SUN ART
Retail Group Limited

Sun Art Retail Group Limited

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

Interim Report 2012

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-Executive Directors

CHENG Chuan-Tai *(Chairman)*
Christophe Maurice Paule Marie Joseph DUBRULLE
Philippe David BAROUKH
Xavier Marie Alain DELOM de MEZERAC

Independent Non-Executive Directors

Karen Yifen CHANG
HE Yi
Desmond MURRAY

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Karen Yifen CHANG *(Chairman)*
CHENG Chuan-Tai
Philippe David BAROUKH
HE Yi
Desmond MURRAY

NOMINATION COMMITTEE

HE Yi *(Chairman)*
Philippe David BAROUKH
CHENG Chuan-Tai
Karen Yifen CHANG
Desmond MURRAY

COMPANY SECRETARY

HO Siu Pik, FCIS, FCS (PE)

AUTHORISED REPRESENTATIVES

Bruno Robert MERCIER
HO Siu Pik

REGISTERED OFFICE IN HONG KONG

Level 28, Three Pacific Place
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PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC" OR "CHINA")

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LEGAL ADVISOR

Herbert Smith
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HONG KONG SHARE REGISTRAR

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Shops 1712-1716, 17th Floor
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COMPLIANCE ADVISER

Anglo Chinese Corporate Finance, Limited
40th Floor, Two Exchange Square
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Central Hong Kong

AUDITORS

KPMG
Certified Public Accountants
8th Floor, Prince's Building
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Hong Kong

COMPANY'S WEBSITE

www.sunartretail.com

STOCK CODE

6808

HIGHLIGHTS OF INTERIM RESULTS

	For the six months ended 30 June		
	2012	2011	**Change**
	RMB million	*RMB million*	
	Unaudited		
Turnover	**39,416**	34,459	14.4%
Gross profit	**8,066**	6,844	17.9%
Profit from operations	**2,037**	1,658	22.9%
Profit for the period	**1,445**	1,118	29.2%
Profit attributable to equity shareholders of the Company	**1,373**	784[1]	75.1%
Earnings Per Share – Basic and diluted[2]	**RMB0.14**	RMB0.13	7.7%

Notes:

(1) Following the completion of the reorganisation on 13 May 2011 ("**Reorganisation**"), Sun Art Retail Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") has acquired the non-controlling interests in Auchan (China) Hong Kong Ltd. ("**ACHK**") & Concord Champion International Ltd. ("**CCIL**"), which became wholly owned subsidiaries of the Company.

(2) The calculation of basic and diluted earnings per share ("**EPS**") for the six months ended 30 June 2012 is based on the weighted average number of 9,539,704,700 ordinary shares in issue during the period. The calculation of basic and diluted EPS for the six months ended 30 June 2011 is based on the weighted average number of 6,236,502,272 ordinary shares in issue during the period, after adjusting for the share subdivision on 27 June 2011.

BUSINESS REVIEW

Expansion of Retail Network

During the period under review, the Group maintained a steady pace of expansion for its store network, and opened 10 new hypermarket complexes under the "RT-Mart" banner as planned. Of these newly opened complexes, 4 are located in Eastern China, 2 in Central China, 3 in Western China and 1 is located in Southern China. As of 30 June 2012, the Group had a total of 240 hypermarket complexes in China. The total gross floor areas ("**GFA**") of these hypermarket complexes amounted to 6.73 million square meters, approximately 67% of which were operated in leased stores, while 33% were self-owned properties. Please see note (1) for a breakdown by region.

As of 30 June 2012, 12% of the Group's stores were located in first-tier cities, 17% in second-tier cities, 45% in third-tier cities, 20% in fourth-tier cities and 6% were in fifth-tier cities. Please see note (2) for a detailed definition of city tiers.

In tandem with the steady expansion of its store network, the Group also proactively sought after potential prospects to open new stores. As of 30 June 2012, the Group had identified and secured 155 sites to open hypermarket complexes through execution of lease contracts or acquisition of land parcels. With 106 sites under construction, the Group has laid a foundation for its store development from 2012 to 2014.

As of 30 June 2012, the number of stores and the respective GFA in each major region of China are as set forth below:

Region	Number of hypermarket complexes (As of 30 June 2012)			Total GFA of hypermarket complexes (sq.m.) (As of 30 June 2012)		
	Auchan	**RT-Mart**	**Total**	**Auchan**	**RT-Mart**	**Total**
Eastern China	35	83	118	1,451,679	2,101,978	3,553,657
Northern China	4	27	31	124,990	658,962	783,952
North-Eastern China	–	21	21	–	556,550	556,550
Southern China	–	33	33	–	842,087	842,087
Central China	3	23	26	96,219	580,801	677,020
Western China	3	8	11	115,196	198,643	313,839
Total	45	195	240	1,788,084	4,939,021	6,727,105

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

(1) According to the economic regional planning, the Group has readjusted the regional divisions as follows:

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

(2) The tiers of cities were divided as follows:

First-tier cities:	Municipalities and Guangzhou
Second-tier cities:	Capital cities, vice-provincial cities
Third-tier cities:	Prefecture-level cities
Fourth-tier cities:	County-level cities
Fifth-tier cities:	Townships and towns

Store Optimization

The Group maintains its commitment to serving its customers' needs, by continually optimizing the shopping environment and improving the standard of its facilities at the stores, in order to provide a more exciting shopping experience.

During the period under review, the Group enhanced the fresh food area, cooked food area and women's apparel area of some stores. After upgrading and renovating, the fresh food areas offer a greater selection of merchandise that are made on site. Also, the improved shopping environment enhanced customers' perception of the merchandise and increased its appeal. On the other hand, renovations made to the apparel area focused on reflecting the quality of merchandise in this category. The image of the apparel brands became more professional with more professional merchandising display and marketing strategy.

The Group renovated and upgraded existing stores by improving the shopping environment and optimizing services and facilities to better serve customers. During the period under review, expansion of store car parks were completed in 4 of the Group's stores, Nanjing Yingtianxilu Store, Suzhou Jinjihu Store, Shanghai Nanhui Store and Changyang store, to make shopping more convenient for customers. During the period, modifications on the internal design of the retail gallery and the facade of Shanghai Zhongyuan Store were completed. This not only enhanced the image of the store, but also facilitated a smoother flow of customer, thus increasing the potential footfall and turnover.

Merchandise Optimization

During the period under review, the Group consistently optimized its merchandise selection by eliminating slow-moving and duplicate products, then introducing premium goods with better value for money. In a bid to create differentiation in terms of merchandise, the Group strengthened its cooperation with large brands for exclusivity, and stepped up the introduction of nationally renowned, exclusive and high quality merchandise. The Group puts great emphasis on quality and variety to bring customers a refresher shopping experience. The Group continuously fostered direct procurement of merchandise from producers to shorten the supply chain and lower procurement costs.

During the period under review, the Group continued to promote the execution of "Farm-Hypermarket Links" and the expansion of procurement directly from vegetable growers. The Group also enhanced the choice of vegetables, increasing the varieties of green vegetables, organic vegetables and vegetable salad on sale and enhanced management of fruit classification to satisfy different customers' tastes. The Group increased procurement of merchandise such as imported fruits and seafood. The Group refined meat cutting procedures and developed cooked rice, noodles and snack products as well.

Marketing and Customer Service Optimization

During the period under review, the Group continued with its "round-table meeting" programme to listen to customers' opinions. It also placed extra attention to customers' feedback gathered from the cashiers. Meanwhile, the Group continuously amended the "customer satisfaction research" programme by adjusting the assessment criteria based on actual situations. This helped identify weak-performing items, which were fed back to management to help facilitate store improvements.

During the period under review, the Group launched various marketing initiatives. The Group paid extra attention to the changes in customers' consumption patterns and trends regarding offerings and varieties of direct mail merchandise. Various community activities such as "joyful summer" were arranged for members with membership cards acting as an ambassador of the stores. This improves the relationship with the community as the Group strives to be a good neighbor.

Operating Efficiency and Supply Chain Management Optimization

Business flow optimization

During the period under review, the Group worked at enhancing various operational procedures, such as management of merchandise entry; sales and inventory; management of equipment and consumables; as well as management of damage prevention and maintenance. Approximately 50 procedures were improved to enhance operational efficiency.

During the period, the Group's Auchan Banner was accredited the SGS ISO 9001 quality management systems certification, therefore establishing a more rigorous internal control management system. This has further optimized the flow, thus enhancing stability and efficiency of the operations.

During the period under review, the Group's RT-Mart Banner reduced energy consumption through establishing an automatic lighting control system, automatic energy saving control for air-conditioners as well as energy saving adjustments for freezers and refrigeration systems in certain stores.

MANAGEMENT DISCUSSION AND ANALYSIS

Logistics and distribution system optimization

During the period under review, the Group signed a new land contract for a new distribution centre located in Chibi City in Hubei province. The new distribution center will provide logistics and distribution services for stores in Central China. Meanwhile, the Group continued to enlarge its fleet of self-owned vehicles to meet the distribution needs of new stores.

Information system optimization

During the period under review, the Group supported the needs of operations and management by continuously improving the effectiveness of its information system. The Group launched the "promotion activity automation" system. The original system was manual. This system improvement allows promotion activities to be input into the information system, greatly enhancing the focus for such operations and precision of promotion activities. The Group also continued to improve the financial information system, and established a better reconciliation platform to increase the level of office automation. During the period, the Group also launched systems to enhance controls over marketing spending, human resource management and training.

Human Resources Management and Optimization

As at 30 June 2012, the Group had 107,639 employees. To meet the needs of rapid store expansion, the Group actively recruits employees and utilizes a strategy of recruiting through different channels. The Group regularly recruits at colleges every year, while conducting local recruitment of management trainee and technical personnel at all regional headquarters and stores. During the period under review, the Group continued to develop the training systems in its headquarters and regional headquarters. It established professional training bases by region to nurture various professionals in different fields. This included cooked food preparation and baking. Meanwhile, through the establishment of skill grading and commencement of corresponding appraisals, training effectiveness was also greatly enhanced. During the period under review, the Group's RT-Mart Banner was accredited the "National Professional Qualification Certificate" by the Ministry of Human Resources and Social Security of Shanghai and has become the first corporate training institution in Shanghai entitled to government subsidies.

Against the backdrop of rising labour cost trend, the Group maintains its focus on continuous enhancement in human resources management. The Group will keep raising labour productivity and quality of services through enhanced shift management and training mechanism.

Corporate Social Responsibilities

As an enterprise with a great sense of social responsibility, the Group's headquarters and its stores have always actively participated in various social and charity activities. During the period under review, the Group's Auchan Banner took part in the "Million Tree Project" organized by Shanghai Roots & Shoots, and fulfilled its commitment of planting 2,000 trees in Kulun Qi, Tongliao City in Inner Mongolia. RT-Mart Banner collaborated with the Coca-Cola Company on 22 April 2012, World Earth Day, to organize customer volunteers to conduct charity sales and fund raising activities in stores nationwide. The funds raised will be used to plant at the Panda Corridor in Niba Mountain, Sichuan to improve the living environment of pandas around the corridor. The funds raised from this charity sales event is estimated to be enough to plant approximately 28,423 trees.

Outlook

In the first half of 2012, the Chinese economy continued to maintain steady growth with gross domestic product of RMB22,709.8 billion, representing an increase of approximately 7.8% year-on-year. Total retail sales of consumables in the private sector amounted to RMB9,822.2 billion, representing a nominal growth of 14.4% from the same period last year. In the first half of 2012, price inflation gradually slowed down, while the household headline consumer price index grew by 3.3% from the same period last year. The slowdown in domestic economic growth and uncertainty in the international economy considerably impacted domestic consumers' confidence in the short term. According to the consumer sentiment index as announced by the National Bureau of Statistics, consumers' confidence was volatile during the first half of 2012. In the second half of 2012, the Group will continue to press ahead with the opening of new stores as planned, while developing resources for further new stores in the future. The Group will continue to focus on improving its merchandise mix, marketing strategies, supply chain and human resource management. The Group also takes its responsibilities regarding energy saving and emission reduction very seriously. Management will also work to capture the benefits of the synergies between the two banners.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

Our turnover is derived from sales of goods and rental income. Turnover from sales of goods is primarily derived from our hypermarkets where merchandise, mainly food, groceries and home appliances are laid out for sale, net of value added tax and other applicable sales taxes after deducting any trade discounts. Turnover from rental income is derived from leasing or sub-leasing gallery space in hypermarket complexes to external business operators that we believe are complementary to our stores.

The following table sets forth a breakdown of our turnover from sales of goods and rental income for the periods indicated:

	Six Months ended 30 June		
	2012	2011	**Change**
	RMB million	*RMB million*	
	Unaudited		
Sales of goods	**38,469**	33,712	14.1%
Rental income	**947**	747	26.8%
Total turnover	**39,416**	34,459	14.4%

For the six months ended 30 June 2012, our turnover from sales of goods was RMB38,469 million, an increase of RMB4,757 million, or 14.1%, from RMB33,712 million for the corresponding period in 2011. The increase was primarily attributable to the continuous business expansion of the Group with the opening of new stores(1) and the same store sales growth (the "**SSSG**")(2).

During the period from 1 July 2011 to 30 June 2012, we continued to expand in various areas of China and opened 42 new stores with 32 and 10 in the second half of 2011 and the first half of 2012, respectively.

Meanwhile, the SSSG was 4.3% compared with the first half of 2011. The stores opened in 2011 first half had a full period of operation in 2012. Stores opened before 2011 successfully attracted customers and maintained sales increases through various promotional activities.

For the six months ended 30 June 2012, our turnover from rental income was RMB947 million, an increase of RMB200 million, or 26.8%, from RMB747 million for the corresponding period in 2011. This increase was primarily attributable to an increase in the rentable area from new stores and an increase in rental income from existing stores as a result of better management of tenant mix.

Notes:

(1) New stores: stores opened during the period from 1 July 2011 to 30 June 2012.

(2) Same store sales growth: the growth of sales for stores opened before 30 June 2011.

Gross Profit

For the six months ended 30 June 2012, our gross profit was RMB8,066 million, an increase of RMB1,222 million, or 17.9%, from RMB6,844 million for the corresponding period in 2011. Our gross profit margin increased to 20.5% for the six months ended 30 June 2012 from 19.9% for the corresponding period in 2011. The increase in our gross profit margin was a result of a greater increase in turnover of 14.4% as compared to the increase in the cost of sales of 13.5%, reflecting economies of scale due to our continuously expanded business operation.

Store Operating Costs

Store operating costs represent the costs attributable to the operations of our stores and primarily consist of personnel expenses, rental expenses, expenses for utilities, maintenance, advertising, shuttle bus services and cleaning, and amortisation and depreciation of land use right, property, plant and equipment for our stores.

For the six months ended 30 June 2012, the store operating costs were RMB5,346 million, an increase of RMB756 million, or 16.5%, from RMB4,590 million for the corresponding period in 2011. This increase was mainly attributable to the increase in the number of stores in accordance with the ongoing expansion of our hypermarket network. The expansion of our hypermarket network required the recruitment of new staff to accommodate the new stores. This led to an increase in personnel expenses. New stores, operated on leased or self-owned sites, resulted in the increase in rental expense and amortisation and depreciation of land use right, property, plant and equipment at our stores.

Administrative Expenses

Administrative expenses primarily consist of personnel expenses, travelling expenses, depreciation and amortisation of property, plant and equipment and other expenses for our administrative departments. For the six months ended 30 June 2012, our administrative expenses were RMB969 million, an increase of RMB168 million, or 21.0%, from RMB801 million for the corresponding period in 2011. The increase was primarily attributable to the increase in the number of administrative staff to provide supportive services for our expanded network of hypermarket complex.

Profit from Operations

For the six months ended 30 June 2012, our profit from operations was RMB2,037 million, an increase of RMB379 million, or 22.9%, from RMB1,658 million for the corresponding period in 2011. Our operating margin increased to 5.2% for the six months ended 30 June 2012 from 4.8% during the corresponding period in 2011, which demonstrated the ability of the Group to leverage on the expansion of business scale to increase its profitability.

Finance Costs

Finance costs primarily consist of interest expenses on borrowings. For the six months ended 30 June 2012, our finance costs were RMB6 million, a decrease of RMB36 million, or 85.7%, from RMB42 million for the corresponding period in 2011. This decrease was primarily attributed to the significant decrease in the balance of borrowings with repayments made in the second half of 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Income Tax

For the six months ended 30 June 2012, our income tax expense was RMB586 million, an increase of RMB88 million, or 17.7%, from RMB498 million for the corresponding period in 2011. Our effective income tax rate was 28.9% for the six months ended 30 June 2012 compared to 30.8% for the corresponding period in 2011, since more new stores turned profitable and started the utilization of prior year unrecognised tax losses.

Profit for the Period

For the six months ended 30 June 2012, our profit for the period was RMB1,445 million, with an increase of RMB327 million, or 29.2%, from RMB1,118 million for the corresponding period in 2011. Net profit margin for the period ended 30 June 2012 was 3.7%, increasing by 0.5% from 3.2% for the corresponding period in 2011. The increase was primarily attributable to an increase in the operating margin by 0.4%, a decrease in finance costs and the lower effective income tax rate for the period.

Profit Attributable to Equity Shareholders of the Company

For the six months ended 30 June 2012, our profit attributable to equity shareholders of the Company was RMB1,373 million, an increase of RMB589 million, or 75.1%, from RMB784 million for the corresponding period in 2011.

On 13 May 2011, the shareholders approved the Company to issue new shares as consideration for acquiring the previous non-controlling interests in ACHK and CCIL, such that the Company became the sole shareholder of ACHK, the holding company of Auchan Hypermarkets in China, and CCIL, the holding company of RT Mart Hypermarkets in China.

Capital Expenditure

For the six months ended 30 June 2012, the Group incurred capital expenditure of RMB1,582 million, mainly in respect of the development of new stores. The Group financed its capital expenditure through a combination of cash flow generated from operating activities and the proceeds received from the initial public offering.

Liquidity and Financial Resources

For the six months ended 30 June 2012, the cash flow generated from operating activities was RMB2,881 million, with an increase of RMB201 million, or 7.5%, from RMB2,680 million for the corresponding period in 2011.

As at 30 June 2012, our net current liabilities decreased to RMB3,972 million from RMB4,107 million as at 31 December 2011. This decrease was primarily attributed to: (i) a decrease in the current assets of RMB4,358 million, which was caused by a reduction in the stock level as at 30 June 2012 and; (ii) a decrease in trade and other payables of RMB4,631 million, partially offset by an increase in bank loans of RMB206 million.

For the six months ended 30 June 2012, the inventory turnover days and trade payable turnover days were 48 days and 76 days, respectively. They were approximately 40 days and 72 days for the corresponding period of 2011, respectively.

Available-for-sale financial assets represented the investments made by the Group in short-term financial products issued by commercial banks in the PRC. These investments are principal guaranteed with maturity dates from 3 to 9 months. The expected but not guaranteed return rates vary between 2.2% and 6.0% per annum.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own policies for securities transactions (the "**Company's Code**") by directors ("**Directors**") and relevant employees 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 Rules Governing The Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Having made specific enquiries, the Board confirmed that all the Directors have complied with the required standards as set out in the Model Code and the Company's Code throughout the period for the six months ended 30 June 2012.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIVIDENDS

At the board meeting held on 27 August 2012, no dividend for the six months ended 30 June 2012 has been declared.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, during the six months ended 30 June 2012 and up to the date of publication of this report, the Company has maintained the amount of public float as approved by the Stock Exchange and as permitted under the Listing Rules.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2012, the interest or short position of the Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which they were taken or deemed to have under such provisions of the SFO) or which would be required to be entered in the register pursuant to section 352 of the SFO, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code are as follows:

CORPORATE GOVERNANCE AND OTHER INFORMATION

Name of Director/ chief executive	Name of Corporation	Nature of Interest	Total number of shares[1]	Approximate percentage shareholding of the relevant entity
Bruno Robert MERCIER	Company	Beneficial owner	120,000 (L)	0.0012%
	Groupe Auchan S.A.[2]	Beneficial owner	439[3]	0.0013%
			4,734[4]	0.0149%
HUANG Ming-Tuan	Company	Beneficial owner, interest of spouse and interest in a controlled corporation [5]	116,834,074 (L)	1.2247%
CHENG Chuan-Tai	Company	Beneficial owner	6,938,204 (L)	0.0727%
Christophe Maurice Paule Marie Joseph DUBRULLE	Groupe Auchan S.A.	Beneficial owner	48,335 (L)[6]	0.1526%
Philippe David BAROUKH	Groupe Auchan S.A.	Beneficial owner	878[7]	0.0027%
			1,127[8]	0.0035%
			1,543[9]	0.0048%
			6,783[10]	0.0214%
Xavier Marie Alain DELOM de MEZERAC	Groupe Auchan S.A.	Beneficial owner	962 (L)[11]	0.0030%
			894[12]	0.0028%
			563[13]	0.0017%
			772[14]	0.0024%
			4,070[15]	0.0128%

Notes:

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

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

(i) Stock Option Plan (2008-2012) relating to the grant of options to subscribe for shares in Groupe Auchan S.A. with a four year vesting period;

(ii) Stock Option Plan (2009-2013) relating to the grant of options to subscribe for shares in Groupe Auchan S.A. with a four year vesting period;

(iii) Stock Option Plan (2010-2014) relating to the grant of options to subscribe for shares in Groupe Auchan S.A. with a four year vesting period;

(iv) Stock Option Plan (2011-2015) relating to the grant of shares in Groupe Auchan S.A. with a four year vesting period; and

(v) Free Shares Plan (2010-2014) relating to the grant of shares in Groupe Auchan S.A. with a four year vesting period.

Note: with effect from 9 May 2012, the only class of shares issued by Group Auchan S.A. is ordinary shares, the restricted shares and Class S shares were converted to ordinary shares on 9 May 2012.

(3) This represents stock options in respect of 439 shares in Groupe Auchan S.A. granted pursuant to the Groupe Auchan S.A. Stock Option Plan (2008-2012).

(4) This represents 4,734 shares in Groupe Auchan S.A. granted pursuant to the Groupe Auchan S.A. Free Shares Plan (2010-2014).

(5) (i) Huang Ming-Tuan holds 15,559,258 shares of the Company.

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

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

(iv) Huang Ming-Tuan is the legal and beneficial owner of 50% of the share capital of Unique Grand Trading Ltd., a limited liability company incorporated in the British Virgin Islands, and Lee Chih-Lan, the spouse of Huang Ming-Tuan holds the remaining 50%. Accordingly, he is deemed to be interested in all of the 81,753,964 shares of the Company held by Unique Grand Trading Ltd.

(6) This comprises 48,335 shares in Groupe Auchan S.A.

(7) This represents stock options in respect of 878 shares in Groupe Auchan S.A. granted pursuant to the Groupe Auchan S.A. Stock Option Plan (2008-2012).

(8) This represents stock options in respect of 1,127 shares in Groupe Auchan S.A. granted pursuant to the Groupe Auchan S.A. Stock Option Plan (2010-2014).

(9) This represents stock options in respect of 1,543 shares in Groupe Auchan S.A. granted pursuant to the Groupe Auchan S.A. Stock Option Plan (2011-2015).

(10) This represents 6,783 shares in Groupe Auchan S.A. granted pursuant to the Groupe Auchan S.A. Free Shares Plan (2010-2014).

(11) This comprises 962 shares in Groupe Auchan S.A.

(12) This represents stock options in respect of 894 shares in Groupe Auchan S.A. granted pursuant to the Groupe Auchan S.A. Stock Option Plan (2009-2013).

(13) This represents stock options in respect of 563 shares in Groupe Auchan S.A. granted pursuant to the Groupe Auchan S.A. Stock Option Plan (2010-2014).

(14) This represents stock options in respect of 772 shares in Groupe Auchan S.A. granted pursuant to the Groupe Auchan S.A. Stock Option Plan (2011-2015).

(15) This represents 4,070 shares in Groupe Auchan S.A. granted pursuant to the Groupe Auchan S.A. Free Shares Plan (2010-2014).

CORPORATE GOVERNANCE AND OTHER INFORMATION

Save as disclosed above, so far as known to any Directors, as at 30 June 2012, none of the directors or chief executives of the Company or any of their associates had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations as defined in Part XV of the SFO, which were required to be recorded in the register required to be kept under section 352 of the SFO, or otherwise required to be notified by the Directors or chief executives to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to any Director or chief executive of the Company, as at 30 June 2012, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company or its associated corporation(s) which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of substantial shareholder	Nature of Interest	Number and class of shares(1)	Approximate percentage of shareholding
A-RT Retail Holdings Limited ("**A-RT**")	Beneficial owner	4,865,338,686 (L)	51.0009%
Auchan Hyper SA ("**Auchan Hyper**")(2)	Interest in a controlled corporation and beneficial owner	5,791,757,452 (L)	60.7121%
Groupe Auchan S.A.(3)	Interest in a controlled corporation	5,791,757,452 (L)	60.7121%
Au Marche S.A.S(4)	Interest in a controlled corporation	5,791,757,452 (L)	60.7121%
Mulliez Family(5)	Interest in controlled corporations	5,791,757,452 (L)	60.7121%
Kofu International Limited ("**Kofu**")(6)	Beneficial owner	748,376,538 (L)	7.8449%
Concord Greater China Limited ("**CGC**")(7)	Beneficial owner	807,024,010 (L)	8.4596%
Ruentex Industries Limited ("**Ruentex Industries**")(8)	Interest in a controlled corporation	807,024,010 (L)	8.4596%
Ruentex Development Co., Ltd. ("**Ruentex Development**")(9)	Interest in controlled corporations	807,024,010 (L)	8.4596%
Mr. Yin Chung Yao(10)	Interest in controlled corporations	748,376,538 (L)	7.8449%

Notes:

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

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

(3) Auchan Hyper is wholly-owned by Groupe Auchan S.A., therefore Groupe Auchan S.A. is deemed to be interested in all the shares of the Company in which Auchan Hyper is interested in by virtue of Part XV of the SFO.

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

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

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

(7) CGC is a company incorporated in the British Virgin Islands and a company under Ruentex (Ruentex Development, Ruentex Industries, CGC and Kofu collectively) and has a direct beneficial interest of 8.46% in the Company.

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

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

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

Save as disclosed above, as at 30 June 2012, the Directors of the Company are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company or its associated corporation(s) which would require to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE AND OTHER INFORMATION

As at 30 June 2012, the shareholding interests of nine of the operating subsidiaries in the PRC are partially held by Independent Third Parties as follows:

- Shanghai Auchan Hypermarket Co., Ltd (上海歐尚超市有限公司), which is 73% held by our subsidiary ACI, 17% held by Shanghai Wujiaochang (Group) Co., Ltd (上海五角場集團有限公司) and 10% held by Shanghai Food (Group) Co., Ltd. (上海食品集團有限公司);

- Hangzhou Auchan Hypermarket Co., Ltd (杭州歐尚超市有限公司), which is 72.46% held by our subsidiary ACI, and 27.54% held by Hangzhou Shangtang Daguan Economic Cooperative Committee (杭州上塘鎮大關村經濟合作社);

- Nanjing Jinshang Property Co., Ltd (南京金尚置業有限公司), which is 69.23% held by our subsidiary ACHK and 30.77% held by Jiangsu Jiaotong Jianshe Group Co., Ltd (江蘇交通建設集團有限公司);

- Nanjing Dongyuan Property Management Co., Ltd (南京東源物業管理有限公司), which is 50% held by our subsidiary ACI and 50% held by Jiangsu Hengshunjieyuan Investment Development Co., Ltd (江蘇恒順傑源投資發展有限公司);

- Changzhou Immochan Real Estate Co., Ltd (常州頤莫尚置業有限公司), which is 76.88% held by our subsidiary ACI and 23.12% held by Changzhou Weixing Real Estate Co., Ltd. (常州市衛星實業公司);

- Wuxi Immochan Real Estate Co., Ltd (無錫新尚置業有限公司), which is 68.4% held by our subsidiary ACHK and 31.6% held by Wuxi New District Economic Development Corporation (無錫市新區經濟發展集團總公司) and Wuxi New District Nanzhan Property Business Co., Ltd. (無錫市郊區南站資產經營公司) collectively;

- RT-Mart Limited Shanghai which is 91.3333% held by our subsidiary CIC and 8.6667% held by Shanghai Zhaibei District State-owned Assets Investment Company (上海市閘北區國有資產投資公司);

- People's RT-Mart Limited Jinan which is 90% held by our subsidiary CIC and 10% held by Jinan People's Complex Co., Ltd (濟南人民商場股份有限公司); and

- Suzhou Ruenhua Property Co., Ltd (蘇州潤華置業有限公司), which is 80% held by our subsidiary RT-Mart Shanghai Limited and 20% held by Zheng Wen Yong (鄭文湧).

CORPORATE GOVERNANCE

The Company is committed to improving its corporate governance, and enhancing the transparency to shareholders. The Company has devised its own corporate governance principles and guidelines, which incorporate all the policies and principles set out in the Corporate Governance Code which were effective from 1 April 2012 (the "**CG Code**") contained in Appendix 14 of the Listing Rules on the Stock Exchange.

In the Corporate Governance Report which was published in our 2011 Annual Report, we reported that to comply with code provision A.4.1 of the Code on Corporate Governance Practices which were effective until 31 March 2012 (the "**Old CG Code**") set out in Appendix 14 of the Listing Rules, the Company would enter into service agreements with the non-executive directors with a term within three years from the relevant effective date. We are pleased to report that service agreements have been entered into with all the non-executive directors, which are to be renewed subject to the articles of association of the Company and the Listing Rules.

For the six months ended 30 June 2012, in the opinion of the Board, the Company has complied with the CG Code during the period from 1 April 2012 to 30 June 2012 and the Old CG Code during the period from 1 January 2012 to 31 March 2012 save for the code provisions A.6.7 and C.3.7(a) of the CG Code.

Code Provision A.6.7 of the CG Code provides that the independent non-executive directors and non-executive directors should attend general meetings of the Company. Due to other prior business engagements, two independent non-executive directors were not able to attend the annual general meeting of the Company held on 18 May 2012.

Code Provision C.3.7 (a)

Code Provision C.3.7 (a) provides that the terms of reference of the audit committee should require it to review arrangements employees of the issuer can use, 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.

To preserve the confidentiality of the financial results, only a limited number of employees have access to the Company's financial data. Therefore the Company had not established any specific arrangement for employees to raise concern about possible improprieties in financial reporting, internal control or other matters. 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 auditors, the audit committee and the Board will discuss the proper actions to deal with any issue reported from any employee about improprieties in financial reporting, internal control and other matters.

CORPORATE GOVERNANCE AND OTHER INFORMATION

AUDIT COMMITTEE

The Company established an 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 internal control, risk management system and regulatory compliance of the Group; and (ii) the balance, transparency and integrity of the Company's financial statements and application of financial reporting principle. The audit committee currently consists of five non-executive directors, three of whom are independent. The members currently are Mr. Cheng Chuan-Tai, Mr. Xavier Marie Alain Delom de Mezerac, Ms. Karen Yifen Chang, Mr. He Yi and Mr. Desmond Murray. It is currently chaired by Mr. Desmond Murray, an independent non-executive director. The audit committee has reviewed and discussed the unaudited financial statements for the six months ended 30 June 2012 and has met with the external auditor, KPMG, who have reviewed the interim financial statements in accordance with Hong Kong Standard on Review Engagement 2410.

NOMINATION COMMITTEE

The Company established a 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 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. Cheng Chuan-Tai, Mr. Philippe David Baroukh, Ms. Karen Yifen Chang, Mr. He Yi and Mr. Desmond Murray. It is currently chaired by Mr. He Yi, an independent non-executive director.

REMUNERATION COMMITTEE

The Company established a 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 make recommendations to the Board on our Company's policy and structure for all remuneration of 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. Cheng Chuan-Tai, Mr. Philippe David Baroukh, Ms. Karen Yifen Chang, Mr. He Yi and Mr. Desmond Murray. It is currently chaired by Ms. Karen Yifen Chang, an independent non-executive director.

INDEPENDENT AUDITOR'S REPORT

Review Report to the Board of Directors of
Sun Art Retail Group Limited
(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 20 to 34 which comprises the consolidated statement of financial position of Sun Art Retail Group Limited as at 30 June 2012 and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2012 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

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

27 August 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012 – Unaudited

		Six months ended 30 June	
	Note	**2012** **RMB million**	2011 RMB million
Turnover	3	**39,416**	34,459
Cost of sales		**(31,350)**	(27,615)
Gross profit		**8,066**	6,844
Other revenue	4	**286**	205
Store operating costs		**(5,346)**	(4,590)
Administrative expenses		**(969)**	(801)
Profit from operations		**2,037**	1,658
Finance costs	5(a)	**(6)**	(42)
Profit before taxation	5	**2,031**	1,616
Income tax	6	**(586)**	(498)
Profit for the period		**1,445**	1,118
Other comprehensive income for the period			
Exchange differences on translation of financial statements of entities outside the People's Republic of China		**–**	54
Available-for-sale financial assets:			
Changes in fair value recognised during the period		**84**	–
Reclassification adjustments for amounts transferred to profit or loss:			
– gains on disposal		**(84)**	–
Total comprehensive income for the period		**1,445**	1,172
Profit attributable to:			
Equity shareholders of the Company		**1,373**	784
Non-controlling interests		**72**	334
Profit for the period		**1,445**	1,118
Total comprehensive income attributable to:			
Equity shareholders of the Company		**1,373**	827
Non-controlling interests		**72**	345
Total comprehensive income for the period		**1,445**	1,172
Earnings per share			
Basic and diluted	7	**RMB0.14**	RMB0.13

The notes on pages 25 to 34 form part of this interim financial report.

Details of dividends payable to equity shareholders of the Company are set out in note 14.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012 – Unaudited

	Note	**At 30 June 2012 RMB million**	At 31 December 2011 RMB million
Non-current assets			
Fixed assets:	8		
– Investment property		**2,050**	1,921
– Other property, plant and equipment		**14,405**	14,102
– Land use rights		**3,208**	2,992
		19,663	19,015
Intangible assets		**10**	10
Goodwill		**99**	99
Trade and other receivables	9	**356**	433
Deferred tax assets		**189**	197
		20,317	19,754
Current assets			
Inventories		**6,032**	10,259
Trade and other receivables	9	**3,174**	3,749
Available-for-sale financial assets	10	**1,976**	–
Time deposits		**106**	67
Cash and cash equivalents	11	**5,946**	7,517
		17,234	21,592
Current liabilities			
Trade and other payables	12	**20,531**	25,162
Bank loans	13	**405**	199
Income tax payables		**270**	338
		21,206	25,699
Net current liabilities		**(3,972)**	(4,107)
Total assets less current liabilities		**16,345**	15,647
Non-current liabilities			
Other financial liabilities		**85**	85
Deferred tax liabilities		**69**	45
		154	130
Net assets		**16,191**	15,517

The notes on pages 25 to 34 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012 – Unaudited

	Note	**At 30 June 2012** ***RMB million***	At 31 December 2011 *RMB million*
Capital and reserves			
Share capital	*14*	**2,721**	2,721
Reserves		**13,020**	12,418
Total equity attributable to equity shareholders of the Company		**15,741**	15,139
Non-controlling interests		**450**	378
Total equity		**16,191**	15,517

Approved and authorised for issue by the board of directors on 27 August 2012.

Bruno Robert MERCIER
Chief Executive Officer
& Executive Director

HUANG Ming-Tuan
Executive Director

The notes on pages 25 to 34 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012 – Unaudited

		Attributable to equity shareholders of the Company									
	Note	Share capital *RMB million*	Share premium *RMB million*	Capital reserve *RMB million*	Fair value reserve *RMB million*	Exchange reserve *RMB million*	Statutory reserve *RMB million*	Retained profits *RMB million*	Total *RMB million*	Non-controlling interests *RMB million*	Total equity *RMB million*
Balance at 1 January 2011		1,713	–	136	–	1	391	2,162	4,403	2,417	6,820
Changes in equity for the six months ended 30 June 2011:											
Profit for the period		–	–	–	–	–	–	784	784	334	1,118
Other comprehensive income		–	–	–	–	43	–	–	43	11	54
Total comprehensive income		–	–	–	–	43	–	784	827	345	1,172
Cash injection from Employee Trust Benefit Schemes	5(b)	–	–	–	–	–	–	–	–	13	13
Acquisition of non-controlling interests		682	–	1,793	–	–	–	–	2,475	(2,475)	–
Dividend declared in respect of the previous year	14(b)	–	–	–	–	–	–	(1,128)	(1,128)	–	(1,128)
Dividends declared and payable to non-controlling shareholders		–	–	–	–	–	–	–	–	(30)	(30)
Balance at 30 June 2011 and 1 July 2011		2,395	–	1,929	–	44	391	1,818	6,577	270	6,847
Changes in equity for the six months ended 31 December 2011:											
Profit for the period		–	–	–	–	–	–	816	816	51	867
Other comprehensive income		–	–	–	–	–	–	–	–	–	–
Total comprehensive income		–	–	–	–	–	–	816	816	51	867
Issuance of shares by initial public offering		326	7,299	–	–	–	–	–	7,625	–	7,625
Cash injection from Employee Trust Benefit Schemes	5(b)	–	–	121	–	–	–	–	121	57	178
Profit appropriation		–	–	–	–	–	94	(94)	–	–	–
Balance at 31 December 2011 and 1 January 2012		**2,721**	**7,299**	**2,050**	**–**	**44**	**485**	**2,540**	**15,139**	**378**	**15,517**
Changes in equity for the six months ended 30 June 2012:											
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**1,373**	**1,373**	**72**	**1,445**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**–**	**1,373**	**1,373**	**72**	**1,445**
Share-based payment	5(b)	**–**	**–**	**5**	**–**	**–**	**–**	**–**	**5**	**–**	**5**
Dividend declared in respect of the previous year	14(b)	**–**	**–**	**–**	**–**	**–**	**–**	**(776)**	**(776)**	**–**	**(776)**
Balance at 30 June 2012		**2,721**	**7,299**	**2,055**	**–**	**44**	**485**	**3,137**	**15,741**	**450**	**16,191**

The notes on pages 25 to 34 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2012 – Unaudited

	Six months ended 30 June	
	2012	2011
	RMB million	*RMB million*
Cash generated from operations	**3,503**	3,245
Income tax paid	**(622)**	(565)
Net cash generated from operating activities	**2,881**	2,680
Net cash used in investing activities	**(3,878)**	(2,457)
Net cash (used in)/generated from financing activities	**(574)**	1,263
Net (decrease)/increase in cash and cash equivalents	**(1,571)**	1,486
Cash and cash equivalents at 1 January	**7,517**	3,281
Effect of foreign exchange rate changes	**–**	5
Cash and cash equivalents at 30 June	**5,946**	4,772

The notes on pages 25 to 34 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi ("RMB") unless otherwise indicated)

1 BASIS OF PREPARATION

Sun Art Retail Group Limited (the "**Company**") 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 on 27 July 2011. The interim financial report comprises the Company and its subsidiaries (together, the "**Group**") and the Group's interest in a jointly controlled entity. The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("**HKAS**") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of the interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense on a year to date basis. Actual results may differ from these estimates.

The interim financial report contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The interim financial report does not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

The interim financial report is unaudited, but has been reviewed by the audit committee of the Company and approved for issue by the Board on 27 August 2012. The interim financial report has also been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 19.

The financial information relating to the year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 2 March 2012.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. None of these developments are relevant to the Group's financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi ("RMB") unless otherwise indicated)

3 TURNOVER AND SEGMENT REPORTING

The principal activity of the Group is the operation of hypermarkets in the People's Republic of China (the "**PRC**" or "**China**").

The Group is organised, for management purpose, into business units based on the banner under which the hypermarkets are operated. As all of the Group's hypermarkets are located 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 in the PRC.

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

	Six months ended 30 June	
	2012	2011
	RMB million	*RMB million*
Sale of goods	**38,469**	33,712
Rental income	**947**	747
	39,416	34,459

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

4 OTHER REVENUE

	Six months ended 30 June	
	2012	2011
	RMB million	*RMB million*
Service income	**39**	61
Disposal of packaging materials	**43**	42
Interest income on bank deposits and other financial assets	**49**	36
Interest income on available-for-sale financial assets	**84**	–
Government grants	**41**	66
Compensation received in respect of a lease contract dispute	**30**	–
	286	205

Government grants represent subsidies received from local authorities.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2012	2011
	RMB million	*RMB million*
Interest expense on borrowings		
— wholly repayable within five years	**2**	38
— wholly repayable after five years	**4**	4
	6	42

(b) Staff costs

	Six months ended 30 June	
	2012	2011
	RMB million	*RMB million*
Salaries, wages and other benefits	**2,232**	1,786
Contributions to defined contribution retirement plans	**233**	169
Share-based payment	**5**	–
Contributions to Employee Trust Benefit Schemes (i)	**132**	107
	2,602	2,062

(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 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi ("RMB") unless otherwise indicated)

5 PROFIT BEFORE TAXATION (continued)

(c) Other items

	Six months ended 30 June	
	2012	2011
	RMB million	*RMB million*
Cost of inventories	**31,291**	27,571
Depreciation	**874**	679
Amortisation	**49**	41
Operating lease charges	**883**	731
Loss on disposal of property, plant and equipment	**4**	21

6 INCOME TAX

Income tax in the consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2012	2011
	RMB million	*RMB million*
Current tax-Hong Kong Profits Tax		
Provision for the period	**–**	–
Current tax-PRC income tax		
Provision for the period	**563**	516
(Over)/under-provision in respect of prior years	**(9)**	13
	554	529
Deferred tax		
Reversal/(origination) of temporary differences	**32**	(31)
	586	498

(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 (2011: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

(ii) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(iii) All PRC subsidiaries are subject to income tax at 25% for the six months ended 30 June 2012 (2011: 25% except one subsidiary at 24%) under the Enterprise Income Tax law which was enacted on 16 March 2007.

(Expressed in Renminbi ("RMB") unless otherwise indicated)

6 INCOME TAX (continued)

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

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

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.

As at 30 June 2012, deferred tax liabilities of RMB58 million (31 December 2011: RMB34 million) have been recognised in respect of the withholding tax payable on the retained profits of the Group's PRC subsidiaries generated subsequent to 1 January 2008 which the Directors expect to distribute outside the PRC in the foreseeable future. The deferred tax liabilities as at 30 June 2012 and 31 December 2011 were calculated at the withholding tax rate of 5%. On 1 May 2010, CIC received an advance ruling from its tax authority in-charge confirming that the reduced withholding tax rate of 5% would be applied on its dividends to the Group's subsidiary, RT-Mart Holdings Limited. The valid period of the ruling is from 1 May 2010 to 30 April 2013.

7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB1,373 million (six months ended 30 June 2011: RMB784 million) and the weighted average of 9,539,704,700 ordinary shares (six months ended 30 June 2011: 6,236,502,272 ordinary shares, after adjusting for the share subdivision on 27 June 2011) in issue during the interim period.

	Six months ended 30 June	
	2012	2011
Issued ordinary shares at 1 January	**9,539,704,700**	211,485,200
Effect of shares issued on 13 May 2011	**–**	28,380,272
	9,539,704,700	239,865,472
Effect of share subdivision	**–**	5,996,636,800
Weighted average number of ordinary shares for the period	**9,539,704,700**	6,236,502,272

There were no dilutive potential ordinary shares during the six months ended 30 June 2012 and 2011 and therefore diluted earnings per share is equivalent to basic earnings per share.

8 FIXED ASSETS

During the six months ended 30 June 2012, the Group incurred capital expenditure of RMB1,582 million (six months ended 30 June 2011: RMB2,757 million), primarily in respect of new store developments. Items of store and office equipment with a net book value of RMB12 million were disposed of during the six months ended 30 June 2012 (six months ended 30 June 2011: RMB30 million), resulting in a loss on disposal of RMB4 million (six months ended 30 June 2011: RMB21 million) (note 5(c)).

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(Expressed in Renminbi ("RMB") unless otherwise indicated)

9 TRADE AND OTHER RECEIVABLES

	At 30 June 2012 *RMB million*	At 31 December 2011 *RMB million*
Non-current		
Rental prepayments	**356**	433
Current		
Trade receivables	**226**	256
Amounts due from Contracted Stores	**112**	311
Amounts due from Contracted Store Owners	**122**	334
Other debtors	**674**	673
Value-added tax receivables	**750**	937
Prepayments:		
– rentals	**1,020**	828
– fixed assets	**270**	410
Sub-total current	**3,174**	3,749
Trade and other receivables	**3,530**	4,182

The Group's trade receivables relate to credit card sales, the aging of which is within one month, and credit sales to corporate customers, the aging of which is within three months. Credit risk in respect of trade receivables is limited as the balances mainly arise from credit card sales. Credit terms are offered in rare cases to corporate customers with whom the Group has an established and ongoing relationship.

Contracted Stores are hypermarkets operated by the Group through arrangements under which the hypermarket owner ("**Contracted Store Owner**") provides the store, equipment and facilities for use by the Group to carry out the Group's hypermarket business and in return is entitled to an annual fee, calculated as either a fixed amount or a fixed percentage of the store's sales revenue, and any remaining profit or loss relating to the operation of the store is attributable to the Group.

The amounts due from Contracted Stores as at 30 June 2012 include balance of prepaid cards sold by the Contracted Stores which may be used by customers to purchase goods in certain of the Group's other stores, and offset by advance payment made by Contracted Stores in respect of purchase of goods.

The amounts due from Contracted Store Owners comprise advances made by the Group to certain Contracted Store Owners and the Contracted Stores' profit attributable to the Group. These amounts are not expected to be recovered within one year.

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 fixed assets which will be transferred to the relevant asset category upon receipt of the assets and the balances due from Contracted Store Owners, all of the trade and other receivables classified as current assets are expected to be recovered within one year.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi ("RMB") unless otherwise indicated)

10 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	At 30 June 2012 ***RMB million***	At 31 December 2011 *RMB million*
Available-for-sale financial assets	**1,976**	–

These represent short-term financial products issued by PRC commercial banks. The principal sum of these short-term financial products are guaranteed by the issuing banks and are repayable, together with any associated returns, on the maturity dates which range from 3 to 9 months from date of issue. These products have expected but not guaranteed returns ranging from 2.2% to 6.0% per annum.

11 CASH AND CASH EQUIVALENTS

	At 30 June 2012 ***RMB million***	At 31 December 2011 *RMB million*
Deposits with banks within 3 months of maturity	**360**	1,521
Cash at bank and on hand	**5,208**	5,996
Other financial assets	**378**	–
Cash and cash equivalents in the consolidated statement of financial position and condensed consolidated cash flow statement	**5,946**	7,517

Other financial assets represent investments in short-term financial products issued by PRC commercial banks, with guaranteed principals and fixed returns ranging from 2.5% to 5.2% per annum and with periods to maturity less than three months from date of issue.

12 TRADE AND OTHER PAYABLES

	At 30 June 2012 ***RMB million***	At 31 December 2011 *RMB million*
Current		
Trade payables	**11,406**	15,034
Advance receipts from customers	**5,649**	5,949
Amounts due to related parties *(note 17)*	**49**	44
Construction costs payable	**1,131**	1,691
Dividends payable	**4**	2
Accruals and other payables	**2,292**	2,442
Trade and other payables	**20,531**	25,162

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

Advance receipts from customers represents the unutilized balance of prepaid cards sold by the Group.

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(Expressed in Renminbi ("RMB") unless otherwise indicated)

12 TRADE AND OTHER PAYABLES (continued)

An ageing analysis of trade payables is as follows:

	At 30 June 2012 *RMB million*	At 31 December 2011 *RMB million*
Due within 6 months	**11,056**	14,696
Due after 6 months but within 12 months	**350**	338
	11,406	15,034

13 BANK LOANS

	At 30 June 2012 *RMB million*	At 31 December 2011 *RMB million*
Current		
Bank loans repayable within 1 year or on demand – Unsecured	**405**	199

Unsecured bank loans carried interest at annual rates ranging from 1.53% to 2.27% as at 30 June 2012 (31 December 2011: 6.10%).

14 SHARE CAPITAL AND DIVIDENDS

(a) Authorised and issued share capital

	At 30 June 2012		At 31 December 2011	
	No. of shares	***RMB million***	*No. of shares*	*RMB million*
Authorised:				
Ordinary shares Hong Kong dollars ("**HKD**") 0.3 each	**20,000,000,000**	**5,331**	20,000,000,000	5,331
Ordinary shares, issued and fully paid:				
At 30 June/31 December	**9,539,704,700**	**2,721**	9,539,704,700	2,721

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

(b) Dividends

On 10 June 2011, the Company's Directors approved to distribute a dividend of USD174 million (equivalent to RMB1,128 million) to the Company's shareholders at that date.

A final dividend of HKD0.10 (equivalent to RMB0.08) per ordinary share amounted to RMB776 million in respect of the year ended 31 December 2011 was approved on 16 May 2012 and paid on 8 June 2012.

No interim dividend has been declared in respect of the six months ended 30 June 2012.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi ("RMB") unless otherwise indicated)

15 CAPITAL COMMITMENTS

Capital commitments outstanding and not provided for in the interim financial report was as follows:

	At 30 June 2012	At 31 December 2011
	RMB million	*RMB million*
Contracted for	**650**	859
Authorised but not contracted for	**2,890**	2,864
	3,540	3,723

16 CONTINGENCIES

As at 30 June 2012, the Group had outstanding litigations or claims in respect of its disputes with customers and suppliers. The total amount claimed against the Group is RMB99 million. As at 30 June 2012, these litigations or claims were ongoing, with most of the actions not yet set for trial dates. Provisions of RMB11 million has been made within Trade and other payables as at 30 June 2012, which the Directors believe is adequate to cover the amounts, if any, payable in respect of these claims.

17 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

	Six months ended 30 June	
	2012	2011
	RMB million	*RMB million*
Short-term employee benefits	**34**	12
Post-employment benefits	**2**	–
Share-based payments	**2**	–
	38	12

Total remuneration is included in "staff costs" (see note 5(b)).

(b) Related party transactions

In addition to the related party information disclosed elsewhere in the notes to the unaudited interim financial report, the Group entered into the following material related party transactions with its ultimate joint controlling shareholders, Ruentex (i.e. Ruentex Development Co., Ltd, Ruentex Industries Limited, Concord Greater China Limited and Kofu International Limited) and Groupe Auchan S.A. and entities related to them, during the six months ended 30 June 2012 and 2011.

	Six months ended 30 June	
	2012	2011
	RMB million	*RMB million*
IT services fee payable (i)	**2**	1
Expenses payable (ii)	**30**	22
Agency fees receivable (iii)	**16**	18
Trademark fee payable (iv)	**15**	13
Contributions to Employee Trust Benefit Schemes	**132**	107
Sale of merchandise (v)	**–**	12
Purchase of merchandise (vi)	**11**	–
Purchase of property, plant and equipment (vii)	–	52

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(Expressed in Renminbi ("RMB") unless otherwise indicated)

17 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Related party transactions (continued)

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

(ii) Expenses payable primarily relate to administrative costs paid by subsidiaries of Auchanhyper SA on behalf of the Group, which are reimbursed and expensed by the Group.

(iii) Agency fees receivable relate to amounts collected from international suppliers by Auchan International S.A. on behalf of the Group, net of fees payable to Auchan International S.A..

(iv) Trademark fee payable represents the fee charged by Groupe Auchan S.A. for the grant of licenses to the Group to use the Auchan trademarks.

(v) Sales of merchandise to C & Chain Limited Shanghai were made at the Group's original purchase cost.

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

(vii) This represents purchase of property, plant and equipment from Kunshan Ruenfu Commercial and Trading Co., Ltd. and its subsidiaries ("**Kunshan Ruenfu**") in relation to stores which were Contracted Stores during the years but are now operated directly by the Group.

(c) Related party balances

	At 30 June 2012 *RMB million*	At 31 December 2011 *RMB million*
Amounts due from subsidiaries of Groupe Auchan S.A.	**55**	37
Amounts due from Kunshan Ruenfu	**60**	286
Amounts due to Groupe Auchan S.A. and its subsidiaries	**49**	44