u>31,013</u>	<u>(412)</u>	<u>30,601</u>
Current liabilities			
Trade and other payables	26,764	(322)	26,442
Lease liabilities	–	1,048	1,048
Contract liabilities	9,107	–	9,107
Bank loans	1	–	1
Income tax payables	549	–	549
	<u>36,421</u>	<u>726</u>	<u>37,147</u>
Net current liabilities	<u>(5,408)</u>	<u>(1,138)</u>	<u>(6,546)</u>
Total assets less current liabilities	<u>25,358</u>	<u>7,370</u>	<u>32,728</u>

3. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(i) Consolidated statement of financial position (continued)

Impact on the consolidated statements of financial position (increase/(decrease))(continued):

	At 31 December 2018		
	Previously reported RMB million	Adjustments RMB million	Restated RMB million
Non-current liabilities			
Lease liabilities	–	8,822	8,822
Other financial liabilities	50	–	50
Deferred tax liabilities	207	–	207
	<u>257</u>	<u>8,822</u>	<u>9,079</u>
Net assets	<u>25,101</u>	<u>(1,452)</u>	<u>23,649</u>
Capital and reserves			
Share capital	10,020	–	10,020
Reserves	13,645	(1,378)	12,267
Total equity attributable to equity shareholders of the Company	23,665	(1,378)	22,287
Non-controlling interests	<u>1,436</u>	<u>(74)</u>	<u>1,362</u>
Total equity	<u>25,101</u>	<u>(1,452)</u>	<u>23,649</u>

(ii) Impact on the financial result (increase/(decrease))

After the retrospective recognition of right-of-use assets and lease liabilities for the current year and each prior reporting period, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operation in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during 2018.

3. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(ii) Impact on the financial result (increase/(decrease)) (continued)

The following tables summarise the impact of the adoption of HKFRS 16 on the Group's financial result for the year ended 31 December 2018 (increase/(decrease)):

	Year ended 31 December 2018			
	Previously reported A RMB million	Add back: operating lease expenses under HKAS 17 B RMB million	Deduct: HKFRS 16 depreciation and interest expenses C RMB million	Restated D=A+B+C RMB million
Line items in the financial results impacted by the adoption of HKFRS 16:				
Operating cost	(19,815)	1,714	(1,216)	(19,317)
Administrative expense	(2,851)	21	(17)	(2,847)
Profit from operations	4,196	1,735	(1,233)	4,698
Finance costs	(10)	–	(660)	(670)
Profit before taxation	4,178	1,735	(1,893)	4,020
Income tax	(1,360)	(6)	46	(1,320)
Profit for the year	2,818	1,729	(1,847)	2,700
Equity shareholders of the Company	2,588	1,639	(1,749)	2,478
Non-controlling interests	230	90	(98)	222
Earnings per share				
Basic and diluted	RMB0.27			RMB0.26

(iii) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation (“**Leasehold investment properties**”).

(iv) Lessor accounting

The Group leases out certain areas within hypermarket buildings as investment properties as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements in this regard.

4. REVENUE AND SEGMENT REPORTING

The principal activity of the Group is the operation of hypermarkets and online sales channels in the People's Republic of China ("PRC").

The Group is organised, for management purpose, into business units based on the banner under which the hypermarkets and online sales channels are operated. As all of the Group's hypermarkets and online sales channels 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 online sales channels 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	
	2019	2018
	RMB million	RMB million
Revenue from contracts with customers within the scope of HKFRS 15 – sales of goods	91,279	95,551
Revenue from other sources		
gross rents from property leases		
– lease payments that are fixed or depend on an index or a rate	3,790	3,528
– variable lease payments that do not depend on an index or a rate	288	280
	95,357	99,359

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

5. OTHER INCOME

	Year ended 31 December	
	2019	2018
	RMB million	RMB million
Income from aged unutilised prepaid cards	192	333
Service income	486	427
Disposal of packaging materials	167	310
Interest income on financial assets measured at amortised cost	462	473
Government grants	182	200
	1,489	1,743

6. PROFIT BEFORE TAXATION

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

(a) Finance costs

	Year ended 31 December	
	2019	2018
		(Note)
	<i>RMB million</i>	<i>RMB million</i>
Interest expense on bank loans and other financial liabilities	8	10
Interest on lease liabilities	615	660
	<u>623</u>	<u>670</u>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 3.

(b) Staff costs

	Year ended 31 December	
	2019	2018
	<i>RMB million</i>	<i>RMB million</i>
Salaries, wages and other benefits	9,255	8,893
Contributions to defined contribution retirement plans (i)	1,062	1,121
Contributions to Employee Trust Benefit Schemes (ii)	372	335
Share-based payments (iii)	(20)	1
	<u>10,669</u>	<u>10,350</u>

(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.

(ii) Contributions to Employee Trust Benefit Schemes

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

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

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

(iii) Share-based payments

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. RMB16 million has been recognised as a credit to staff cost expense in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 (RMB1 million staff cost expense for the year ended 31 December 2018).

In addition to the above, share-based payments includes RMB4 million credit (2018: nil) in respect of expired 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.

(c) Other items

	Year ended 31 December 2019	2018 (Note)
	RMB million	RMB million
Cost of inventories	69,584	74,175
Depreciation		
– owned property, plant and equipment	2,944	2,952
– right-of-use assets	1,438	1,482
	4,382	4,434
Amortisation cost of intangible assets	22	24
Impairment losses		
– other property, plant and equipment including right-of-use assets	197	288
– intangible assets	1	–
– goodwill	–	27
– investment in an associate	12	–
	210	315
Lease payments not included in the measurement of lease liabilities relating to:		
– variable leases	811	851
– short-term leases and leases of low value assets	390	377
	1,201	1,228
Loss/(gain) on disposal of property, plant and equipment and intangible assets including disposal of right-of-use assets and lease liabilities	30	(43)
Net foreign exchange gain	(25)	(4)
Auditors' remuneration		
– audit services	24	25
– non-audit services	1	1
Donations	–	1
Rental income from property leases		
– gross rental income (including property management fee)	(4,078)	(3,808)
– direct operating expenses	42	65
Net rental income from property leases	(4,036)	(3,743)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 3.

7. INCOME TAX

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

	Year ended 31 December	
	2019	2018
		(Note)
	RMB million	RMB million
Current tax – Hong Kong Profits Tax		
Provision for the year	2	–
Current tax – PRC income tax		
Provision for the year	1,273	1,284
Over-provision in respect of prior years	(6)	(7)
Deferred tax		
(Origination)/Reversal of temporary differences	(62)	43
	1,207	1,320

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 3.

- (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 (2018: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.
- (ii) PRC subsidiaries are subject to income tax of between 15% and 25% for the year ended 31 December 2019 (2018: 15% and 25%) under the Enterprise Income Tax law (“**EIT law**”).
- (iii) The EIT law and its relevant regulations also impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, on dividend distributions made out of the PRC from earnings accumulated from 1 January 2008.

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 RMB62 million withholding tax in relation to the dividends declared by certain of its subsidiaries to outside of the Mainland of China for 2019 (2018: RMB63 million).

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	
	2019	2018
	RMB million	RMB million
Profit before taxation	4,252	4,020
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%	1,063	1,005
Non-deductible expenses, less non-assessable income	28	14
PRC dividend withholding tax	62	63
Current year losses for which no deferred tax asset was recognised	224	189
Temporary differences for which no deferred tax asset was recognised	25	54
Utilisation of previously unrecognised tax losses	(61)	(46)
Utilisation of previously unrecognised temporary differences	(43)	–
Recognition of previously unrecognised tax losses	(59)	–
Recognition of previously unrecognised temporary differences	(25)	(9)
Reversal of previously recognised deferred tax assets	16	64
Statutory tax concessions	(17)	(7)
Over-provision in respect of prior years	(6)	(7)
Actual tax expenses	1,207	1,320

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 3.

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

	Year ended 31 December	
	2019	2018
	RMB million	RMB million
Balance at beginning of the year	549	565
Over-provision in respect of prior years	(6)	(7)
Provision for current income tax for the year	1,275	1,284
Payments during the year	(1,359)	(1,293)
Income tax payables at the end of the year	459	549

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB2,834 million (2018: RMB2,478 million) (Note) and the weighted average of 9,539,704,700 ordinary shares (2018: 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.

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 3.

9. DIVIDENDS

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

	2019 <i>RMB million</i>	2018 <i>RMB million</i>
Final dividend proposed after the end of the reporting period of HKD0.15 (equivalent to RMB0.14) per ordinary share (2018: HKD0.14 (equivalent to RMB0.12) per ordinary share)	<u><u>1,290</u></u>	<u><u>1,139</u></u>

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 HKD0.14 (equivalent to RMB0.12) per ordinary share in respect of the year ended 31 December 2018 was approved on 17 May 2019, and the payment was made in June 2019 for an amount equivalent to RMB1,171 million.

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.

10. INVENTORIES

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

	At 31 December 2019 <i>RMB million</i>	2018 <i>RMB million</i>
Trading merchandise	<u><u>17,724</u></u>	<u><u>14,468</u></u>

- (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 2019 <i>RMB million</i>	2018 <i>RMB million</i>
Carrying amount of inventories sold	69,614	74,133
(Reversal of write down)/write down of inventories	<u>(30)</u>	<u>42</u>
	<u><u>69,584</u></u>	<u><u>74,175</u></u>

All inventories are expected to be sold within one year.

11. TRADE AND OTHER RECEIVABLES

	At 31 December	
	2019	2018
	<i>RMB million</i>	<i>RMB million</i>
Trade receivables	423	372
Amounts due from related parties	333	128
Value-added tax recoverable	1,049	892
Prepayments:		
– rentals	345	378
– property, plant and equipment and intangible assets	74	42
Other debtors	738	837
Trade and other receivables	2,962	2,649

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 3.

The Group's trade receivables relate to credit card sales and sales through online sales channels, 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 mainly represent prepayments for variable rent and deposits which may be offset against future rentals due to landlords of hypermarket premises leased by the Group in accordance with the related 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. CASH AND CASH EQUIVALENTS

	At 31 December	
	2019	2018
	<i>RMB million</i>	<i>RMB million</i>
Deposits with banks within three months of maturity	875	175
Cash at bank and on hand	4,324	5,686
Other financial assets and cash equivalents	8,052	7,608
Cash and cash equivalents in the consolidated statement of financial position	13,251	13,469

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.

13. TRADE AND OTHER PAYABLES

	At 31 December 2019	2018 (Note)
	<i>RMB million</i>	<i>RMB million</i>
Trade payables	18,267	18,588
Amounts due to related parties	217	297
Construction costs payable	902	1,273
Dividends payable to non-controlling interests	202	193
Accruals and other payables	6,239	6,091
Trade and other payables	25,827	26,442

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 3.

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

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

	At 31 December 2019	2018
	<i>RMB million</i>	<i>RMB million</i>
Within six months	17,999	18,293
After six months but within 12 months	268	295
	18,267	18,588

14. LEASE LIABILITIES

The following table shows the remaining maturities of the Group's reasonably certain lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	At 31 December 2019		At 31 December 2018	
	Present value of the minimum lease payments <i>RMB million</i>	Total minimum lease payments <i>RMB million</i>	Present value of the minimum lease payments <i>RMB million</i>	Total minimum lease payments <i>RMB million</i>
Within 1 year	1,057	1,634	1,048	1,659
After 1 year but within 2 years	1,099	1,563	1,158	1,724
After 2 years but within 5 years	2,442	3,504	3,513	4,673
After 5 years	3,970	5,290	4,151	5,584
	7,511	10,357	8,822	11,981
	8,568	11,991	9,870	13,640
Less: total future interest expenses		(3,423)		(3,770)
Present value of lease liabilities		8,568		9,870

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 3.

15. CONTRACT LIABILITIES

		At 31 December	
		2019	2018
		<i>RMB million</i>	<i>RMB million</i>
Prepaid cards	(i)	9,944	8,690
Advance receipts from customers for sales of merchandise	(ii)	705	404
Customer loyalty program points liability	(iii)	20	13
Contract liabilities		<u>10,669</u>	<u>9,107</u>

- (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.

16. RESTRICTED DEPOSITS

		At 31 December	
		2019	2018
		<i>RMB million</i>	<i>RMB million</i>
Restricted deposits		<u>769</u>	<u>—</u>

Restricted deposits represent deposits based on unutilised prepaid cards balance and stipulated by PRC authorities in certain regions to be held in specified bank accounts with restricted usage.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and Gross Sales Proceeds

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 online sales channels where merchandise, mainly food, groceries, textile and general goods, are made available 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 the revenue from sales of goods and rental income for the years indicated:

	Year ended 31 December		Change
	2019 (RMB million)	2018	
Gross sales proceeds	101,868	101,315	0.5%
Revenue	95,357	99,359	(4.0)%
– Revenue from sales of goods	91,279	95,551	(4.5)%
– Rental income from tenants	4,078	3,808	7.1%

Gross sales proceeds, cash collected from sales generated at our hypermarkets, was RMB101,868 million for the year ended 31 December 2019, representing an increase of RMB553 million, or 0.5%, from RMB101,315 million for the for year ended 31 December 2018.

For the year ended 31 December 2019, revenue from sales of goods was RMB91,279 million, representing a decrease of RMB4,272 million, or 4.5%, from RMB95,551 million for the year ended 31 December 2018. In our electronic appliance department, the business model has changed from self-operation to consignment with Suning from August 2018. Since then, only consignment fees received have been recognized in revenue instead of gross sales proceeds.

For the year ended 31 December 2019, the Same Store Sales Growth⁽¹⁾ (“SSSG”) calculated on sales of goods excluding electronic appliances was -1.01%. From the beginning of 2019, our stores under both RT-Mart and Auchan banners have started to integrate their operating systems and supply chains. During the convergence process, Auchan stores had experienced changes in product mix, supplier structure and operating process. Currently, the convergence has been substantially completed and we expect the store performance to be back on track in 2020. The SSSG of stores under RT-Mart banner, calculated on sales of goods excluding electronic appliances, was positive.

Notes:

- (1) Same store sales growth: For stores opened over 12 full months as of 31 December 2019, we calculated and compared the sales derived in those stores from their opening month to the end of year 2018 with the same period in year 2019.

Our store-based online to offline (“O2O”) business model has proved to be robust after one-year’s development and contributed to our sales growth in the food sector. While the non-food sector continued to face intensive competition from different channels.

For the year ended 31 December 2019, the Group continued to expand in various areas of China and opened seven new stores, bringing the total number of stores to 486 after accounting for 5 closed stores.

For the year ended 31 December 2019, revenue from rental income was RMB4,078 million, representing an increase of RMB270 million, or 7.1%, from RMB3,808 million for the year ended 31 December 2018. 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 tenant mix.

Gross Profit

For the year ended 31 December 2019, gross profit was RMB25,731 million, representing an increase of RMB612 million, or 2.4%, from RMB25,119 million for the year ended 31 December 2018. The gross profit margin, calculated on gross sales proceeds, for the year ended 31 December 2019 was 25.3%, representing an increase of 0.5 percentage point from 24.8% for the year ended 31 December 2018. The Group has been working continuously to optimise product mix in order to improve the gross profit margin. The consolidation of supply chain between the two banners had positive impact on gross profit margin.

Other Income

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

For the year ended 31 December 2019, other income was RMB1,489 million, representing a decrease of RMB254 million, or 14.6%, from RMB1,743 million for the year ended 31 December 2018. The decrease was primarily attributable to: (1) a decrease of RMB141 million in income from the release of aged unutilised balances on prepaid cards; and (2) a decrease in the disposal of packaging materials of RMB143 million which mainly resulted from the decreased sales price of cardboard boxes in 2019.

Operating Costs

Operating costs represent the costs attributable to the operations of the stores and O2O business. Operating costs primarily consist of personnel expenses, operating lease charges, expenses for utilities, maintenance, advertising, cost of order fulfillment and delivery together with the depreciation of property, plant and equipment.

For the year ended 31 December 2019, operating costs were RMB19,523 million, representing an increase of RMB206 million, or 1.1%, from RMB19,317 million (restated) for the year ended 31 December 2018.

The increase was primarily attributable to the development of the business including the on-going expansion of the hypermarket network and the development of the O2O business which required investment in personnel and other related projects. Meanwhile, the Group followed government guidance on the increase in the minimum wage for staff. These developments led to the increase in personnel expenses, operating lease charges and depreciation of property, plant and equipment and other operating expenses.

Expressed as a percentage, the amount of operating costs for the year ended 31 December 2019 as of the gross sales proceeds in the year of 2019 was 19.2%, representing an increase of 0.1 percentage points, from 19.1%, the restated percentage, for the year ended 31 December 2018.

Administrative Expenses

Administrative expenses primarily consist of personnel expenses, travelling expenses, depreciation of property, plant and equipment and other expenses for the administrative departments. For the year ended 31 December 2019, administrative expenses were RMB2,807 million, representing a decrease of RMB40 million, or 1.4%, from RMB2,847 million restated for the year ended 31 December 2018.

Expressed as a percentage, the amount of administrative expenses for the year ended 31 December 2019 as of the gross sales proceeds for the year of 2019 was 2.8%, which was the same as the restated percentage for the year ended 31 December 2018.

Profit from Operations

For the year ended 31 December 2019, the profit from operations was RMB4,890 million, representing an increase of RMB192 million, or 4.1%, from RMB4,698 million restated for the year of 2018. By adopting HKFRS 16, additional depreciation expenses, amounting to RMB1,237 million for the year ended 31 December 2019 and RMB1,280 million for the year ended 31 December 2018, were recognized on the right-of-use assets capitalised over the lease contract duration period, replacing the operating lease charges originally recognized, amounting to RMB1,739 million for the year ended 31 December 2019 and RMB1,735 million for the year ended 31 December 2018.

Had the impact of HKFRS 16 adoption been excluded for both years, the amount of profit from operations for the year ended 31 December 2019 would have been RMB4,365 million, an increase of RMB169 million, or 4.0%, from RMB4,196 million for the year ended 31 December 2018. Accordingly, the related operating margin, calculated on gross sales proceeds, would have been 4.3%, an increase of 0.2 percentage point, from 4.1% of the year ended 31 December 2018, which was mainly attributable to the improved gross profit margin.

Finance Costs

Finance costs primarily consist of the interest expenses on borrowings and lease liabilities. For the year ended 31 December 2019, the finance costs were RMB623 million, representing a decrease of RMB47 million, or 7.0%, from RMB670 million restated for the year ended 31 December 2018. By adopting HKFRS 16, additional interest expenses of RMB615 million for the year ended 31 December 2019, and RMB660 million for the year ended 31 December 2018 were recognized on the lease liabilities calculated at the present value of future payments over the lease contracts duration.

Had the impact of HKFRS 16 adoption been excluded for both years, the amount of financial costs for the year ended 31 December 2019 would have been RMB8 million, which was at the similar level as that for the year ended 31 December 2018.

Income Tax

For the year ended 31 December 2019, income tax expense was RMB1,207 million, representing a decrease of RMB113 million, or 8.6%, from RMB1,320 million restated for the year ended 31 December 2018. By adopting HKFRS 16, all additional deferred tax credit of RMB23 million for the year ended 31 December 2019, and RMB40 million for the year ended 31 December 2018 were recognized on the additional temporary differences subject to tax.

Had the impact of HKFRS 16 adoption been excluded for both years, the amount of income tax for the year ended 31 December 2019 would have been RMB1,230 million, a decrease of RMB130 million, or 9.6% from RMB1,360 million for the year ended 31 December 2018. The related effective tax rate would have been 28.3%, a decrease of 4.3 percentage points from 32.6% for the year ended 31 December 2018. The decrease in effective tax rate was attributable to the utilisation of previously unrecognised tax losses generated by certain legal entities, which were established in prior years since those legal entities started to generate profits to recover those losses.

Profit for the Year

For the year ended 31 December 2019, profit for the year was RMB3,045 million, representing an increase of RMB345 million, or 12.8%, from RMB2,700 million restated for the year ended 31 December 2018.

In summary, the adoption of HKFRS 16 under full retrospective method resulted in a profit decrease of RMB67 million for the year ended 31 December 2019 and RMB118 million for the year ended 31 December 2018.

Had the impact of HKFRS 16 been excluded for both years, the amount of profit for the year ended 31 December 2019 would have been RMB3,112 million, representing an increase of RMB294 million, or 10.4%, from RMB2,818 million for the year ended 31 December 2018. The related net profit margin, calculated on gross sales proceeds, for the year ended 31 December 2019 would have been 3.1%, increasing by 0.3 percentage point, from 2.8% of the year ended 31 December 2018.

Profit Attributable to Equity Shareholders of the Company

For the year ended 31 December 2019, the profit attributable to equity shareholders of the Company was RMB2,834 million, representing an increase of RMB356 million, or 14.4%, from RMB2,478 million restated for the year ended 31 December 2018.

Profit Attributable to Non-Controlling Interests

For the year ended 31 December 2019, the profit attributable to non-controlling interests was RMB211 million, representing a decrease of RMB11 million, or 5.0%, from RMB222 million restated for the year ended 31 December 2018. 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 Runhe Internet Technology Co., Ltd.

Liquidity and Financial Resources

For the year ended 31 December 2019, cash flow generated from operating activities was RMB4,605 million, representing a decrease of RMB3,548 million among which RMB769 million was related to restricted deposits, or 43.5%, from RMB8,153 million restated for the year ended 31 December 2018.

By adopting HKFRS 16, regular settlements under store lease contracts were treated as the payment of lease liabilities under financing activities, which led to the decrease of cash outflows from operating activities by RMB1,701 million for the year ended 31 December 2019 and RMB1,736 million for the year ended 31 December 2018.

For the year ended 31 December 2019, the inventory turnover days and trade payable turnover days were 85 days and 97 days, respectively, compared to 71 days and 94 days for the year ended 31 December 2018.

As of 31 December 2019, net current liabilities decreased to RMB3,290 million from RMB6,546 million restated as of 31 December 2018. This decrease was primarily attributed to (i) an increase in the current assets of RMB4,121 million, related to the increased stock level as at 31 December 2019, and the increase in restricted deposits; and (ii) an increase in current liabilities of RMB865 million mainly from the increased balance of prepaid cards of RMB1,254 million. The increase in current assets was greater than the increase in current liabilities, which resulted in an decrease to net current liabilities.

Investing activities

For the year ended 31 December 2019, cash flow used in investing activities was RMB1,808 million, representing a decrease of RMB301 million, or 14.3%, from RMB2,109 million restated for the year ended 31 December 2018.

The cash flow used in investing activities mainly reflected the capital expenditure of RMB1,871 million in respect of the development of new stores and the remodelling of existing stores.

Financing activities

For the year ended 31 December 2019, cash flow used in financing activities was RMB3,015 million, with an increase of RMB78 million, or 2.7%, from RMB2,937 million restated for the year ended 31 December 2018.

By adopting HKFRS 16, the regular settlement under store lease contracts was defined as “capital element of lease rents paid” and “interest element of lease rents paid” under cash used in financing activities. The amounts settled for the year ended 31 December 2019 and for the year ended 31 December 2018 were RMB1,701 million and RMB1,736 million, respectively.

Had the impact of HKFRS 16 adoption been excluded for both years, the cash used in financing activities for the year ended 31 December 2019 would have been RMB1,314 million, an increase of RMB113 million, or 9.4%, from RMB1,201 million for the year ended 31 December 2018. The level of cash flows under financing activities remained stable.

Dividends

The Board proposed a final dividend of HKD0.15 (equivalent to RMB0.14) per ordinary share (the “**Final Dividend**”) for the year ended 31 December 2019, amounting to approximately HKD1,431 million (equivalent to RMB1,290 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 32.

BUSINESS REVIEW

Operating Environment

During 2019, China’s gross domestic product (“**GDP**”) growth slowed down from 6.6% in 2018 to 6.1%, amounting to approximately RMB99,086.5 billion, primarily driven by the deleveraging of the economy. The overall consumer price index (“**CPI**”) was up by 2.9% compared to 2018, of which the food CPI was up by 9.2%, driven mainly by a sharp increase in pork CPI of 42.5% (especially from August 2019), bringing an increase in the meat CPI of 29.1% (of which beef CPI increased by 12.1% and lamb CPI increased by 11.9%). The Non-food CPI observed a minimal increase of 1.4%.

Total retail sales of consumer goods in China reached RMB41,164.9 billion, representing a growth of 8.0% year on year. Although the growth speed is slowing down, it still enjoys high single-digit growth. Sales of catering services achieved RMB4,672.1 billion, a growth of 9.4% compared to 2018. National online retail sales reached RMB10,632.4 billion, an increase of 16.5%. Online physical goods retail sales for the year 2019 amounted to RMB8,532.9 billion, representing an increase of 19.5%, slowed down but accounting for more than 20% of total retail sales.

Online Business Follow a Steady Growth

In 2019, the gross sales proceeds of Group’s O2O business (online to offline business) was nearly 90% higher than that of last year. We expect that the proportion of online sales will continue to increase in the future.

B2C Business

At present, customers can choose one-hour-delivery-to-home service through our own mobile applications (“**RT mart Fresh**” and “**Auchan Daojia**”), and through the platform entrances of our partners such as Taoxianda, Eleme or Tmall supermarket. These can serve customers within 5-kilometer radius of the stores.

After a year of development, the current number of B2C users has exceeded 33 million, and the number of active users is more than 10 million. Daily Order per Store (“**DOPS**”) and ticket size continue to grow steadily. Taking “double 11” day as an example, the total order volume was doubled compared to last year, exceeding our expectation, and our on-time delivery rate was above 99.5%.

The one-hour-delivery-to-home service has met the needs of younger customers’ consumption habits and had been driven by changes in customer’s lifestyle.

The success of our one-hour-delivery-to-home business derives from our national supply chain and store network, our “two-in-one” model i.e. integrated by store and warehouse, superior store management capacity, delivery fulfilment capacity and ongoing improvement of customers’ experience.

B2B Business

Our B2B business is another way to leverage the strength of our supply chain and store network.

In 2019, B2B business revenue increased by approximately 50% compared to the corresponding period of 2018. We expect that the revenue of our B2B business will be further expanded in 2020.

At present, we had the excess of 530,000 existing users in our B2B business. Active users are close to 240,000 and the ticket size is more than RMB1,000. The main clients are wholesalers, retailers and corporates, along with catering businesses, canteens, entertainment and accommodation businesses.

In the future, our B2B team will further develop the operating model to satisfy the requirements of different types of customers. We will continue to engage with potential clients, improve the penetration within our service radius and deepen the collaboration with our existing clients.

Restructuring of Hypermarket Showed Remarkable Results

In 2019, we restructured ten stores, including five in Shanghai, one in Suzhou, one in Jinan, one in Shenyang, one in Wuhan and one in Guangzhou. Judging from the earliest pilot stores, significant improvement in SSSG has been observed. This was especially true for the SSSG of fresh products division, with an average of double-digit growth.

In 2020, we will accelerate the restructuring initiative and upgrade 50 existing stores.

Restructuring the hypermarket includes reconstructing our functions, our categories and our mindset. In addition to featuring a more vibrant shopping environment and more professional displays, the restructuring focuses on differentiated selection and combination of offerings. We endeavor to become experts in the field of fresh and foods and to create a hypermarket with the New Retail concept that delivers professional, fashionable goods that represent value for money.

We aim to encourage more young customers to experience our stores. The information regarding online customer profiles enables us to better understand the needs of young customers. This helps us to optimize our offerings, and reinvents reasons for customers to visit physical stores.

Tmall Supermarket Inventory Sharing is Ready

Based on LBS (location based services) technology, the “Tmall Supermarket Inventory Sharing” (“**Inventory Sharing**”) initiative enables stores to serve customers within a radius of 5-20 kilometers.

Customers within 5 kilometers can be served by a one-hour delivery service, and customers within 5-20 kilometers can be served by a “half-day delivery” service. Facing the pressure from peer competition while offline customer footfall is being diluted, our “half-day delivery” service gives us an opportunity to expand our business radius and create incremental revenue for the Group.

By the end of September 2019, all Sun Art stores had launched a one-hour-delivery-to-home service from the “Inventory Sharing” initiative.

Since October 2019, 178 stores have rolled out our “half-day delivery” service. Due to the larger service radius of our “half-day delivery” service, a total of 280 selected stores are planned to provide this service. We expect this initiative will be rolled out to all selected stores before the end of May 2020.

At present, our half-day-delivery service can provide approximately 20,000 Stock Keeping Units (“SKUs”), mainly Fast Moving Consumer Goods (“FMCG”) and daily necessity products. In the future, we expect to gradually expand our half-day-delivery service to fresh products.

Further deepen the integration to become Future Growth Momentum for both Revenue and Profit

This year we have integrated headquarters, supply chain, assortment and distribution centers of the two banners RT-Mart and Auchan. In terms of store operation and management under the Auchan banner, we have completed the I.T. system switch, store layout amendment and realized changes to organizational structure.

After a year of integration, headquarters costs under the Auchan banner have been reduced significantly, and the gross profit margin has been rising month by month. The benefits of integration has been greatly improved.

In 2020, we will further deepen the integration, improve revenue and gross profit, and reduce controllable expenses of stores. We believe that the performance of the Auchan stores will be further improved in the future.

Expansion Status

During 2019, the Group opened seven new hypermarket complexes, all of which were under the RT-Mart banner. Among the new stores, three were located in Eastern China, two were located in Central China and two were located in Southern China. For the year ended 31 December 2019, the Group closed five loss-making stores, of which one was located in Eastern China, one was located in Northern China, two were located in Central China and one was located in Southern China.

As of 31 December 2019, the Group had a total of 486 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, 29.7% of the GFA was in self-owned properties and 0.3% of the GFA was in Contracted Stores. Please refer to note 1 on page 28 for definitions of regional zones.

As of 31 December 2019, approximately 7.8% of the Group’s stores were located in first-tier cities, 16.5% in second-tier cities, 46.3% in third-tier cities, 21.6% in fourth-tier cities and 7.8% in fifth-tier cities. Please refer to note 2 on page 28 for definitions of tiers.

As of 31 December 2019, through the execution of lease contracts or acquisition of land plots, the Group had identified and secured 43 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 its site selection standards.

As of 31 December 2019, 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 2019)				Total GFA of hypermarket complexes (sq.m.) (As of 31 December 2019)			
	Auchan	RT-Mart	Total	Percentage	Auchan	RT-Mart	Total	Percentage
Eastern China	50	142	192	39%	2,046,857	3,422,510	5,469,367	42%
Northern China	4	46	50	10%	119,860	1,137,050	1,256,910	10%
Northeastern China	1	51	52	11%	32,033	1,413,972	1,446,005	11%
Southern China	4	86	90	19%	99,537	2,088,985	2,188,522	17%
Central China	8	68	76	16%	250,401	1,683,116	1,933,517	15%
Western China	5	21	26	5%	223,839	495,920	719,759	5%
Total	72	414	486	100%	2,772,527	10,241,553	13,014,080	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 2019, the Group had 146,683 employees.

As one of the core competitiveness of the Group, human resources will continue to strengthen the training and development of the employees and to provide them more promotion opportunities, hence to reserve sufficient talents for the future development of the Group.

Outlook

Having gone through initial years of development, Sun Art has transformed itself from a mere participant to the leader in the New Retail sector.

Thanks to the close collaboration with Alibaba, the bottleneck of physical stores has been removed, and a profitable O2O business model started to take shape. At the same time, by leveraging Alibaba's resources and technology, we are empowered to constantly explore new sales models, such as "Tmall Supermarket Inventory Sharing", "Group Purchase" and Supermarkets. By constantly diversifying the shopping scenarios and enhancing customer's shopping experience, we are driving our customers to adopt seamlessly into our retail ecosystem.

By leveraging off our digital tools, we have become more capable in serving online customers. This becomes the foundation of our long-term competitiveness.

At the same time, the physical stores have transformed from legacy hypermarkets to our "two-in-one model" of integrated store and warehouse. Our current system allows one unified supply chain to meet the needs of different sales channels, and all channels to share one unified inventory system. This not only enhances the efficiency of the supply chain, but also realizes the diversification of sales channels.

We hope 2020 to be the harvest year of our online business. We will center on multi-format and omni-channel development, comprehensive digital upgrading and transformation, acceleration in restructuring hypermarkets, and deepened integration of our two banners.

The prospects of 2020, however, have been affected by the disruption to life by the COVID-19 virus. The spread of COVID-19 virus has had a major impact on both market and the Group's operating environment in China. The Group's hypermarkets under both banners fall under the consumer necessity industry, and their operations have not been substantially impacted by the spread of the epidemic as of the date of this Announcement. However, as a result of cooperating with the government's measures implemented against the spread of the epidemic, some of our tenants renting our gallery space in hypermarket complexes have been required to temporarily suspend their operations. While some of these tenants have been permitted to reopen their businesses recently, we are continuing to discuss with relevant government departments the timing of the reopening of the other such businesses.

Management is closely monitoring the development of the COVID-19 situation. We expect to discuss with relevant parties the reopening of those businesses temporarily suspended in our galleries to minimize the loss of rental income. It is too early to say at this stage how 2020 will turn out but we will do all we can to support our customers and partners in this difficult time. Every effort is being made to mitigate the negative impact to the bottom line. We may also make further announcement when appropriate.

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 2019, save and except for the deviation of code provisions A.3, A.4.2 and C.3.7(a) of the CG Code.

Code provision A.3 provides that the Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement. Following the resignation of Mr. Ludovic, Frédéric, Pierre HOLINIER, the Board did not have any Executive Director and deviated from code provision A.3 of the CG Code. Details are set out in the interim report issued by the Company on 23 August 2019. On 11 December 2019, Mr. HUANG Ming-Tuan was appointed as an Executive Director of the Company. Reference is made to the announcement of the Company issued on 11 December 2019.

Code provision A.4.2 provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. In accordance with the Articles of Association of the Company, directors appointed to fill a casual vacancy shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Mrs. Isabelle, Claudine, Françoise BLONDÉ ép. BOUVIER was appointed by the Directors on 17 May 2019 and shall be eligible for re-election at the next following annual general meeting to be held in 2020 according to the Articles of Association of the Company.

Code provision C.3.7(a) provides that under the terms of reference of the audit committee (“**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 Director and 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 issues reported by any employee about improprieties in financial reporting, internal control and other matters.

Further information of the Corporate Governance practice 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 2019.

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 to 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 six non-executive Directors, four of whom are independent. The members currently are Mr. Xavier, Marie, Alain DELOM de MEZERAC, Mrs. Isabelle, Claudine, Françoise BLONDÉ ép. BOUVIER, Ms. Karen Yifen CHANG, Mr. Desmond MURRAY, Mr. HE Yi and Mr. Dieter YIH. 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 2019.

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 seven non-executive Directors, four of whom are independent. The members currently are Mr. Edgard, Michel, Marie BONTE, Mr. CHEN Jun, Mrs. Isabelle, Claudine, Françoise BLONDÉ ép. BOUVIER, Ms. Karen Yifen CHANG, Mr. Desmond MURRAY, Mr. HE Yi and Mr. Dieter YIH. 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 seven non-executive Directors, four of whom are independent. The members currently are Mr. Edgard, Michel, Marie BONTE, Mr. CHEN Jun, Mrs. Isabelle, Claudine, Françoise BLONDÉ ép. BOUVIER, Ms. Karen Yifen CHANG, Mr. Desmond MURRAY, Mr. HE Yi and Mr. Dieter YIH. Ms. Karen Yifen CHANG, an independent non-executive director, is the Chairperson 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 2019.

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

During the year ended 31 December 2019, 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 2020 AGM will be held on 12 May 2020 (Tuesday). 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 20 February 2020 (Thursday), the Directors proposed that a final dividend ("**Final Dividend**") of HKD0.15 (equivalent to RMB0.14) per ordinary share for the year ended 31 December 2019, amounting to approximately HKD1,431 million (equivalent to RMB1,290 million) be paid no later than 10 July 2020 (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 19 May 2020 (Tuesday). The proposed Final Dividend is subject to the approval by the shareholders of the Company at the forthcoming AGM to be held on 12 May 2020 (Tuesday).

Closure of Register of Members and Record Date

(a) For determining the entitlement to attend and vote at the 2020 AGM

The Company's register of members will be closed from 7 May 2020 (Thursday) to 12 May 2020 (Tuesday), 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 2020 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 6 May 2020 (Wednesday).

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

The proposed Final Dividend is subject to the approval of the shareholders at the 2020 AGM. For determining the entitlement to the proposed Final Dividend, the record date is fixed on 19 May 2020 (Tuesday). 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 19 May 2020 (Tuesday).

Publication of 2019 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 2019 will be dispatched to the shareholders of the Company and made available for review on the aforesaid websites in due course.

By order of the Board
Sun Art Retail Group Limited
HUANG Ming-Tuan
Executive Director and Chief Executive Officer

For purpose of this announcement, the exchange rate of HKD1 = RMB0.90115 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, 20 February 2020

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

Executive Director:

Mr. HUANG Ming-Tuan (*Chief Executive Officer*)

Non-Executive Directors:

Mr. ZHANG Yong (*Chairman*)

Mr. Benoit, Claude, Francois, Marie, Joseph LECLERCQ

Mr. Xavier, Marie, Alain DELOM de MEZERAC

Mr. Edgard, Michel, Marie BONTE

Mr. CHEN Jun

Mrs. Isabelle, Claudine, Françoise BLONDÉ ép. BOUVIER

Independent Non-Executive Directors:

Ms. Karen Yifen CHANG

Mr. Desmond MURRAY

Mr. HE Yi

Mr. Dieter YIH