Sun Art Retail Group Ltd.

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

2017 Interim Report

DIRECTORS

Executive Directors

Ludovic, Frédéric, Pierre HOLINIER
(Chief Executive Officer) (appointed on 11 July 2017)
HUANG Ming-Tuan

Non-Executive Directors

CHENG Chuan-Tai *(Chairman)*
Benoit, Claude, Francois, Marie, Joseph LECLERCQ
Xavier, Marie, Alain DELOM de MEZERAC
Wilhelm, Louis HUBNER

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
Wilhelm, Louis HUBNER
Desmond MURRAY
HE Yi

NOMINATION COMMITTEE

HE Yi *(Chairman)*
CHENG Chuan-Tai
Wilhelm, Louis HUBNER
Karen Yifen CHANG
Desmond MURRAY

COMPANY SECRETARY

CHAN Wai Ling, FCIS, FCS (PE)

AUTHORISED REPRESENTATIVES

Ludovic, Frédéric, Pierre HOLINIER
(appointed on 11 July 2017)
CHAN Wai Ling

REGISTERED OFFICE IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East, Hong Kong

BRANCH OFFICE IN HONG KONG

Suite No. 02, 22/F, Sino Plaza
255-257 Gloucester Road
Causeway Bay, Hong Kong

PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC" OR "CHINA")

6th Floor, No. 165 Long Kou Road
Yangpu District, 200090 Shanghai, China

LEGAL ADVISOR

Herbert Smith Freehills
23rd Floor, Gloucester Tower
15 Queen's Road Central, Hong Kong

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

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		
	2017	2016	**Change**
	RMB million	*RMB million*	
	Unaudited		
Revenue	**54,080**	52,943	2.1%
Gross Profit	**12,582**	12,059	4.3%
Profit from Operations	**2,925**	2,199	33.0%
Profit for the Period	**1,898**	1,461	29.9%
Profit Attributable to Equity Shareholders of the Company	**1,757**	1,432	22.7%
Earnings Per Share ("EPS")			
– Basic and diluted (1)	**RMB0.18**	RMB0.15	

Note:

(1) The calculation of basic and diluted EPS for the six months ended 30 June 2017 and 2016 is based on the weighted average number of 9,539,704,700 ordinary shares in issue during the periods.

BUSINESS REVIEW

Operating Environment

In the first half year of 2017, China's gross domestic product ("**GDP**") grew by 6.9% to approximately RMB38,149 billion. The overall consumer price index ("**CPI**") was up by 1.4% compared to the first half of 2016, the food CPI was down by 2.1%, driven mainly by the pork CPI which declined by 6.1%, vegetable CPI declined by 14.7% and egg CPI declined by 11.8%. Non-food CPI observed an increase of 2.3%.

Total retail sales of consumer goods in China reached RMB17,236.9 billion, representing a growth of 10.4% year on year. National online sales reached RMB3,107.3 billion, representing an increase of 33.4% compared to the same period last year. Online physical products sales for the six months ended 30 June 2017 amounted to RMB2,374.7 billion, representing an increase of 28.6% and accounted for 13.8% of total retail sales. According to the China Nation Commercial Information Center, the sales growth of 50 key retailers has increased by 2.8%.

Continue the Initiatives of New Formats and Prudent Closure of stores

During the period under review, Sun Art Retail Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") opened two new hypermarket complexes under the RT-mart banner, of which one was located in Eastern China, one was located in Central China.

As of 30 June 2017, the Group had a total of 446 hypermarket complexes in China with a total gross floor area ("**GFA**") of approximately 12.105 million square meters. Approximately 69.0% of the GFA was operated as leased space, 30.8% of the GFA was in self-owned properties and 0.2% of the GFA was contracted stores ("**Contracted Stores**"). Please refer to note 1 below for definitions of regional zones.

As of 30 June 2017, approximately 8% of the Group's stores, were located in first-tier cities, 17% in second-tier cities, 45% in third-tier cities, 22% in fourth-tier cities and 8% in fifth-tier cities. Please refer to note 2 below for definitions of tiers.

As of 30 June 2017, through the execution of lease contracts or acquisition of land plots, the Group had identified and secured 78 sites to open hypermarket complexes, of which 71 were under construction. Given that more and more new stores are going to be opened in lower tier cities, in order to ensure the quality of the stores, the Group has upgraded site selection standards.

In the first half of 2017, the Group closed two stores, one RT-mart store located in Shanghai and one Auchan store located in Qingdao. The Group plans to close a third store in the second half of 2017 which was loss-making for the past few years and failed to achieve any improvements after specific action plans were implemented. The cost of the closures has already been included in 2017 interim result.

The Group opened the first Hi!Auchan Premium Supermarket in December 2015. In the first half of 2017, both sales and customer number of the first Hi!Auchan increased by 40% compared to those for the corresponding period of 2016. In light of this good performance, the Group plans to open a second Hi!Auchan in Shanghai in the second half of 2017.

In the first half of 2017, the Group cooperated with SHILLA (新羅) and opened two beauty shops named LLABEAU (萊碧), one located in the RT-mart store in Ningbo and the other located in the Auchan store in Suzhou. Three new beauty shops will be opened in the second half of this year.

In the first half of 2017, the Group started piloting the concept of the unmanned convenience store. As at 30 June 2017, the systems and infrastructures of the current prototype are still at the stage of development. The Group will continue to explore the unmanned retail concept with upgraded prototypes accompanied by more advanced technologies, with the belief that it is a retail innovation with far-reaching implication.

As of 30 June 2017, 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 2017)				Total GFA of hypermarket complexes (sq.m.) (As of 30 June 2017)		
	Auchan	RT-mart	Total	Percentage	Auchan	RT-mart	Total
Eastern China	50	131	181	41%	2,047,222	3,183,796	5,231,018
Northern China	5	42	47	11%	151,064	1,045,298	1,196,362
Northeastern China	2	44	46	10%	55,939	1,235,587	1,291,526
Southern China	5	75	80	18%	124,523	1,837,678	1,962,201
Central China	10	62	72	16%	293,766	1,553,858	1,847,624
Western China	5	15	20	4%	223,839	352,678	576,517
Total	77	369	446	100%	2,896,353	9,208,895	12,105,248

Notes:

(1) The Group adopts the following regional zoning according to the national regional economic planning guidelines:

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

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

First-tier cities:	Municipalities under the direct jurisdiction of the central government and Guangzhou City
Second-tier cities:	Provincial capitals and sub-provincial cities
Third-tier cities:	Prefecture-level cities
Fourth-tier cities:	County-level cities
Fifth-tier cities:	Townships and towns

Fulfillment of one-hour delivery of Fresh products, RT-mart Fresh helps to upgrade products from online to offline

Feiniu's one-hour delivery service named "Ji Su Da" (急速達) was officially launched in the mid June 2017 and was rolled out to nearly 400 mortar stores. It covers the business area of each participating store within a three-kilometer radius. Ji Su Da provides 4,000 stock keeping units ("**SKU**") with 3,000 standard items and 1,000 fresh products, to satisfy 80% to 90% of family daily needs. Mortar stores acting as warehouses of Ji Su Da enable it to provide local products to our customers in the same manner as stores at the same prices. Given the one-hour delivery service from stores to homes, Ji Su Da is lowering the costs of warehousing and last mile delivery.

Moreover, the Group, through Feiniu, is developing O2O and Business to Business ("**B2B**") as an e-commerce initiative. The business areas that are serviced can be expanded from a radius of three kilometers to five kilometers or even ten kilometers. As of 30 June 2017, the gross merchandise value ("**GMV**") of Feiniu has reached RMB1.8 billion, double the size compared to the same period of 2016 and continues to narrow the loss. Feiniu now has over 28 million registered members, of which 3.5 million are active during the first half of 2017.

Meanwhile, the first "RT-mart Fresh" (大潤發優鮮) has been successfully launched inside RT-mart Yang Pu store in early July 2017. "RT-mart Fresh" covers 5,000 SKUs, mainly focusing on fresh products and food, including categories such as fresh, imported products, general goods and FMCG (Fast Moving Consumer Goods). The benefit of this initiative is twofold: (i) it is a model of future independent "RT-mart Fresh" stores, which enables us to open 3,000 to 4,000 sqm. mortar stores in city centers or shopping centers in the near future; and (ii) it helps the existing products of mortar stores to be optimised and upgraded from online to offline.

Human Resource

As of 30 June 2017, the Group had 138,791 employees.

As of the date of this interim report, 12 provinces and municipalities have announced the adjustment of minimum wage in 2017. Shanghai, Shenzhen, Shaanxi, Qinghai, Gansu, Shandong have raised the minimum wage in and before June of 2017. Tianjing, Jiangsu, Hunan, Fujian, Guizhou will implement the augmentation in July and Beijing plans to augment it in September. Those 12 regions cover 49% of the stores of the Group.

Outlook

The Group will spare no effort to provide what customers need with competitive prices, diversified business formats, a nationwide stores network and our internet platform, to fulfill customer requirements quickly and effectively.

FINANCIAL REVIEW

Revenue

Revenue is derived from sales of goods and rental income. Revenue from sales of goods is primarily derived from the hypermarkets and E-commerce platforms where merchandise, mainly food, groceries, home appliances, textile and general goods, are laid out for sale. Revenue from sales of goods is net of value added tax and other applicable sales taxes after deducting any trade discounts. Revenue from rental income is derived from renting gallery space in hypermarket complexes to operators of businesses that we believe are complementary to the stores.

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

	Six months ended 30 June		
	2017	2016	**Change**
	(RMB million)	*(RMB million)*	
Sales of goods	**52,294**	51,248	2.0%
Rental income	**1,786**	1,695	5.4%
Total revenue	**54,080**	52,943	2.1%

For the six months ended 30 June 2017, revenue from sales of goods was RMB52,294 million, representing an increase of RMB1,046 million, or 2.0%, from RMB51,248 million for the corresponding period in 2016. The increase was primarily attributable to continued business expansion of the Group with the opening of new stores [(1)].

During the period from 1 July 2016 to 30 June 2017, the Group continued to expand in various areas of China and opened 29 new stores with 27 in the second half of 2016 and two in the first half of 2017, respectively. The new stores contributed to the increase in sales of goods.

For the six months ended 30 June 2017, the Same Store Sales Growth ("**SSSG**") [(2)] was -0.9%, compared to -0.3% for the corresponding period in 2016. During the 2017 first half year, the trend of online and offline ("**O2O**") business integration accelerated and several new formats of retail stores have been launched, which provided customers with more choice. The Group has been making efforts to satisfy the more diversified needs and to provide customers an integrated shopping experience by continuously developing its O2O business and trying new retail formats.

Notes:

(1) New stores: stores opened during the period from 1 July 2016 to 30 June 2017.

(2) Same store sales growth: the growth rate of sales of the stores opened before 30 June 2016. It is calculated by comparing the sales derived from those stores during their operating periods in first half of 2016 with sales during the corresponding periods in 2017.

For the six months ended 30 June 2017, revenue from rental income was RMB1,786 million, representing an increase of RMB91 million, or 5.4%, from RMB1,695 million for the corresponding period in 2016. 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 2017, gross profit was RMB12,582 million, representing an increase of RMB523 million, or 4.3%, from RMB12,059 million for the corresponding period in 2016. The gross profit margin for the six months ended 30 June 2017 was 23.3%, representing an increase of 0.5 percentage points from 22.8% for the corresponding period in 2016. The increase in the gross profit margin was a result of a greater increase in revenue of 2.1% as compared to the increase in cost of sales of 1.5%, reflecting the ability of the Group to leverage on the economies of scale to improve the gross profit margin.

Other Income

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

For the six months ended 30 June 2017, other income was RMB1,020 million, representing an increase of RMB584 million, or 133.9%, from RMB436 million for the corresponding period in 2016. The increase was primarily attributable to: (i) the income of RMB460 million recognised for ultimately unredeemed amount of prepaid cards issued over a period of time; (ii) an increase in service income of RMB45 million, which was mainly generated from the service provided in hypermarket complexes; and (iii) an increase in interest income of RMB40 million which was related to increased investment in financial products during the six months ended 30 June 2017.

Operating Costs

Operating costs represent the costs attributable to the operations of the stores and E-commerce platforms. Operating costs primarily consist of personnel expenses, operating lease charges, expenses for utilities, maintenance, advertising, shuttle bus services and cleaning, together with the amortisation of land use rights and the depreciation of property, plant and equipment.

For the six months ended 30 June 2017, operating costs were RMB9,260 million, representing an increase of RMB374 million, or 4.2%, from RMB8,886 million for the corresponding period in 2016.

The increase was primarily attributable to the increase in the number of stores in accordance with the on-going expansion of the hypermarket network and the development of E-commerce platforms. These projects required recruitment of new staff. Meanwhile, the Group followed government guidance in relation to the increase in the minimum wage for staff. These developments led to the increase in personnel expenses. Also, new stores, operated on leased or self-owned sites, resulted in an increase in operating lease charges, amortisation of land use rights and depreciation of property, plant and equipment.

Expressed as a percentage, the amount of operating costs for the period ended 30 June 2017 as of the revenue in the first half of 2017 was 17.1%, representing an increase of 0.3 percentage points, from 16.8% of the corresponding period in 2016. This increase was a result of a greater increase in operating cost of 4.2% as compared to the increase in revenue of 2.1%.

Administrative Expenses

Administrative expenses primarily consist of personnel expenses, travelling expenses, amortisation of land use rights, depreciation of property, plant and equipment and other expenses for the administrative departments. For the six months ended 30 June 2017, administrative expenses were RMB1,417 million, representing an increase of RMB7 million, or 0.5%, from RMB1,410 million for the corresponding period in 2016. The increase was primarily attributable to an increase in number of administrative staff to provide support services for the expanded network of hypermarket complexes and E-commerce platforms.

Expressed as a percentage, the amount of administrative expenses for the period ended 30 June 2017 as of the revenue for the first half of 2017 was 2.6%, representing a decrease of 0.1 percentage point, from 2.7% of the corresponding period in 2016. This decrease was a result of a slower increase in administrative expenses of 0.5% as compared to the increase in revenue of 2.1%.

Profit from Operations

For the six months ended 30 June 2017, the profit from operations was RMB2,925 million, representing an increase of RMB726 million, or 33.0%, from RMB2,199 million for the corresponding period in 2016. The operating margin was 5.4% for the six months ended 30 June 2017, representing an increase of 1.2 percentage points, from 4.2% of the corresponding period in 2016. The operating margin would have been 4.6%, excluding the income recognised for ultimately unredeemed prepaid cards of RMB460 million, which demonstrated that the Group was able to maintain its profitability while developing its business.

Finance Costs

Finance costs primarily consist of the interest expenses on borrowings. For the six months ended 30 June 2017, the finance costs were RMB5 million, representing a decrease of RMB7 million, or 58.3% from RMB12 million for the corresponding period in 2016. The decrease is mainly related to the lower average balance of borrowings during the six months ended 30 June 2017 compared with the corresponding period in 2016.

Income Tax

For the six months ended 30 June 2017, income tax expense was RMB1,021 million, representing an increase of RMB299 million, or 41.4%, from RMB722 million for the corresponding period in 2016. The effective income tax rate was 35.0% for the six months ended 30 June 2017, representing an increase of 1.9 percentage points, compared to 33.1% for the corresponding period in 2016. The increase in effective tax rate was mainly attributable to the provision of withholding tax for the 2016 and 2017 final dividend appropriation in relation to the recent interpretations received from the Hong Kong Inland Revenue Department regarding the issuance of Certificate of Resident Status of companies in Hong Kong.

Profit for the Period

For the six months ended 30 June 2017, profit for the period was RMB1,898 million, representing an increase of RMB437 million, or 29.9%, from RMB1,461 million for the corresponding period in 2016. Net profit margin for the period ended 30 June 2017 was 3.5%, increasing by 0.7 percentage points from 2.8% for the corresponding period in 2016. Besides the income of RMB345 million generating from the recognition of aged unutilised prepaid card balances after income tax, the increase in profit for the period was also attributable to the improved operating margin of mortar stores and the reduced losses generated by E-commerce platforms.

Profit Attributable to Equity Shareholders of the Company

For the six months ended 30 June 2017, the profit attributable to equity shareholders of the Company was RMB1,757 million, representing an increase of RMB325 million, or 22.7%, from RMB1,432 million for the corresponding period in 2016.

Profit Attributable to Non-Controlling Interests

For the six months ended 30 June 2017, the profit attributable to non-controlling interests was RMB141 million, representing an increase of RMB112 million, or 386.2%, from RMB29 million for the corresponding period in 2016. 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(*); (ii) the interests held by independent third parties in three of the subsidiaries, People's RT-Mart Limited Jinan and Feiniu E-commerce Hong Kong Limited ("**Feiniu HK**") and Fields Hong Kong Limited ("**Fields HK**"); and (iii) the interest held by Banque Accord S.A. ("**Banque Accord**") in Oney Accord Business Consulting (Shanghai) Co., Ltd. ("**Oney Accord**").

Pursuant to the share transfer agreement between the Company and Grand Charm Ventures Limited ("**GCVL**") dated 11 July 2017, the Company agreed to acquire 147.6 million shares in Feiniu HK (14.255%) from GCVL for a cash consideration of RMB166.7 million. The transfer was completed on 17 July 2017. After the transaction, Feiniu HK became a wholly owned subsidiary of the Company.

Liquidity and Financial Resources

For the six months ended 30 June 2017, cash flow generated from operating activities was RMB3,999 million, representing an increase of RMB107 million, or 2.7%, from RMB3,892 million for the corresponding period in 2016.

As of 30 June 2017, the net current liabilities decreased to RMB9,348 million from RMB10,371 million as of 31 December 2016. This decrease was primarily attributed to (i) a decrease in the current assets of RMB5,799 million, related to the reduced stock level as at 30 June 2017, partially offset by the increase in cash and cash equivalents; and (ii) a decrease in current liabilities of RMB6,822 million mainly from the decreased balance of trade and other payable of RMB6,688 million. The decrease in current liabilities was greater than the decrease in current assets, which resulted in a decrease to the net current liabilities.

* The Group has established an Employee Trust Benefit Scheme of CIC and its subsidiaries (the "**RT-Mart Scheme**") and an Employee Trust Benefit Scheme of ACI and its subsidiaries (the "**Auchan Scheme**"). For further details, please refer to Note 6(b) of "Notes to the unaudited interim financial report" on page 30 to 31 of the interim report.

For the six months ended 30 June 2017, the inventory turnover days and trade payable turnover days were 53 days and 78 days, respectively, compared to 46 days and 73 days for the corresponding period of 2016.

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

Investing Activities

For the six months ended 30 June 2017, cash flow used in investing activities was RMB1,398 million, representing a decrease of RMB505 million, or 26.5%, from RMB1,903 million for the six months ended 30 June 2016.

The cash flow used in investing activities mainly reflected the capital expenditure of RMB704 million in respect of the development of new stores and the remodelling of existing stores, as well as the settlement of capital expenditure incurred in 2016 of RMB808 million.

Financing Activities

For the six months ended 30 June 2017, cash flow used in financing activities was RMB1,991 million, with an increase of RMB254 million, or 14.6%, from RMB1,737 for the six months ended 30 June 2016. This increase was attributable to (i) the increase in dividend distribution of RMB444 million; and partially offset by (ii) the decrease in bank borrowings net repayment of RMB190 million.

CORPORATE GOVERNANCE PRACTICES

The Company has 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 to the Listing Rules.

The Company reviews regularly its organisational 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 code provisions as set out in the CG Code for the six months ended 30 June 2017, save and except for the deviation of code provision C.3.7(a) of the CG Code.

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

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

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own policies for securities transactions (the "**Company Code**") by the 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 to the Listing Rules.

Specific enquiry has been made of all the Directors and the relevant employees and they have confirmed that they have complied with the Model Code and the Company Code throughout the six months ended 30 June 2017.

DIRECTORS

The Directors during the six months ended 30 June 2017 and as of the date of this interim report were as follows:–

Executive Directors:

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

HUANG Ming-Tuan (Appointed on 28 April 2011)
(CHENG Chuan-Tai as his alternate, appointed on 13 May 2011)

Bruno, Robert MERCIER *(Former Chief Executive Officer)* (Resigned on 11 July 2017)
(Ceased to act as alternate to Xavier, Marie, Alain DELOM de MEZERAC,
Benoit, Claude, Francois, Marie, Joseph LECLERCQ and Wilhelm, Louis HUBNER on 11 July 2017)

(Xavier, Marie, Alain DELOM de MEZERAC,
Benoit, Claude, Francois, Marie, Joseph LECLERCQ
and Wilhelm, Louis HUBNER as his alternates, all ceased to act on 11 July 2017)

Non-executive Directors:

CHENG Chuan-Tai *(Chairman)* (Appointed on 28 April 2011)
(HUANG Ming-Tuan as his alternate, appointed on 13 May 2011)

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

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

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

Independent non-executive Directors:

Karen Yifen CHANG (Appointed on 27 June 2011)
Desmond MURRAY (Appointed on 27 June 2011)
HE Yi (Appointed on 27 June 2011)

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

During the six months ended 30 June 2017, 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 9 August 2017, no dividend for the six months ended 30 June 2017 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, as at the latest practicable date prior to the printing of this interim report, the Company has maintained the amount of public float as approved by the Stock Exchange and as permitted under the Listing Rules.

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

As at 30 June 2017, 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 were required, pursuant to section 352 of the SFO, to be entered in the register, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, are as follows:

Name of director/ chief executive	**Name of corporation**	**Nature of interest**	**Total number of shares[1]**	**Approximate percentage shareholding of the relevant entity**
Bruno, Robert MERCIER[2]	Company	Beneficial owner	140,000(L)	0.0015%
HUANG Ming-Tuan	Company	Beneficial owner, interest of spouse and interest in a controlled corporation[4]	117,234,074(L)	1.2289%

Name of director/ chief executive	Name of corporation	Nature of interest	Total number of shares[1]	Approximate percentage shareholding of the relevant entity
CHENG Chuan-Tai	Company	Beneficial owner	6,000,000(L)	0.0629%
Xavier, Marie, Alain DELOM de MEZERAC	Auchan Holding S.A.[3]	Beneficial owner	791(L)[5] 730(L)[6] 459(L)[7] 719(L)[8]	0.0026% 0.0024% 0.0015% 0.0024%
	Oney Bank S.A.[9]	Beneficial owner	1,173(L)[10]	0.0811%
Wilhelm, Louis HUBNER	Auchan Holding S.A.[3]	Beneficial owner	953(L)[11] 3,572(L)[12]	0.0031% 0.0118%
Desmond MURRAY	Company	Beneficial owner	55,000(L)	0.0006%

Notes:

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

(2) Mr Bruno, Robert MERCIER resigned as executive Director on 11 July 2017.

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

    (i) Stock Option Plan (2017) relating to the grant of options to subscribe for shares in Auchan Holding S.A. with a vesting period from 30 August 2017 to 30 September 2017.

    (ii) Stock Option Plan (2018) relating to the grant of options to subscribe for shares in Auchan Holding S.A. with a vesting period from 29 August 2018 to 30 September 2018.

    (iii) Stock Option Plan (2019) relating to the grant of options to subscribe for shares in Auchan Holding S.A. with a vesting period from 28 August 2019 to 30 September 2019.

    Note: With effect from 9 May 2012, the only class of shares issued by Auchan Holding S.A. is ordinary shares, the restricted shares and Class S shares were converted to ordinary shares on 9 May 2012. The issued share capital of Auchan Holding S.A. is 30,380,392 shares as at 30 June 2017.

(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 791 shares in Auchan Holding S.A.

(6) This represents stock options in respect of 730 shares in Auchan Holding S.A. granted pursuant to the Auchan Holding S.A. Stock Option Plan (2017).

(7) This represents stock options in respect of 459 shares in Auchan Holding S.A. granted pursuant to the Auchan Holding S.A. Stock Option Plan (2018).

(8) This represents stock options in respect of 719 shares in Auchan Holding S.A. granted pursuant to the Auchan Holding S.A. Stock Option Plan (2019).

(9) Oney Bank S.A. (formerly "Banque Accord S.A.") is a company incorporated in France and a subsidiary of Auchan Holding S.A.. The major business of Oney Bank S.A. includes financial products and services as well as electronic banking provided to clients; and tailor-made solutions on payment and customer portfolio management provided to business partners. The issued share capital of Oney Bank S.A. as at 30 June 2017 is 1,445,771 shares.

(10) This represents 1,173 free shares in Oney Bank S.A. to be exercised on 25 August 2018.

(11) This represents 953 free shares in Auchan Holding S.A. to be exercised on 25 August 2018.

(12) This represents 3,572 free shares in Auchan Holding S.A. to be exercised on 25 August 2020.

Save as disclosed above, so far as known to any Directors, as at 30 June 2017, 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 2017, the persons or corporations (other than Directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company or its associated corporation(s) which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of substantial shareholder	Nature of interest	Number and class of shares [1]	Approximate percentage of shareholding
A-RT[2]	Beneficial owner	4,865,338,686(L)	51.0009%
Auchan Retail International S.A.[3]	Interest in a controlled corporation and beneficial owner	5,791,757,452(L)[12]	60.7121%
Auchan Holding 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[7]	Beneficial owner	748,376,538(L)[13]	7.8449%
CGC[8]	Beneficial owner	807,024,010(L)[14]	8.4596%
Ruentex Industries[9]	Interest in a controlled corporation	807,024,010(L)[14]	8.4596%
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]	7.8449%

Notes:

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

(2) A-RT Retail Holdings Limited ("**A-RT**") is 36.70% owned by Auchan Retail International S.A. (formerly "Auchan Hyper S.A."), therefore Auchan Retail International S.A. 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 Exploitatie Maatschappij BV ("**Monicole BV**").

Monicole BV is a company incorporated in the Netherlands, which is indirectly wholly-owned by Auchan Retail International S.A..

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

(4) Auchan Retail International S.A. is wholly-owned by Auchan Holding S.A., therefore Auchan Holding S.A. is deemed to be interested in all the shares in which Auchan Retail International S.A. is interested in by virtue of Part XV of the SFO.

(5) Auchan Holding S.A. is 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 Auchan Holding S.A. is interested in by virtue of Part XV of the SFO.

(6) Mulliez Family comprises the founder of Auchan Holding S.A. (one of our two ultimate controlling shareholders), Gerard Mulliez, and other members of the Mulliez family in France, who hold interests in various companies under Auchan Holding 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 International Limited ("**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) Concord Greater China Limited ("**CGC**") is a company incorporated in the British Virgin Islands and a company under Ruentex (Ruentex Development Co. Ltd. ("**Ruentex Development**"), Ruentex Industries Limited ("**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 2017, the Directors of the Company are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company or its associated corporation(s) which would require to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

As at 30 June 2017, the shareholding interests of nine of the operating subsidiaries in the PRC are partially held by independent third parties. Those operating subsidiaries are Fields HK, Feiniu HK, RT-Mart Limited Shanghai, Jinan RT-Mart, Changshu Bairuenfa Hypermarket Co., Ltd., Shanghai Auchan Hypermarket Co., Ltd., Hangzhou Auchan Hypermarket Co., Ltd., Changzhou Immochan Real Estate Co., Ltd., and Wuxi Immochan Real Estate Co, Ltd. And the shareholding interest of Oney Accord is partially held by Oney Bank S.A., which is a connected person of the Company.

DEED OF NON-COMPETITION

Pursuant to a deed of non-competition dated 29 June 2011 (the "**Deed of Non-competition**") entered into between A-RT, Auchan Retail International S.A., Monicole BV, CGC, Kofu (collectively, the "**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 the six months ended 30 June 2017.

AUDIT COMMITTEE

The Company established the Audit Committee on 27 June 2011 with written terms of reference in compliance with the CG Code (new terms of reference were adopted by the Board on 11 December 2015). The primary duties of the Audit Committee are to assist the Board in overseeing and reviewing (i) the effectiveness of the Company's risk management and internal control systems and regulatory compliance of the Group; (ii) the balance, transparency and integrity of the Company's financial statements and application of financial reporting principle; (iii) the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and (iv) agree with internal auditors for their annual plan of work and the results of this work. The Audit Committee currently consists of five non-executive Directors, three of whom are independent. The members currently are Mr. 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 2017 and has met with the external 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 ("**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. Wilhelm, Louis Hubner, 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 ("**Remuneration Committee**") on 27 June 2011 with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee are to review and make recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee currently consists of five non-executive Directors, three of whom are independent. The members currently are Mr. Cheng Chuan-Tai, Mr. Wilhelm, Louis Hubner, 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.

OTHER CHANGES IN DIRECTOR'S INFORMATION

Other change in Director's information of the Company subsequent to the publication of the 2016 Annual Report is set out below:–

- Mr. Benoit, Claude, Francois, Marie, Joseph LECLERCQ resigned as a director of Auchan Holding S.A. with effect from 2 December 2015.

Save for the above disclosed, there is no other information in respect of Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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 21 to 38 which comprises the consolidated statement of financial position of Sun Art Retail Group Limited as at 30 June 2017 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 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 2017 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

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

9 August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017 – Unaudited

		Six months ended 30 June	
		2017	2016
	Note	***RMB million***	*RMB million*
Revenue	*4*	**54,080**	52,943
Cost of sales		**(41,498)**	(40,884)
Gross profit		**12,582**	12,059
Other income	*5*	**1,020**	436
Operating costs		**(9,260)**	(8,886)
Administrative expenses		**(1,417)**	(1,410)
Profit from operations		**2,925**	2,199
Finance costs	*6(a)*	**(5)**	(12)
Share of results of an associate and joint ventures		**(1)**	(4)
Profit before taxation	*6*	**2,919**	2,183
Income tax	*7*	**(1,021)**	(722)
Profit for the period		**1,898**	1,461
Other comprehensive income for the period			
Items that will not be reclassified to profit or loss:			
Changes in fair value of long-term other financial liabilities		**–**	7
Total comprehensive income for the period		**1,898**	1,468

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017 – Unaudited

		Six months ended 30 June	
		2017	2016
	Note	***RMB million***	*RMB million*
Profit attributable to:			
Equity shareholders of the Company		**1,757**	1,432
Non-controlling interests		**141**	29
Profit for the period		**1,898**	1,461
Total comprehensive income attributable to:			
Equity shareholders of the Company		**1,757**	1,439
Non-controlling interests		**141**	29
Total comprehensive income for the period		**1,898**	1,468
Earnings per share			
Basic and diluted	*8*	**RMB0.18**	RMB0.15

The notes on pages 27 to 38 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 15.

	Note	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Non-current assets			
Investment properties	9	**3,556**	3,615
Other property, plant and equipment	9	**21,938**	22,820
Land use rights	9	**5,682**	5,740
		31,176	32,175
Intangible assets		**70**	77
Goodwill		**181**	181
Equity-accounted investees		**29**	15
Unquoted available-for-sale equity security		**4**	4
Trade and other receivables	10	**447**	397
Deferred tax assets		**428**	395
		32,335	33,244
Current assets			
Inventories		**8,801**	15,409
Trade and other receivables	10	**3,699**	3,552
Investments and time deposits	11	**86**	36
Cash and cash equivalents	12	**8,712**	8,100
		21,298	27,097
Current liabilities			
Trade and other payables	13	**30,119**	36,807
Bank loans	14	**3**	23
Income tax payables		**524**	638
		30,646	37,468
Net current liabilities		**(9,348)**	(10,371)
Total assets less current liabilities		**22,987**	22,873
Non-current liabilities			
Bank loans	14	**2**	3
Other financial liabilities		**50**	50
Deferred tax liabilities		**233**	11
		285	64
Net assets		**22,702**	22,809

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 – Unaudited

	Note	**At 30 June 2017** ***RMB million***	At 31 December 2016 *RMB million*
Capital and reserves			
Share capital	*15*	**10,020**	10,020
Reserves		**11,454**	11,765
Total equity attributable to equity shareholders of the Company		**21,474**	21,785
Non-controlling interests		**1,228**	1,024
Total equity		**22,702**	22,809

Approved and authorised for issue by the Board of Directors on 9 August 2017.

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

HUANG Ming-Tuan
Executive Director

The notes on pages 27 to 38 form part of this interim financial report.

	Note	Attributable to equity shareholders of the Company							
		Share capital *RMB million*	Capital 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 2016		10,020	2,182	45	1,046	7,453	20,746	881	21,627
Changes in equity for the six months ended 30 June 2016:									
Profit for the period		–	–	–	–	1,432	1,432	29	1,461
Other comprehensive income		–	7	–	–	–	7	–	7
Total comprehensive income		–	7	–	–	1,432	1,439	29	1,468
Cash injection from non-controlling interests		–	–	–	–	–	–	21	21
Acquisition of non-controlling interests		–	(103)	–	–	–	(103)	103	–
Shared-based payments		–	(4)	–	–	–	(4)	–	(4)
Dividend declared in respect of previous year	15(b)	–	–	–	–	(1,521)	(1,521)	–	(1,521)
Balance at 30 June 2016		10,020	2,082	45	1,046	7,364	20,557	1,034	21,591
Balance at 1 July 2016		10,020	2,082	45	1,046	7,364	20,557	1,034	21,591
Changes in equity for the six months ended 31 December 2016:									
Profit for the period		–	–	–	–	1,139	1,139	29	1,168
Other comprehensive income		–	51	–	–	–	51	–	51
Total comprehensive income		–	51	–	–	1,139	1,190	29	1,219
Cash injection from Employee Trust Benefit Schemes		–	92	–	–	–	92	67	159
Cash injection from non-controlling interests		–	–	–	–	–	–	69	69
Acquisition of non-controlling interests		–	(54)	–	–	–	(54)	(51)	(105)
Profit appropriation to statutory reserve		–	–	–	166	(166)	–	–	–
Dividends declared and payable to non-controlling shareholders		–	–	–	–	–	–	(124)	(124)
Balance at 31 December 2016		10,020	2,171	45	1,212	8,337	21,785	1,024	22,809
Balance at 1 January 2017		**10,020**	**2,171**	**45**	**1,212**	**8,337**	**21,785**	**1,024**	**22,809**
Changes in equity for the six months ended 30 June 2017:									
Profit for the period		**–**	**–**	**–**	**–**	**1,757**	**1,757**	**141**	**1,898**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income		**–**	**–**	**–**	**–**	**1,757**	**1,757**	**141**	**1,898**
Acquisition of non-controlling interests		**–**	**(118)**	**–**	**–**	**–**	**(118)**	**63**	**(55)**
Share-based payments		**–**	**(2)**	**–**	**–**	**–**	**(2)**	**–**	**(2)**
Dividend declared in respect of the previous year	15(b)	**–**	**–**	**–**	**–**	**(1,948)**	**(1,948)**	**–**	**(1,948)**
Balance at 30 June 2017		**10,020**	**2,051**	**45**	**1,212**	**8,146**	**21,474**	**1,228**	**22,702**

The notes on pages 27 to 38 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2017 – Unaudited

	Six months ended 30 June	
	2017	2016
	RMB million	*RMB million*
Operating activities		
Cash generated from operations	**4,941**	4,686
Income tax paid	**(942)**	(794)
Net cash generated from operating activities	**3,999**	3,892
Investing activities		
Payment for the purchase of investment properties, other property, plant and equipment, land use rights and intangible assets	**(1,512)**	(1,980)
Payment for acquisition of non-controlling interests and investment to a joint venture	**(20)**	–
Other cash flows arising from investing activities	**134**	77
Net cash used in investing activities	**(1,398)**	(1,903)
Financing activities		
Dividends paid	**(1,965)**	(1,521)
Other cash flows used in financing activities	**(26)**	(216)
Net cash used in financing activities	**(1,991)**	(1,737)
Net increase in cash and cash equivalents	**610**	252
Cash and cash equivalents at 1 January	**8,100**	6,582
Effect of foreign exchange rate changes	**2**	15
Cash and cash equivalents at 30 June	**8,712**	6,849

The notes on pages 27 to 38 form part of this interim financial report.

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 (the "**Stock Exchange**") 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 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 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 expenses 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 2016 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 9 August 2017. 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 20.

The financial information relating to the year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap.622), ("**Company Ordinance**"), is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to HKFRSs 2014-2016 Cycle*
- *Amendments to HKAS 7, Statement of cash flows: Disclosure initiative*
- *Amendments to HKAS 12, Income taxes: Recognition of deferred tax assets for unrealised losses*

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

3 CHANGE IN ACCOUNTING ESTIMATE

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

As set out in the financial statements of the Group for the year ended 31 December 2016, the Group had approximately RMB9.7 billion of "advance receipts from customers" under "trade and other payables" as at 31 December 2016, which were primarily attributable to the balances of unutilised prepaid cards issued by the Group.

The Group has observed that a proportion of prepaid cards have been inactive for several years. The Group's accounting policy has been (and remains) to recognise revenue according to a "remote recognition" method. Under this policy, revenue is only recognised when it is possible to determine with a sufficiently high degree of confidence the amount of reversed card balances for which the likelihood of reversal of revenue is remote.

In previous reporting periods the Group's estimate in this respect was that there was an immaterial amount of aged prepaid cards for which there would not be future usage. However, as a result of more years of experience of the trend of prepaid cards usage, the Group believes it is now in a position to determine with a high degree of confidence the ultimate unredeemed amounts for certain groups of aged cards. In this regard the Group has engaged an independent actuarial firm in 2017 to assist in employing statistical methods to analyse the patterns of usage of cards. Using statistical models based on the card redemption statistics for the previous 12 years, the Group has adjusted its estimate of the forecast unredeemed amounts from aged prepaid cards. As a result, the Group has recognised an amount of RMB460 million as other income in this respect. This, after deducting 25% income tax, contributed an amount of approximately RMB345 million to the Group's consolidated net profit for the six months ended 30 June 2017.

4 REVENUE AND SEGMENT REPORTING

The principal activity of the Group is the operation of hypermarkets and E-commerce platforms in the People's Republic of China ("**PRC**").

The Group is organised, for management purposes, into business units based on the banner under which the hypermarkets and E-commerce platforms are operated. As all of the Group's hypermarkets and E-commerce platforms are 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 and E-commerce platforms in the PRC.

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

	Six months ended 30 June	
	2017	2016
	RMB million	*RMB million*
Sale of goods	**52,294**	51,248
Rental income	**1,786**	1,695
	54,080	52,943

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

5 OTHER INCOME

	Six months ended 30 June	
	2017	2016
	RMB million	*RMB million*
Income from aged unutilised prepaid cards (note 3)	**460**	–
Service income	**180**	135
Disposal of packaging materials	**87**	61
Interest income	**181**	141
Government grants	**108**	99
Compensation received	**4**	–
	1,020	436

Government grants represent subsidies received from local authorities.

6 PROFIT BEFORE TAXATION

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

(a) Finance costs:

	Six months ended 30 June	
	2017	2016
	RMB million	*RMB million*
Interest expense on borrowings		
– wholly repayable within five years	**3**	10
– wholly repayable after five years	**2**	2
	5	12

(b) Staff costs:

	Six months ended 30 June	
	2017	2016
	RMB million	*RMB million*
Salaries, wages and other benefits	**4,113**	3,917
Contributions to defined contribution retirement plans	**501**	467
Contributions to Employee Trust Benefit Schemes (i)	**153**	197
Share-based payments	**1**	(1)
	4,768	4,580

6 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	
	2017	2016
	RMB million	*RMB million*
Cost of inventories	**41,479**	40,796
Depreciation	**1,503**	1,472
Amortisation	**112**	100
Impairment provision – other property, plant and equipment	**40**	–
Operating lease charges	**1,446**	1,402
Loss on disposal of property, plant and equipment	**63**	–

7 INCOME TAX

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

	Six months ended 30 June	
	2017	2016
	RMB million	*RMB million*
Current tax – Hong Kong Profits Tax		
Provision for the period (i)	**–**	–
Over-provision in respect of prior years	**–**	(1)
Current tax – PRC income tax		
Provision for the period	**823**	701
Under-provision in respect of prior years	**9**	–
	832	700
Deferred tax		
Origination of temporary differences, net	**189**	22
	1,021	722

(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 (2016: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

(ii) Most PRC subsidiaries are subject to income tax at 25% for the six months ended 30 June 2017 (2016: 25%) under the Enterprise Income Tax law ("**EIT law**") which was enacted on 16 March 2007.

Pursuant to the related regulations in respect of the Notice of Certain Tax Policies for Implementation of Exploration and Development of Western Region (Cai Shui [2011] No. 58) jointly issued by the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation, five PRC subsidiaries of the Group are entitled to a preferential income tax rate of 15% during the six months ended 30 June 2017 and 2016.

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

7 INCOME TAX (CONTINUED)

(iii) (continued)

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

The Group has provided RMB109 million in relation to the expected funds transfer to finance the 2017 final dividend distribution, plus RMB90 million additional withholding tax in relation to the transfer of funds to finance the 2016 final dividend distribution due to a recent interpretation of the Hong Kong Inland Revenue Department regarding the issuance of Certificate of Resident Status for companies in Hong Kong.

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.

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB1,757 million (six months ended 30 June 2016: RMB1,432 million) and the weighted average of 9,539,704,700 ordinary shares (six months ended 30 June 2016: 9,539,704,700 ordinary shares) in issue during the interim period.

There were no dilutive potential ordinary shares during the six months ended 30 June 2017 and 2016 and therefore diluted earnings per share is equivalent to basic earnings per share.

9 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

(a) Acquisitions and disposals

During the six months ended 30 June 2017, the Group incurred capital expenditure of RMB704 million (six months ended 30 June 2016: RMB1,375 million), primarily in respect of new store developments. Items of property, plant and equipment with a net book value of RMB65 million were disposed of during the six months ended 30 June 2017 (six months ended 30 June 2016: RMB4 million), resulting in a loss on disposal of RMB63 million (six months ended 30 June 2016: Nil) (note 6(c)).

(b) Impairment provision

As at 30 June 2017, due to a reduction in profitability, management has planned to close a store in the second half year of 2017. As a result, an impairment provision of RMB40 million (six months ended 30 June 2016: nil) was recognised in "Operating costs".

10 TRADE AND OTHER RECEIVABLES

	At 30 June 2017 ***RMB million***	At 31 December 2016 *RMB million*
Non-current		
Rental prepayments	**447**	397
Current		
Trade receivables	**449**	450
Amounts due from related parties (note 18)	**74**	88
Other debtors	**984**	781
Value-added tax receivables	**821**	1,019
Prepayments:		
– rentals	**1,189**	1,103
– property, plant and equipment and intangible assets	**182**	111
Sub-total current	**3,699**	3,552
Trade and other receivables	**4,146**	3,949

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

Rental prepayments may be offset against future rentals due to landlords of hypermarket premises leased by the Group in accordance with the relevant lease agreements.

Except for prepayments made for property, plant and equipment and intangible assets which will be transferred to the relevant asset category upon receipt of the assets, all of the trade and other receivables classified as current assets are expected to be recovered within one year.

11 INVESTMENTS AND TIME DEPOSITS

	At 30 June 2017 ***RMB million***	At 31 December 2016 *RMB million*
Loans and receivables	**51**	–
Time deposits	**35**	36
	86	36

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

Time deposits have original maturity over three months.

12 CASH AND CASH EQUIVALENTS

	At 30 June 2017 *RMB million*	At 31 December 2016 *RMB million*
Deposits with banks within three months of maturity	**90**	106
Cash at bank and on hand	**5,639**	5,405
Other financial assets	**2,983**	2,589
Cash and cash equivalents in the consolidated statement of financial position and condensed consolidated cash flow statement	**8,712**	8,100

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

13 TRADE AND OTHER PAYABLES

	At 30 June 2017 *RMB million*	At 31 December 2016 *RMB million*
Current		
Trade payables	**15,146**	20,817
Advance receipts from customers	**9,124**	9,702
Amounts due to related parties (note 18)	**140**	121
Construction costs payable	**1,075**	1,799
Dividends payable to non-controlling interest	**124**	124
Accruals and other payables	**4,510**	4,244
Trade and other payables	**30,119**	36,807

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

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

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

	At 30 June 2017 *RMB million*	At 31 December 2016 *RMB million*
Due within six months	**15,133**	20,413
Due after six months but within 12 months	**13**	404
	15,146	20,817

14 BANK LOANS

	At 30 June 2017 *RMB million*	At 31 December 2016 *RMB million*
Current		
Bank loans repayable within 1 year guaranteed by a related party	**3**	3
Unsecured bank loans repayable within 1 year	**–**	20
Sub-total	**3**	23
Non-current		
Bank loans guaranteed by a related party	**2**	3
Bank loans	**5**	26

Bank loans guaranteed by a related party, Oney Bank S.A. ("**Oney Bank**", formerly known as "**Banque Accord S.A.**") carried interest at annual rate from 5.80% to 6.05% per annum as at 30 June 2017 (31 December 2016: 6.05% per annum).

15 SHARE CAPITAL AND DIVIDENDS

(a) Share capital

	At 30 June 2017		At 31 December 2016	
	No. of shares	***RMB million***	*No. of shares*	*RMB million*
Ordinary shares, issued and fully paid:	**9,539,704,700**	**10,020**	9,539,704,700	10,020

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(b) Dividends

A final dividend of HKD0.19 (equivalent to RMB0.16) per ordinary share in respect of the year ended 31 December 2015 was approved on 13 May 2016, and payments were made on 16 June 2016.

A final dividend of HKD0.23 (equivalent to RMB0.20) per ordinary share in respect of the year ended 31 December 2016 was approved on 10 May 2017, and payments were made on 15 June 2017.

No interim dividend has been declared in respect of the six months ended 30 June 2017.

16 COMMITMENTS

Capital commitments outstanding and not provided for in the interim financial statements were as follows:

	At 30 June 2017 *RMB million*	At 31 December 2016 *RMB million*
Contracted for	**2,313**	2,173
Authorised but not contracted for	**2,395**	2,597
	4,708	4,770

17 CONTINGENCIES

As at 30 June 2017, legal actions have commenced against the Group by certain customers, suppliers and landlords in respect of disputes on purchase agreements and lease agreements. The total claims amounted to RMB218 million as at 30 June 2017 (31 December 2016: RMB137 million). As at 30 June 2017, the legal actions were ongoing, with most of the actions not yet set for trial dates. Provision of RMB35 million (31 December 2016: RMB32 million) has been made within Trade and other payables as at 30 June 2017, which the directors believe is adequate to cover the amounts probable to be payable in respect of these claims.

18 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

	Six months ended 30 June	
	2017 *RMB million*	2016 *RMB million*
Short-term employee benefits	**46**	37
Post-employment benefits	**1**	–
Share-based payments	**1**	2
	48	39

Total remuneration is included in "staff costs" (see note 6(b)).

18 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 2017 and 2016.

	Six months ended 30 June	
	2017	2016
	RMB million	*RMB million*
Agency fees receivable (i)	**34**	(15)
Trademark fee payable (ii)	**16**	16
IT services fee payable (iii)	**4**	3
Expenses payable (iv)	**43**	47
Contributions to Employee Trust Benefit Schemes	**153**	197
Purchase of goods (v)	**2**	2
Bank loans repayment	**–**	(7)

(i) Agency fees receivable relate to amounts accrued from international suppliers by Patinvest, net of fees payable to Patinvest.

(ii) Trademark fee payable represents the fee charged by Auchan Holding S.A. ("**Auchan Holding**") 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 Auchan Retail on behalf of the Group, which are reimbursed and expensed by the Group.

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

(c) Related party balances

	At 30 June 2017	At 31 December 2016
	RMB million	*RMB million*
Amounts due from subsidiaries of Auchan Holding	**66**	88
Amounts due from joint ventures	**8**	–
Amounts due to Auchan Holding and its subsidiaries	**140**	121