

SUN ART

Retail Group Limited

Sun Art Retail Group Limited

(Incorporated in Hong Kong with limited liability)

Stock Code: 6808

2014 Interim Report



DIRECTORS**Executive Directors**

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

Non-Executive Directors

CHENG Chuan-Tai (*Chairman*)
Benoit, Claude, Francois, Marie, Joseph LECLERCQ
Philippe, David BAROUKH
Xavier, Marie, Alain DELOM de MEZERAC

Independent Non-Executive Directors

Karen Yifen CHANG
Desmond MURRAY
HE Yi

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

HO Siu Pik, FCIS, FCS (PE)

AUTHORISED REPRESENTATIVES

Bruno, Robert MERCIER
HO Siu Pik

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**PLACE OF BUSINESS IN THE PEOPLE'S
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"CHINA")**

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HONG KONG SHARE REGISTRAR

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Hopewell Centre
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AUDITORS

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

COMPANY'S WEBSITE

www.sunartretail.com

STOCK CODE

6808

HIGHLIGHTS OF INTERIM RESULTS

	For the six months ended 30 June		
	2014 <i>RMB million</i> Unaudited	2013 <i>RMB million</i>	Change
Turnover	48,038	44,515	7.9%
Gross Profit	10,523	9,231	14.0%
Profit from Operations	2,495	2,298	8.6%
Profit for the Period	1,789	1,670	7.1%
Profit Attributable to Equity Shareholders of the Company	1,710	1,576	8.5%
Earnings Per Share ("EPS")			
– Basic and diluted ⁽¹⁾	RMB0.18	RMB0.17	

Note:

- (1) The calculation of basic and diluted EPS for the six months ended 30 June 2014 and 2013 is based on the weighted average number of 9,539,704,700 ordinary shares in issue during the periods.

BUSINESS REVIEW

Operating Environment

During the first half of 2014, China's economy maintained steady growth with gross domestic product (“GDP”) growing by 7.4% to approximately RMB26,904.4 billion. The consumer price index (“CPI”) remained quite stable for the first half of the year, increasing by 2.3% over the same period of last year. Total retail sales of consumer goods in China reached RMB12,419.9 billion, an increase of 12.1% over the same period of last year. The growth rate, however, decreased by 60 basis points compared with the same period of last year. Due to the policy of restricting the so-called “three public consumptions” (official receptions, vehicles and overseas trips) and the absence of a new consumption stimulus policy (such as the home appliance subsidy policy which ended in June 2013), the growth in retail sales of consumer goods in the first half of this year is slower than that in previous years.

Expansion of Retail Network

During the period under review, Sun Art Retail Group Limited (the “Company”, together with its subsidiaries the “Group”) opened four new hypermarket complexes, of which three were under the RT-Mart banner and one was under the Auchan banner. The one under the Auchan banner was an 8,000 square meters hypermarket complex in the newly opened Inter IKEA Wuxi LIVAT 230,000 square meters shopping center. Of the new stores, two were located in Eastern China and two in Southern China. As of 30 June 2014, the Group had a total of 327 hypermarket complexes in China with a total gross floor area (“GFA”) of approximately 9.02 million square meters. Approximately 65.4% of the GFA was operated on leased space, 34.0% of the GFA in self-owned properties and 0.6% of the GFA as contracted stores. Please refer to note 1 for the definitions of regional zones.

As of 30 June 2014, approximately 10% of the Group's stores were located in first-tier cities, 18% in second-tier cities, 45% in third-tier cities, 21% in fourth-tier cities and 6% in fifth-tier cities. Please refer to note 2 for the definitions of tiers.

During the period under review, the Group continued to proactively seek opportunities to open new stores. As of 30 June 2014, through the execution of lease contracts or the acquisition of land parcels, the Group had identified and secured 162 sites to open hypermarket complexes, of which 102 were under construction, ensuring that there were sufficient sites reserves for the Group's expansion for the next three years till 2016 and laying a solid ground for the Group's development in the medium term.

Meanwhile, it is worth noting that the Group purchased the properties of 4 existing leased stores during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

As of 30 June 2014, the number of stores and their GFA in each major region of China are set forth below:

Region	Number of hypermarket complexes (As of 30 June 2014)			Total GFA of hypermarket complexes (sq.m.) (As of 30 June 2014)		
	Auchan	RT-mart	Total	Auchan	RT-mart	Total
Eastern China	42	101	143	1,668,406	2,528,008	4,196,414
Northern China	6	34	40	196,444	814,075	1,010,519
Northeastern China	1	30	31	23,906	821,222	845,128
Southern China	2	52	54	42,226	1,297,921	1,340,147
Central China	5	39	44	170,463	1,016,730	1,187,193
Western China	4	11	15	178,609	264,368	442,977
Total	60	267	327	2,280,054	6,742,324	9,022,378

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, Qinghai Province

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

First-tier cities:	Municipalities under the direct jurisdiction of the central government and Guangzhou
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

Store Improvement

During the period under review, the Group completed the renovation of the Auchan Minhang hypermarket complex. Such renovation comprised of both remodeling and capacity expansion of the in-store sales area, retail gallery and car-park. The RT-Mart banner also completed the upgrade of various commercial areas in 98 stores. The upgrade was mostly focused on the areas of fresh food and mass consumer products (“**MCP**”) in order to enhance the commercial atmosphere conveyed to the customers.

To enhance the competitiveness of the fresh food, the Group continued to reinforce the range of self-produced products such as delicatessen and dim sum with more local characteristics and bakery with better technology, higher productivity and good quality.

The Group upgraded the light tubes with LED in 59 Auchan stores and 10 RT-Mart existing stores. The Group will install LED tubes in all new stores opened in year 2014 in both banners. The RT-Mart banner will continue to upgrade the substitution for the next 40 RT-Mart existing stores in the second half of 2014.

During the period under review, the Group continued to improve tenant mix and upgrade the shopping environment in its galleries. Both banners are working together to introduce new and well-known chain brands and local specialists to all our regions.

Optimization of Procurement and Merchandise Mix

During the period under review, the Group continued to enhance direct sourcing of fresh fruits, vegetables and dried vegetables and fruits, providing our customers with freshness, good quality and better prices to withstand the inflation of fresh vegetables and fruit prices since the beginning of the year.

Our price checks now include physical stores as well as e-commerce sites, allowing us to maintain our price competitiveness against both offline and online competitors.

Customizing MCP provides a greater variety of choices to our customers. The Group also cooperate with Disney to create own branded products under the Disney License thereby bringing high quality and “fun packaging” products to our customers.

Development of E-commerce Business

During the period under review, the Group officially launched the web-site feiniu.com and the operations commenced on 16 January 2014. Currently the delivery areas of feiniu.com cover Shanghai, Jiangsu Province, Zhejiang Province and Anhui Province, and it is scheduled that the delivery areas will be rolled out successively to other areas across the nation till the end of 2014. As of 30 June 2014, 750,000 members had registered, of whom 167,000 were active members. The number of self-operated items available for sale online amounted to 120,000 with a range of categories of fast moving consumer goods (“**FMCG**”), bazaar, electronics, fashion, maternal and child products and imported products. feiniu.com will continue to introduce new items to expand our range of offerings in order to cover as many customer needs as possible. A warehouse with GFA of 40,000 square meters, which was dedicated to feiniu.com, was established in Shanghai Qingpu district. Along with the expansion of delivery areas, feiniu.com will establish warehouses in other areas across the nation. The business of feiniu.com is not yet contributing to the Group’s net profit.

MANAGEMENT DISCUSSION AND ANALYSIS

The Auchan banner launched a smartphone application called “My Auchan” on 27 June 2014 and introduced it to all Auchan stores. As of 30 June 2014, the number of members reached nearly 18,000 over just a few days. This application enables our customers to obtain instant promotion information and to compare prices through a third party price checking website. It also provides our customers with a convenient tool to manage the credits acquired from various promotional activities.

Optimization of Supply Chain Management

During the period under review, the Auchan banner recruited more new suppliers to integrate into its Taicang warehouse.

Chibi distribution center of the RT-Mart banner in Hubei province for future Central China distribution will commence operations in October 2014.

Optimization of Human Resources Management and Training

As at 30 June 2014, the Group had 122,224 employees.

During the period under review, the Group continued to enhance exchange and co-operation in the areas of human resources management and training and conducted more shared training sessions between two banners. As of 30 June 2014, nearly 3,000 employees from both banners had participated in three common training sessions such as home-made delicatessen, dim sum and bakery products.

To counter the rising labor costs, the Group continued to enhance employees’ productivity through training and optimized work processes. As a result, the Group managed to effectively keep the rapid increase in labor costs under control by successfully reducing the number of employees, but with better skills. As of 30 June 2014, we had 354 fulltime equivalent (“**FTE**”) employees per store compared to 393 FTE employees per store over the same period of last year.

Strategies and Outlook

Aligning with the long term trend of urbanization, the Group will continue to maintain a strong pace of expansion to lower tier cities by prudently selecting the location of new stores to ensure their quality. At the same time, we will continue to offer quality products with competitive prices to better meet changing customer demands. We will also strive to improve our processes to achieve higher operational efficiency.

The Group will continue to develop feiniu.com to the best of its ability and we could expect that the e-commerce business will be one of the drivers of sales increase in the future.

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, home appliances, textile and general goods are laid out for sale. Turnover from sales of goods is net of value added tax and other applicable sales taxes after deducting any trade discounts. Turnover from rental income is derived from renting gallery space in hypermarket complexes to business operators whom 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		Change
	2014 (RMB million) Unaudited	2013 (RMB million)	
Sales of goods	46,690	43,420	7.5%
Rental income	1,348	1,095	23.1%
Total turnover	48,038	44,515	7.9%

For the six months ended 30 June 2014, our turnover from sales of goods was RMB46,690 million, an increase of RMB3,270 million, or 7.5%, from RMB43,420 million for the corresponding period in 2013. The increase was primarily attributable to the continuous business expansion of the Group with the opening of new stores⁽¹⁾.

During the period from 1 July 2013 to 30 June 2014, the Group continued to expand in various areas of China and opened 43 new stores with 39 in the second half of 2013 and four in the first half of 2014, respectively. The new stores contributed to the increase in sales of goods.

For the six months ended 30 June 2014, the Same Store Sales Growth (“SSSG”)⁽²⁾ was zero percent, versus four percent for the corresponding period in 2013. The flat SSSG was mainly due to the slower growth of the overall consumer market, the more diversified consumer channels available to customers, and the lack of new stimulus for spending, particularly after the expiration of government subsidy granted to energy-saving home appliances in June 2013.

Notes:

- (1) New stores: stores opened during the period from 1 July 2013 to 30 June 2014.
- (2) Same store sales growth: the growth rate of sales of the stores opened before 30 June 2013. It is calculated by comparing the sales derived from those stores during their operating periods in the first half of 2013 with sales during the corresponding period in 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2014, turnover from rental income was RMB1,348 million, an increase of RMB253 million, or 23.1%, from RMB1,095 million for the corresponding period in 2013. This increase was primarily attributable to an increase in rentable area from new stores and an increase in rental income from existing stores as a result of better management of tenant mix.

Gross Profit

For the six months ended 30 June 2014, gross profit was RMB10,523 million, an increase of RMB1,292 million, or 14.0%, from RMB9,231 million for the corresponding period in 2013. The gross profit margin was 21.9% for the six months ended 30 June 2014, increasing by 1.2 percentage points from 20.7% for the corresponding period in 2013. The increase in our gross profit margin was a result of a greater increase in turnover of 7.9% as compared to the increase in cost of sales of 6.3%, reflecting the Group's ability to leverage on the economies of scale to improve the gross profit margin.

Other Revenue

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

For the period ended 30 June 2014, the other revenue was RMB388 million, an increase of RMB42 million, or 12.1%, from RMB346 million for the corresponding period in 2013. The increase was primarily attributable to: (i) an increase in interest income of RMB26 million, generated from the higher transaction volume of investment in principal guaranteed financial products during the period; and (ii) an increase in government grants of RMB14 million which was mainly due to the one-off subsidy received from the local government for the establishment of a new company.

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 rights, property, plant and equipment for our stores.

For the six months ended 30 June 2014, the store operating costs were RMB7,295 million, an increase of RMB1,036 million, or 16.6%, from RMB6,259 million for the corresponding period in 2013.

The increase was primarily attributable to: (i) the increase in the operating areas of our supermarkets and the rentable areas of our gallery business. The increased operating areas and rentable areas, located at leased or self-owned sites, resulted in an increase in rental expenses and amortisation and depreciation of land use rights, property, plant and equipment; (ii) the expansion of our supermarket network during the period from 1 July 2013 to 30 June 2014, which required the recruitment of new staff and led to an increase in personnel expenses; and (iii) the expenses incurred for the preparation of new stores to be opened in second half year of 2014, including personnel, energy and other miscellaneous expenses.

The amount of store operating costs for the period ended 30 June 2014 represented 15.2% of turnover, an increase of 1.1 percentage points, from 14.1% of the corresponding period in 2013. This increase was a result of a greater increase in store operating cost of 16.6% as compared to the increase in turnover of 7.9%.

Administrative Expenses

Administrative expenses primarily consist of personnel expenses, travelling and other expenses for our administrative functions, and amortisation and depreciation of land use rights, property, plant and equipment used for our administrative offices. For the six months ended 30 June 2014, our administrative expenses were RMB1,121 million, an increase of RMB101 million, or 9.9%, from RMB1,020 million for the corresponding period in 2013. The increase was primarily attributable to an increase in the number of administrative staff to provide supportive services for our expanded network of hypermarket complexes.

The amount of administrative expenses for the period ended 30 June 2014 represented 2.3% of turnover, which remained stable from the corresponding period in 2013.

Profit from Operations

For the six months ended 30 June 2014, the profit from operations was RMB2,495 million, an increase of RMB197 million, or 8.6%, from RMB2,298 million for the corresponding period in 2013. The operating margin was 5.2% for the six months ended 30 June 2014, the same as that for the corresponding period in 2013. The stable operating margin was a result of on one hand the improvement in gross profit margin and on the other hand, the increase in the expense to turnover ratio. This demonstrated that the Group was able to maintain profitability along with its continued expansion of business scale.

Finance Costs

Finance costs primarily consist of interest expenses on borrowings. For the six months ended 30 June 2014, our finance costs were RMB7 million, which remained stable as that for the corresponding period in 2013.

Income Tax

For the six months ended 30 June 2014, our income tax expense was RMB699 million, an increase of RMB78 million, or 12.6%, from RMB621 million for the corresponding period in 2013. Our effective income tax rate was 28.1% for the six months ended 30 June 2014, increasing by 1.0 percentage point, compared to 27.1% for the corresponding period in 2013. The increase in effective tax rate was mainly attributable to the losses generated by certain legal entities established in 2013 and 2014 for which no deferred tax was recognised.

Profit for the Period

For the six months ended 30 June 2014, our profit for the period was RMB1,789 million, with an increase of RMB119 million, or 7.1%, from RMB1,670 million for the corresponding period in 2013. Net profit margin for the period ended 30 June 2014 was 3.7%, decreasing by 0.1 percentage point from 3.8% for the corresponding period in 2013. The decrease was primarily attributable to the stable operating margin and higher effective income tax rate for the period.

Profit Attributable to Equity Shareholders of the Company

For the six months ended 30 June 2014, the profit attributable to equity shareholders of the Company was RMB1,710 million, an increase of RMB134 million, or 8.5%, from RMB1,576 million for the corresponding period in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit Attributable to Non-Controlling Interests

For the six months ended 30 June 2014, the profit attributable to non-controlling interests was RMB79 million, a decrease of RMB15 million, or 16.0%, from RMB94 million for the corresponding period in 2013. The profit attributable to non-controlling interests represented: (i) interests in Auchan (China) Investment Co., Ltd (“**ACI**”) and Concord Investment (China) Co., Ltd (“**CIC**”) from the Auchan Scheme and RT-Mart Scheme*; and (ii) the interest held by independent third parties in two of the subsidiaries, People’s RT-Mart Limited Jinan and Uitox E-commerce (Shanghai) Co., Ltd..

Liquidity and Financial Resources

For the six months ended 30 June 2014, cash flow generated from operating activities was RMB3,391 million, a decrease of RMB1,052 million, or 23.7%, from RMB4,443 million for the corresponding period in 2013. This decrease was mainly attributable to: (i) a decrease in cash generated from the prepaid card business which became less dynamic; and (ii) a decrease in cash flow generated in the working capital cycle connected with longer inventory turnover.

As of 30 June 2014, our net current liabilities increased to RMB9,135 million from RMB8,243 million as of 31 December 2013. This increase was primarily attributed to: (i) a decrease in the current assets of RMB4,821 million, with reduced stock levels as at 30 June 2014, a smaller balance in short-term investments in principal guaranteed financial products; and (ii) a decrease in trade and other payables of RMB4,015 million. The decrease in current assets was greater than the decrease in current liabilities, which in net resulted in the increase of net current liabilities.

For the six months ended 30 June 2014, the inventory turnover days and trade payable turnover days were 44 days and 69 days, respectively, and were approximately 42 days and 68 days for the corresponding period in 2013, respectively.

Investments and time deposits represented the investments made by the Group in financial products issued by commercial banks and time deposits with the banks. These investments are principal guaranteed with maturity periods of over three months from the date of issue.

Investing Activities

For the six months ended 30 June 2014, cash flow used in investing activities was RMB1,784 million, a decrease of RMB250 million, or 12.3%, from RMB2,034 million for the six months ended 30 June 2013.

The cash flow used in investing activities mainly reflected: (i) the proceeds received on maturity of investments net of investments made of RMB931 million; and (ii) capital expenditure of RMB2,732 million in respect of the development of new stores and the remodelling of existing stores.

Financing Activities

For the six months ended 30 June 2014, cash flow used in financing activities was RMB2,089 million, an increase of RMB1,166 million, or 126.3%, from RMB923 million for the six months ended 30 June 2013. This increase was mainly attributable to (i) the increase in dividend distribution of RMB1,348 million; and (ii) a net increase in bank borrowings of RMB172 million in 2014.

* The Group has established an Employee Trust Benefit Scheme of its subsidiaries, CIC and its subsidiaries (the “**RT-Mart Scheme**”) and an Employee Trust Benefit Scheme of its subsidiaries, Auchan (China) Hong Kong Limited (“**ACHK**”) and its subsidiaries (the “**Auchan Scheme**”). For further details, please refer to Note 5(b)(i) of “Notes to the Unaudited Interim Financial Report” on page 28 of the interim report.

DIRECTORS' SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own policies for securities transactions (the “**Company Code**”) by 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 Listing Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code and the Company Code throughout the six months ended 30 June 2014.

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

During the six months ended 30 June 2014, 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 13 August 2014, no dividend for the six months ended 30 June 2014 has been declared.

CORPORATE GOVERNANCE

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

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

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

In the opinion of the Board, the Company has complied with all the principles as set out in the CG Code for the six months ended 30 June 2014, save and except for code provision C.3.7 (a).

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

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 2014 and up to the latest practicable date prior to the printing 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 2014, 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 (Chapter 571 of the laws of Hong Kong) (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, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required, pursuant to the Model Code are as follows:—

Name of director/ chief executive	Name of Corporation	Nature of Interest	Total number of shares ⁽¹⁾	Approximate percentage shareholding of the relevant entity
Bruno, Robert MERCIER	Company	Beneficial owner	100,000 (L)	0.0010%
	Groupe Auchan S.A. ⁽²⁾	Beneficial owner	4,734 ⁽³⁾	0.0149%
HUANG Ming-Tuan	Company	Beneficial owner, interest of spouse and interest in a controlled corporation ⁽⁴⁾	117,234,074 (L)	1.2289%
CHENG Chuan-Tai	Company	Beneficial owner	6,000,000 (L)	0.0628%

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
Philippe, David BAROUKH	Groupe Auchan S.A. ⁽²⁾	Beneficial owner	1,127 ⁽⁵⁾	0.0035%
			1,543 ⁽⁶⁾	0.0048%
			6,783 ⁽⁷⁾	0.0214%
			1,498 ⁽⁸⁾	0.0047%
Xavier, Marie, Alain DELOM de MEZERAC	Groupe Auchan S.A. ⁽²⁾	Beneficial owner	563 ⁽⁹⁾	0.0017%
			4,070 ⁽¹⁰⁾	0.0128%
			772 ⁽¹¹⁾	0.0024%
			712 ⁽¹²⁾	0.0022%
			894 ⁽¹³⁾	0.0028%
Desmond MURRAY	Company	Beneficial owner	30,000 (L)	0.0003%

(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 (2010-2014) 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 (2011-2015) relating to the grant of shares in Groupe Auchan S.A. with a four year vesting period;
- (iii) Free Shares Plan (2010-2014) relating to the grant of shares in Groupe Auchan S.A. with a four year vesting period; and
- (iv) Stock Option Plan (2016) relating to the grant of options to subscribe for shares in Groupe Auchan S.A. with a vesting period from 30 August 2016 to 30 September 2016.

Note: With effect from 9 May 2012, the only class of shares issued by Groupe 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 4,734 shares in Groupe Auchan S.A. granted pursuant to the Groupe Auchan S.A. Free Shares Plan (2010-2014).

CORPORATE GOVERNANCE AND OTHER INFORMATION

- (4) (i) Mr. Huang Ming-Tuan holds 15,559,258 shares.
- (ii) Ms. Lee Chih-Lan is the spouse of Mr. Huang Ming-Tuan and holds 1,551,238 shares. Accordingly, Mr. Huang Ming-Tuan is deemed to be interested in all of the shares held by Ms. Lee Chih-Lan.
- (iii) Mr. Huang Ming-Tuan is the legal and beneficial owner of the entire issued share capital of Victor Spring Ltd., a limited liability company incorporated in the British Virgin Islands. Accordingly, he is deemed to be interested in all of the 17,969,614 Shares held by Victor Spring Ltd.
- (iv) Mr. Huang Ming-Tuan is the legal and beneficial owner of 50% of the share capital of Unique Grand Trading Ltd., a limited liability company incorporated in the British Virgin Islands, and Ms. Lee Chih-Lan, the spouse of Mr. Huang Ming-Tuan holds the remaining 50%. Accordingly, he is deemed to be interested in all of the 82,153,964 Shares held by Unique Grand Trading Ltd..
- (5) 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).
- (6) 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 (2015).
- (7) This represents 6,783 shares in Groupe Auchan S.A. granted pursuant to the Groupe Auchan S.A. Free Shares Plan (2010-2014).
- (8) This represents stock options in respect of 1,498 shares in Groupe Auchan S.A. granted pursuant to the Groupe Auchan S.A. Stock Option Plan (2016).
- (9) 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).
- (10) This represents 4,070 shares in Groupe Auchan S.A. granted pursuant to the Groupe Auchan S.A. Free Shares Plan (2010-2014).
- (11) 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 (2015).
- (12) This represents stock options in respect of 712 shares in Groupe Auchan S.A. granted pursuant to the Groupe Auchan S.A. Stock Option Plan (2017).
- (13) This represents 894 shares in Group Auchan S.A..

Save as disclosed above, so far as known to any Directors, as at 30 June 2014, 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 2014, 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") ⁽²⁾	Beneficial owner	4,865,338,686 (L)	51.0009%
Auchan Hyper SA ("Auchan Hyper") ⁽³⁾	Interest in a controlled corporation and beneficial owner	5,791,757,452 (L) ⁽¹²⁾	60.7121%
Groupe Auchan S.A. ⁽⁴⁾	Interest in a controlled corporation	5,791,757,452 (L) ⁽¹²⁾	60.7121%
Au Marche S.A.S ⁽⁵⁾	Interest in a controlled corporation	5,791,757,452 (L) ⁽¹²⁾	60.7121%
Mulliez Family ⁽⁶⁾	Interest in controlled corporations	5,791,757,452 (L) ⁽¹²⁾	60.7121%
Kofu International Limited ("Kofu") ⁽⁷⁾	Beneficial owner	748,376,538 (L) ⁽¹³⁾	7.8448%
Concord Greater China Limited ("CGC") ⁽⁸⁾	Beneficial owner	807,024,010 (L) ⁽¹⁴⁾	8.4596%
Ruentex Industries Limited ("Ruentex Industries") ⁽⁹⁾	Interest in a controlled corporation	807,024,010 (L) ⁽¹⁴⁾	8.4596%
Ruentex Development Co., Ltd. ("Ruentex Development") ⁽¹⁰⁾	Interest in controlled corporations	807,024,010 (L) ⁽¹⁴⁾	8.4596%
Mr. Yin Chung Yao ⁽¹¹⁾	Interest in controlled corporations	748,376,538 (L) ⁽¹³⁾	7.8448%

Notes:

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

(2) A-RT is 36.70% owned by Auchan Hyper, therefore Auchan Hyper is deemed to be interested in all the Shares in which A-RT is interested in by virtue of Part XV of the SFO.

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

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

- (3) 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 in which A-RT is interested in by virtue of Part XV of the SFO.
- (4) Auchan Hyper is wholly-owned by Groupe Auchan S.A., therefore Groupe Auchan S.A. is deemed to be interested in all the Shares in which Auchan Hyper is interested in by virtue of Part XV of the SFO.
- (5) 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 in which Groupe Auchan S.A. is interested in by virtue of Part XV of the SFO.
- (6) 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..
- (7) Kofu is a company incorporated in the British Virgin Islands, which is indirectly wholly-owned by Mr. Yin Chung Yao, and has a direct beneficial interest of 7.84% in the Company.
- (8) 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.
- (9) CGC is 42.25% owned by Ruentex Industries, therefore Ruentex Industries is deemed to be interested in all the Shares in which CGC is interested in by virtue of Part XV of the SFO.
- (10) CGC is 15.51% owned by Sinopac Global Investment Ltd. ("**Sinopac**") (a company indirectly owned as to 49.06% by Ruentex Industries and 49.06% by Ruentex Development and directly owned as to 1.886% by Kofu), and Sinopac is 49.06% owned by Ruentex Development. Therefore Ruentex Development is deemed to be interested in all the Shares in CGC in which Sinopac is interested in by virtue of Part XV of the SFO. CGC is 25.46% owned by Ruentex Development. Therefore Ruentex Development is deemed to be interested in all the Shares in which CGC is interested in by virtue of Part XV of the SFO.
- (11) Kofu is wholly owned by Mr. Yin Chung Yao, through certain controlled corporations.
- (12) Such 5,791,757,452 Shares belong to the same batch of shares.
- (13) Such 748,376,538 Shares belong to the same batch of shares.
- (14) Such 807,024,010 Shares belong to the same batch of shares.

Save as disclosed above, as at 30 June 2014, the Directors of the Company are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company or its associated corporation(s) which would require to be recorded in the register required to be kept by the Company pursuant to section 336 of Part VX of the SFO.

As at 30 June 2014, the shareholding interests of nine of the operating subsidiaries in the PRC are partially held by independent third parties. Those operating subsidiaries are RT-Mart Limited Shanghai, Jinan RT-Mart, Changshu Bairuenfa Hypermarket Co., Ltd., Uitox, Ruenguo Information Technology (Shanghai) Co., Ltd., Shanghai Auchan Hypermarket Co., Ltd., Hangzhou Auchan Hypermarket Co., Ltd., Changzhou Immochan Real Estate Co., Ltd., and Wuxi Immochan Real Estate Co, Ltd.

DEED OF NON-COMPETITION

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

To the best knowledge of the Directors, there is no breach of the Deed of Non-competition by the Controlling Shareholders during (i) the financial year ended 31 December 2013 and (ii) the period under review.

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; (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 consolidated financial statements for the six months ended 30 June 2014 and has met with the independent auditors, 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.

DISCLOSURE COMMITTEE

In the light of the implementation of the new statutory disclosure regime under Part XIVA of SFO and the consequential amendments to the Listing Rules from 1 January 2013, the Company established a disclosure committee on 14 May 2013 with written terms of reference duly approved by the Board. The primary duties of the disclosure committee are to assist the Company and its officers to take all reasonable measures from time to time to ensure that proper safeguards exist to prevent breach of disclosure requirements. The disclosure committee currently consists of six members, including Mr. Huang Ming-Tuan and Mr. Bruno, Robert Mereier, both of whom are executive Directors.

**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 36 which comprises the consolidated statement of financial position of Sun Art Retail Group Limited as at 30 June 2014 and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months 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 2014 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

13 August 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014 – Unaudited

	Note	Six months ended 30 June	
		2014 RMB million	2013 RMB million
Turnover	3	48,038	44,515
Cost of sales		(37,515)	(35,284)
Gross profit		10,523	9,231
Other revenue	4	388	346
Store operating costs		(7,295)	(6,259)
Administrative expenses		(1,121)	(1,020)
Profit from operations		2,495	2,298
Finance costs	5(a)	(7)	(7)
Profit before taxation	5	2,488	2,291
Income tax	6	(699)	(621)
Profit for the period		1,789	1,670
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets:			
Changes in fair value recognised during the period		–	33
Reclassification adjustments for amounts transferred to profit or loss:			
– gains on disposal		–	(33)
Total comprehensive income for the period		1,789	1,670
Profit attributable to:			
Equity shareholders of the Company		1,710	1,576
Non-controlling interests		79	94
Profit for the period		1,789	1,670
Total comprehensive income attributable to:			
Equity shareholders of the Company		1,710	1,576
Non-controlling interests		79	94
Total comprehensive income for the period		1,789	1,670
Earnings per share			
Basic and diluted	7	RMB0.18	RMB0.17

The notes on pages 25 to 36 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 2014 – Unaudited

	Note	At 30 June 2014 RMB million	At 31 December 2013 RMB million
Non-current assets			
Fixed assets:	8		
– Investment properties		2,665	2,642
– Other property, plant and equipment		19,637	19,318
– Land use rights		5,173	4,993
		27,475	26,953
Intangible assets		11	9
Goodwill		99	99
Interest in a joint venture		3	3
Trade and other receivables	9	450	510
Deferred tax assets		245	213
		28,283	27,787
Current assets			
Inventories		7,246	11,268
Trade and other receivables	9	3,850	3,411
Investments and time deposits	10	415	1,173
Cash and cash equivalents	11	5,791	6,271
		17,302	22,123
Current liabilities			
Trade and other payables	12	25,596	29,611
Bank loans	13	570	391
Income tax payables		271	364
		26,437	30,366
Net current liabilities		(9,135)	(8,243)
Total assets less current liabilities		19,148	19,544
Non-current liabilities			
Other financial liabilities		50	50
Deferred tax liabilities		50	113
		100	163
Net assets		19,048	19,381

The notes on pages 25 to 36 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014 – Unaudited

	Note	At 30 June 2014 RMB million	At 31 December 2013 RMB million
Capital and reserves			
Share capital: nominal value	14	–	2,721
Other statutory capital reserves		–	7,299
Share capital and other statutory capital reserves		10,020	10,020
Other reserves		8,316	8,728
Total equity attributable to equity shareholders of the Company		18,336	18,748
Non-controlling interests		712	633
Total equity		19,048	19,381

Approved and authorised for issue by the Board of Directors on 13 August 2014.

Bruno, Robert MERCIER
Chief Executive Officer
& Executive Director

HUANG Ming-Tuan
Executive Director

The notes on pages 25 to 36 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014 – Unaudited

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Exchange reserve	Statutory reserve	Retained profits	Total		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Balance at 1 January 2013	2,721	7,299	2,108	44	595	4,063	16,830	528	17,358
Changes in equity for the six months ended 30 June 2013:									
Profit for the period	-	-	-	-	-	1,576	1,576	94	1,670
Other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	1,576	1,576	94	1,670
Share-based payments	-	-	3	-	-	-	3	-	3
Dividend declared in respect of the previous year	-	-	-	-	-	(915)	(915)	-	(915)
Balance at 30 June 2013 and 1 July 2013	2,721	7,299	2,111	44	595	4,724	17,494	622	18,116
Changes in equity for the six months ended 31 December 2013:									
Profit for the period	-	-	-	-	-	1,199	1,199	73	1,272
Other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	1,199	1,199	73	1,272
Share-based payments	-	-	5	-	-	-	5	-	5
Cash injection from Employee Trust Benefit Schemes	-	-	50	-	-	-	50	32	82
Cash injection from non-controlling shareholders	-	-	-	-	-	-	-	35	35
Profit appropriation	-	-	-	-	174	(174)	-	-	-
Dividends declared and payable to non-controlling shareholders	-	-	-	-	-	-	-	(129)	(129)
Balance at 31 December 2013 and 1 January 2014	2,721	7,299	2,166	44	769	5,749	18,748	633	19,381
Changes in equity for the six months ended 30 June 2014:									
Profit for the period	-	-	-	-	-	1,710	1,710	79	1,789
Other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	1,710	1,710	79	1,789
Share-based payments	-	-	2	-	-	-	2	-	2
Transition to no-par value regime on 3 March 2014	7,299	(7,299)	-	-	-	-	-	-	-
Dividend declared in respect of the previous year	-	-	-	-	-	(2,124)	(2,124)	-	(2,124)
Balance at 30 June 2014	10,020	-	2,168	44	769	5,335	18,336	712	19,048

The notes on pages 25 to 36 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2014 – Unaudited

	Six months ended 30 June	
	2014 RMB million	2013 RMB million
Operating activities		
Cash generated from operations	4,278	5,155
Income tax paid	(887)	(712)
Net cash generated from operating activities	3,391	4,443
Investing activities		
Payment for the purchase of fixed assets	(2,732)	(2,925)
Other cash flows arising from investing activities	948	891
Net cash used in investing activities	(1,784)	(2,034)
Financing activities		
Dividends paid	(2,261)	(913)
Other cash flows arising from financing activities	172	(10)
Net cash used in financing activities	(2,089)	(923)
Net (decrease)/increase in cash and cash equivalents	(482)	1,486
Cash and cash equivalents at 1 January	6,271	5,757
Effect of foreign exchange rate changes	2	–
Cash and cash equivalents at 30 June	5,791	7,243

The notes on pages 25 to 36 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**”). 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 (**HKICPA**).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an 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.

This interim financial report contains 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 2013 annual financial statements. The condensed consolidated interim financial statements and notes thereon do 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 of Directors on 13 August 2014. 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 2013 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 2013 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 February 2014.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*
- HK (IFRIC) 21, *Levies*

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)

2 CHANGES IN ACCOUNTING POLICIES (continued)

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group’s interim financial report as the Company does not qualify to be an investment entity.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group’s interim financial report as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on the Group’s interim financial report as the Group has no impaired non-financial assets.

Amendments to HKAS 39, Novation of derivatives and continuation of hedge Accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on the Group’s interim financial report as the Group has no derivatives.

HK (IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group’s interim financial report as the guidance is consistent with the Group’s existing accounting policies.

3 TURNOVER AND SEGMENT REPORTING

The principal activity of the Group is the operation of hypermarkets 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 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	
	2014 RMB million	2013 RMB million
Sale of goods	46,690	43,420
Rental income	1,348	1,095
	48,038	44,515

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

4 OTHER REVENUE

	Six months ended 30 June	
	2014 RMB million	2013 RMB million
Service income	63	50
Disposal of packaging materials	48	41
Interest income	191	165
Government grants	86	72
Compensation received in respect of lease contracts disputes	–	18
	388	346

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	
	2014 RMB million	2013 RMB million
Interest expense on borrowings		
– wholly repayable within five years	4	4
– wholly repayable after five years	3	3
	7	7

(b) Staff costs

	Six months ended 30 June	
	2014 RMB million	2013 RMB million
Salaries, wages and other benefits	3,018	2,612
Contributions to defined contribution retirement plans	330	279
Contributions to Employee Trust Benefit Schemes (i)	184	140
Share-based payments	8	10
	3,540	3,041

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi (“RMB”) unless otherwise indicated)

5 PROFIT BEFORE TAXATION (continued)

(b) Staff costs (continued)

- (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.

(c) Other items

	Six months ended 30 June	
	2014	2013
	RMB million	RMB million
Cost of inventories	37,427	35,217
Depreciation	1,196	1,009
Amortisation	78	64
Operating lease charges	1,171	1,008
Loss on disposal of property, plant and equipment	6	6

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

6 INCOME TAX

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

	Six months ended 30 June	
	2014 RMB million	2013 RMB million
Current tax-Hong Kong Profits Tax		
Provision for the period (i)	2	1
Current tax-PRC income tax		
Provision for the period	781	590
Under provision in respect of prior years	11	24
	794	615
Deferred tax		
(Reversal)/origination of temporary differences, net	(95)	6
	699	621

- (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 (2013: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.
- (ii) All PRC subsidiaries are subject to income tax at 25% for the six months ended 30 June 2014 (2013: 25%) under the Enterprise Income Tax law ("**EIT law**") which was enacted on 16 March 2007.
- (iii) The EIT 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi (“RMB”) unless otherwise indicated)

6 INCOME TAX (continued)

(iii) (continued)

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

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

As at 30 June 2014, deferred tax liabilities of RMB39 million (31 December 2013: RMB102 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 2014 and 31 December 2013 were calculated at the withholding tax rate of 5%.

7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB1,710 million (six months ended 30 June 2013: RMB1,576 million) and the weighted average number of 9,539,704,700 ordinary shares (six months ended 30 June 2013: 9,539,704,700 ordinary shares) in issue during the interim period.

	Six months ended 30 June	
	2014	2013
Issued ordinary shares at 1 January and 30 June	9,539,704,700	9,539,704,700

There were no dilutive potential ordinary shares during the six months ended 30 June 2014 and 2013 and therefore diluted earnings per share is equivalent to basic earnings per share.

8 FIXED ASSETS

During the six months ended 30 June 2014, the Group incurred capital expenditure of RMB1,803 million (six months ended 30 June 2013: RMB2,450 million), primarily in respect of new store developments. Items of fixed assets with a net book value of RMB8 million were disposed of during the six months ended 30 June 2014 (six months ended 30 June 2013: RMB24 million), resulting in a loss on disposal of RMB6 million (six months ended 30 June 2013: RMB6 million) (note 5(c)).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

9 TRADE AND OTHER RECEIVABLES

	At 30 June 2014 RMB million	At 31 December 2013 RMB million
Non-current		
Rental prepayments	450	510
Current		
Trade receivables	131	174
Amounts due from Contracted Stores	–	67
Amounts due from Contracted Store Owners	84	55
Other debtors	777	621
Value-added tax receivables	621	547
Prepayments:		
– rentals	1,325	1,045
– fixed assets	912	902
Sub-total	3,850	3,411
	4,300	3,921

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 Store Owners comprise advances made by the Group to certain Contracted Store Owners and the Contracted Stores' profit attributable to the Group.

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, 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 INVESTMENTS AND TIME DEPOSITS

	At 30 June 2014 <i>RMB million</i>	At 31 December 2013 <i>RMB million</i>
Loans and receivables	302	1,029
Time deposits	113	144
	415	1,173

Loans and receivables represent short-term financial products originated by commercial banks, with guaranteed principals, fixed or determinable returns and with periods to maturity over 3 months from date of issue. Time deposits as at 30 June 2014 of RMB113 million (31 December 2013: RMB144 million) have original maturity of over three months.

11 CASH AND CASH EQUIVALENTS

	At 30 June 2014 <i>RMB million</i>	At 31 December 2013 <i>RMB million</i>
Deposits with banks within 3 months of maturity	276	99
Cash at bank and on hand	4,056	4,349
Other financial assets	1,459	1,823
Cash and cash equivalents in the consolidated statement of financial position and condensed consolidated cash flow statement	5,791	6,271

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

12 TRADE AND OTHER PAYABLES

	At 30 June 2014 <i>RMB million</i>	At 31 December 2013 <i>RMB million</i>
Current		
Trade payables	12,961	15,951
Advance receipts from customers	7,440	8,080
Amounts due to related parties (<i>note 17</i>)	104	82
Construction costs payable	1,446	2,363
Amounts due to Contracted Stores	24	–
Dividends payable	16	153
Accruals and other payables	3,605	2,982
	25,596	29,611

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

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

The amounts due to Contracted Stores as at 30 June 2014 included advance payment made by Contracted Stores in respect of purchase of goods, and offset by 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.

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

	At 30 June 2014 <i>RMB million</i>	At 31 December 2013 <i>RMB million</i>
Due within 6 months	12,894	15,816
Due after 6 months but within 12 months	67	135
	12,961	15,951

13 BANK LOANS

Bank loans were unsecured and carried interest at annual rates ranging from 1.55% to 5.60% as at 30 June 2014 (31 December 2013: from 1.55% to 1.88%).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi (“RMB”) unless otherwise indicated)

14 SHARE CAPITAL AND DIVIDENDS

(a) Share capital

	At 30 June 2014		At 31 December 2013	
	No. of shares	RMB million	No. of shares	RMB million
Ordinary shares, issued and fully paid:	9,539,704,700	2,721	9,539,704,700	2,721
Transition to no-par value regime on 3 March 2014	–	7,299	–	–
At 30 June/31 December	9,539,704,700	10,020	9,539,704,700	2,721

As at 31 December 2013, 20,000,000,000 ordinary shares with par value of HKD0.3 each, were authorised for issue. Under the new Hong Kong Companies Ordinance (Cap. 622) (“CO”), which commenced operation on 3 March 2014, the concepts of “authorised share capital” and “par value” no longer exist. As part of the transition to the no-par value regime, the amounts standing to the credit of the share premium account on 3 March 2014 have become part of the Company’s share capital, under the transitional provisions set out in section 37 of Schedule 11 to the new CO. These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

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

A final dividend of HKD0.12 (equivalent to RMB0.10) per ordinary share amounted to RMB915 million in respect of the year ended 31 December 2012 was approved on 15 May 2013 and paid on 11 June 2013.

A final dividend of HKD0.28 (equivalent to RMB0.22) per ordinary share amounted to RMB2,124 million in respect of the year ended 31 December 2013 was approved on 14 May 2014 and paid on 9 June 2014.

No interim dividend has been declared in respect of the six months ended 30 June 2014.

(c) Share premium

Prior to 3 March 2014, the application of the share premium account was governed by sections 48B of the predecessor Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new CO on 3 March 2014 any amount standing to the credit of the share premium account has become part of the Company’s share capital (see note 14(a)). The use of share capital as from 3 March 2014 is governed by the new CO.

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 statements were as follows:

	At 30 June 2014 <i>RMB million</i>	At 31 December 2013 <i>RMB million</i>
Contracted for	2,626	1,894
Authorised but not contracted for	3,652	6,491
	6,278	8,385

16 CONTINGENCIES

As at 30 June 2014, legal actions have commenced against the Group by certain customers and certain suppliers in respect of disputes on purchase agreements. The total amount claimed is RMB70 million (31 December 2013: RMB72 million). As at 30 June 2014, the legal actions were ongoing, with most of the actions not yet set for trial dates. Provision of RMB18 million (31 December 2013: RMB19 million) has been made within Trade and other payables as at 30 June 2014, 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	
	2014 <i>RMB million</i>	2013 <i>RMB million</i>
Short-term employee benefits	28	36
Post-employment benefits	1	1
Share-based payments	2	4
	31	41

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi (“RMB”) unless otherwise indicated)

17 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(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 during the six months ended 30 June 2014 and 2013.

	Six months ended 30 June	
	2014 RMB million	2013 RMB million
Agency fees receivable (i)	28	26
Trademark fee payable (ii)	16	11
IT services fee payable (iii)	4	3
Expenses payable (iv)	38	35
Contributions to Employee Trust Benefit Schemes	184	140
Oney card service fee (v)	4	2

- (i) 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..
- (ii) 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.
- (iii) IT services fee payable represents the fee charged by Auchan International Technology for IT support and services provided.
- (iv) Expenses payable primarily relate to personnel and administrative costs paid by subsidiaries of Auchanhyper S.A. on behalf of the Group, which are reimbursed and expensed by the Group.
- (v) This represents the service fee charged by Oney Accord Business Consulting (Shanghai) Co., Ltd. on provision of assistance on issuing and administration of prepaid cards and support for payment terminals.

(c) Related party balances

	At 30 June 2014 RMB million	At 31 December 2013 RMB million
	Amounts due from subsidiaries of Groupe Auchan S.A.	73
Amounts due to Groupe Auchan S.A. and its subsidiaries	104	82