Sun Art Retail Group Ltd.

(Incorporated in Hong Kong with limited liability)

Stock Code: 6808

Advancing *Phygital Development* Across China

2019
Interim Report

Non-Executive Directors

ZHANG Yong *(Chairman)*
Benoit, Claude, Francois, Marie, Joseph LECLERCQ
Edgard, Michel, Marie, BONTE
(appointed on 17 May 2019)
Xavier, Marie, Alain DELOM de MEZERAC
CHEN Jun
Isabelle Claudine, Françoise BLONDÉ ép. BOUVIER
(appointed on 17 May 2019)

Independent Non-Executive Directors

Karen Yifen CHANG
Desmond MURRAY
HE Yi

AUDIT COMMITTEE

Desmond MURRAY *(Chairman)*
Xavier, Marie, Alain DELOM de MEZERAC
Karen Yifen CHANG
HE Yi
Edgard, Michel, Marie, BONTE

REMUNERATION COMMITTEE

Karen Yifen CHANG *(Chairman)*
CHEN Jun
Edgard, Michel, Marie, BONTE
Desmond MURRAY
HE Yi

NOMINATION COMMITTEE

HE Yi *(Chairman)*
CHEN Jun
Edgard, Michel, Marie, BONTE
Karen Yifen CHANG
Desmond MURRAY

COMPANY SECRETARY

CHAN Wai Ling, FCIS, FCS (PE)

AUTHORISED REPRESENTATIVES

Xavier, Marie, Alain DELOM de MEZERAC
CHAN Wai Ling

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LEGAL ADVISOR

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HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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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		
	2019	2018 *(Restated)* [1]	**Change**
	RMB million		
Gross Sales Proceeds [2]	**54,396**	54,060	0.6%
Revenue	**50,586**	54,060	(6.4)%
Gross Profit	**13,188**	12,922	2.1%
Profit from Operations	**3,014**	2,921	3.2%
Profit for the Period	**1,899**	1,833	3.6%
Profit Attributable to Equity Shareholders of the Company	**1,766**	1,682	5.0%
Earnings Per Share ("EPS")			
– Basic and diluted [3]	**RMB0.19**	RMB0.18	

Notes:

(1) The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 2.

(2) Gross Sales Proceeds consist of gross proceeds from product sales including consignment sales and rental income, excluding value-added tax. For further information, please refer to the analysis of revenue on Page 8.

(3) The calculation of basic and diluted EPS for the six months ended 30 June 2019 and 2018 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 2019, the Chinese economy maintained steady growth, China's gross domestic product ("**GDP**") grew by 6.3% to approximately RMB45,093 billion. The overall consumer price index ("**CPI**") was up by 2.2% compared to the first half of 2018, of which the food CPI was up by 4.7%, driven mainly by increases in vegetables by 9.2%, fruits by 16.1% and pork by 7.7% (affected by African swine fever since March 2019). The non-food CPI observed an increase of 1.6%.

According to the National Bureau of Statistics of China, total retail sales of consumer goods in China reached RMB19,521 billion for the six months ended 30 June 2019, representing a growth of 8.4% year on year. Catering services achieved RMB2,128 billion, increasing by 9.4%. National online retail sales reached RMB4,816 billion, a growth of 17.8% compared to the corresponding period last year. Online physical goods retail sales for the six months ended 30 June 2019 amounted to RMB3,817 billion, representing an increase of 21.6% and accounted for 19.6% of total retail sales.

Our Business to Customer ("B2C") Business is on the Right Trajectory, "One-Hour-Delivery-To-Home" Pattern becomes Feasible

By the end of March 2018, the one-hour delivery initiative called "Taoxianda" was piloted in two RT-Mart stores in Shanghai and Suzhou. By the end of that year, all Sun Art stores had launched the Taoxianda initiatively. By March 2019, the distribution area of all our stores has been expanded from three kilometers to five kilometers.

Since January 2019, daily orders per store ("**DOPS**") has been climbing steadily. In June 2019, the average DOPS of a Sun Art store was 700. During the "6.18" promotion event, the average DOPS was more than 1,000. The one-hour delivery service provides approximately 18,000 stock keeping units ("**SKU**") in total. Fresh products account for more than 50% of our online revenue. We work continuously to strengthen the research and development of our 3R offerings, such as ready-to-cook, ready-to-heat and ready-to-eat products, increasing our customers' loyalty, as well as enhancing our differentiation and competitiveness.

Each store is divided into several picking areas based on product sector. This practice effectively improves the efficiency of order fulfillment and reduces the cost. In July 2017, we initiated a pilot run of our conveyor-belt system in the Shanghai Yangpu RT-Mart store, greatly improving the picking efficiency.

Different delivery slots are available to customers according to their schedule requirements. During the period under review, our on-time delivery rate is more than 99%. Additionally, the ratio of delivery out-of-stock ("**OOS**") remains less than 0.3%. The ratio of negative comments and customer complaints is less than 0.3%. We pay great attention to the comments and feedback from each customer, and endeavor to improve the quality of our products and service. "Satisfying our customers" is always the goal of our continuous pursuit.

We are pleased to note that our B2C business has been taken hold at Sun Art, and this initiative offers us a competitive advantage. In the second half of this year, the B2C target is to accelerate the expansion of business scale and increase daily order density.

Our Business to Business ("B2B") Operations Continue to Grow

Our B2B APP, "RT-Mart e Lu Fa", was officially launched in March 2017. This is a B2B platform that can provide fresh products, covering a full range with 20,000 SKUs. Fresh products (including frozen food) made up more than 27% of our B2B sales.

"RT-Mart e Lu Fa" has more than 500,000 registered clients, including retailers, wholesalers, corporates catering businesses, canteens, entertainment and accommodation businesses, as well as mother and infant shops. Our B2B APP provides a dedicated page designed for different types of clients, and employs a different merchandise mix and specialized promotion activities for each.

At present, all Sun Art stores have rolled out the B2B business. The development of business clients is mostly concentrated within a 20-kilometer radius of our stores. The farthest distance reaches 100 kilometers.

After two-years' running, "RT-Mart e Lu Fa" has moved into the first-tier of the industry. The sales of our B2B business in 2018 has doubled the amount of 2017 and B2B also brought positive contribution to the profit of the Group. In 2019, the sales of B2B business is expected to increase by 50% and RT-Mart e Lu Fa will become one of the RMB10 billion turnover club members in the near future.

Practice Smooth Integration and Further Deepen the Convergence

By the end of December 2018, the Group decided to accelerate the convergence of the two banners. During the six months ended 30 June 2019, the initial convergence between our two banners under Sun Art was completed. A joint-operations headquarter was established by the end of February 2019 and has now been integrated. The upgrade and integration of store IT systems was completed in mid-April 2019.

Over the first few months of convergence, we had primarily adjusted Auchan's product range, store layout and store organization, as well as clearing its inventories and integrating the distribution centers. Online business from the Auchan stores is on the right trajectory.

Going forward, our focus in convergence will be on improving the revenue and gross profit, reducing stores' controllable costs, as well as substantially decreasing headquarters' expenses. This will establish a solid basis for future performance improvement.

Restructuring the Hypermarket Proved Successful

Restructuring the hypermarket includes restructuring our functions, our categories and our mindset.

In the fresh products area, we restructured our offerings and display. We greatly increased the SKUs of fruits, vegetables, live sea food, frozen products and homemade products, and strengthened offerings suitable for the consumption of middle-to-upper-tier customers and online requirements.

Stores have adopted completely new displays. In daily necessities, the products have been upgraded and the displays are similar to scenes of daily life. This practice projects professionalism, quality and high value for money, aiming at creating a comfortable and enjoyable shopping atmosphere for the customers.

Our first restructured store is in Shanghai. Facing market competition, this 20-year-old store was rejuvenated and had positive Same Store Same Growth [(1)] ("**SSSG**"), which realized 10% better than the ones not yet refurnished in Shanghai. The fresh sector in particular turned in double-digit SSSG.

This year, more than 40 of our stores are being renovated. The renovated stores will pay more attention to customer experiences, as well as reinventing customers reasons for visiting physical stores.

Notes:

(1) Same Store Sales Growth: the growth rate of sales of the stores opened before 30 June 2018. It is calculated by comparing the sales derived from those stores during their operating periods in first half of 2018 with sales during the corresponding periods in 2019.

Expansion Status

During the six months ended 30 June 2019, the Group opened two new hypermarket complexes, both of which were under the RT-Mart banner and were located in Eastern China. During the period under review, the Group closed one store under the Auchan banner in Nanchang.

As of 30 June 2019, the Group had a total of 485 hypermarket complexes in China with a total gross floor area ("**GFA**") of approximately 13 million square meters. Approximately 70.0% of the GFA was operated as leased space, 29.8% of the GFA was in self-owned properties and 0.2% of the GFA was in contracted stores. Please refer to note 1 below for definitions of regional zones.

As of 30 June 2019, approximately 8% of the Group's stores were located in first-tier cities, 16% in second-tier cities, 46% 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 2019, through the execution of lease contracts or acquisition of land plots, the Group had identified and secured 49 sites to open hypermarket complexes, of which 40 were under construction. Given that more and more new stores are going to be opened in lower tier cities, in order to ensure the quality of the stores, the Group has upgraded site selection standards.

As of 30 June 2019, the number of stores and their GFA in each major region of China are set out below:

Region	Number of hypermarket complexes (As of 30 June 2019)				Total GFA of hypermarket complexes (sq.m.) (As of 30 June 2019)			
	Auchan	RT-Mart	Total	Percentage	Auchan	RT-Mart	Total	Percentage
Eastern China	51	141	192	40%	2,067,785	3,398,650	5,466,435	42%
Northern China	5	46	51	11%	151,064	1,137,050	1,288,114	10%
Northeastern China	1	51	52	11%	32,033	1,413,972	1,446,005	11%
Southern China	5	84	89	18%	124,523	2,047,350	2,171,873	17%
Central China	9	66	75	15%	269,185	1,642,455	1,911,640	15%
Western China	5	21	26	5%	223,839	495,920	719,759	5%
Total	76	409	485	100%	2,868,429	10,135,397	13,003,826	100%

Notes:

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

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

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

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

Human Resource

As of 30 June 2019, the Group had 144,137 employees.

The Group endeavors to strengthen the training and development of employees. This results in improved employee efficiency and reduces the pressure of increasing labor costs, as well as bringing more benefits to the Group and its employees.

Outlook

2018 was a year of infrastructure year for New Retail, 2019 is our acceleration year scaling up New Retail and we expect 2020 will be the harvest year for New Retail.

Our competitors are diversified over multi-formats and omni-channels. We are very fortunate that we began to deploy our strategy of online to offline integration in 2013 and persevered all along despite difficulties. In 2017, the alliance with Alibaba developed our online presence and facilitated the combination of online and offline. It also improves the productivity of our physical stores and enhances our competitiveness.

Going forward, by combining the online and offline resources of Alibaba, the Group will roll out additional initiatives to provide more and more customers with good products and services, meeting their shopping requirements anytime, anywhere and in multi-formats.

FINANCIAL REVIEW

Revenue

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

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

	Six Months ended 30 June		
	2019 **(RMB million)**	2018 *(RMB million)*	**Change**
Gross sales proceeds	**54,396**	54,060	0.6%
Revenue	**50,586**	54,060	(6.4)%
– *Revenue from sales of goods*	***48,522***	*52,163*	*(7.0)%*
– *Rental income from tenants*	***2,064***	*1,897*	*8.8%*

Gross sales proceeds, cash collected from sales generated at our hypermarket, was RMB54,396 million for the period ended 30 June 2019, representing an increase of RMB336 million, or 0.6%, from RMB54,060 million for the corresponding period in 2018.

For the six months ended 30 June 2019, revenue from sales of goods was RMB48,522 million, representing a decrease of RMB3,641 million, or 7.0%, from RMB52,163 million for the corresponding period in 2018. In our electronic appliance department, the business model was changed from self-operation to consignment with Suning from August 2018. Since then, only consignment fees received have been recognized in revenue instead of gross sales proceeds.

For the six months ended 30 June 2019, the SSSG calculated based on sales of goods excluding electronic appliances was -1.76%. From the beginning of 2019, our stores under both banners have started to integrate their operating systems and supply chains. During the convergence process, Auchan stores had changes in product mix, supplier structure and operating process. Currently, the convergence has been substantially completed and we expect the store performance to be back on track in the second half of 2019. The SSSG of stores under RT-Mart banner, calculated on gross sales proceeds, if we included electric appliance sales, was positive in first half of 2019.

Our online B2C business has become mature after one-year's development and contributed to our sales growth in the food sector. While the non-food sector faces quite intensive competition from different channels and the related SSSG is not yet satisfactory.

During the period from 1 July 2018 to 30 June 2019, the Group continued to expand in various areas of China and opened 14 new stores with 12 stores in the second half of 2018 and two stores in the first half of 2019 respectively. The new stores brought additional sales of goods in the first half of 2019.

For the six months ended 30 June 2019, revenue from rental income was RMB2,064 million, representing an increase of RMB167 million, or 8.8%, from RMB1,897 million for the corresponding period in 2018. This increase was primarily attributable to an increase in rental income from existing stores as a result of better management of tenant mix and an increase in rentable area from new stores.

Gross Profit

For the six months ended 30 June 2019, gross profit was RMB13,188 million, representing an increase of RMB266 million, or 2.1%, from RMB12,922 million for the corresponding period in 2018. The gross profit margin, calculated on gross sales proceeds, for the six months ended 30 June 2019 was 24.2%, representing an increase of 0.3 percentage point from 23.9% for the corresponding period in 2018. The Group has been working continuously to optimise the product mix in order to improve the gross profit margin.

Other Income

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

For the six months ended 30 June 2019, other income was RMB797 million, representing a decrease of RMB152 million, or 16.0%, from RMB949 million for the corresponding period in 2018. The decrease was primarily attributable to: (i) a decrease of RMB53 million in income from the release of aged unutilised balances on prepaid cards; (ii) a decrease in the disposal of packaging materials of RMB46 million, which mainly resulted from the decreased sales price of cardboard boxes in 2019, and (iii) a decrease in government grants of RMB24 million since in the first half of 2018, some of the government subsidies were one-off.

Operating Costs

Operating costs represent the costs attributable to the operations of the stores and B2C business. Operating costs primarily consist of personnel expenses, operating lease charges, expenses for utilities, maintenance, advertising, shuttle bus services and cleaning, together with the depreciation of property, plant and equipment.

For the six months ended 30 June 2019, operating costs were RMB9,561 million, representing an increase of RMB56 million, or 0.6%, from RMB9,505 million restated for the corresponding period in 2018.

The increase was primarily attributable to the development of the business including the on-going expansion of the hypermarket network and the development of the B2C business which required investment in personnel and other related projects. 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, operating lease charges, and depreciation of property, plant and equipment and other operating expenses.

Expressed as a percentage, the amount of operating costs for the period ended 30 June 2019 as of the gross sales proceeds in the first half of 2019 was 17.6%, which was the same as that restated percentage of the corresponding period in 2018.

Administrative Expenses

Administrative expenses primarily consist of personnel expenses, travelling expenses, depreciation of property, plant and equipment and other expenses for the administrative departments. For the six months ended 30 June 2019, administrative expenses were RMB1,410 million, representing a decrease of RMB35 million, or 2.4%, from RMB1,445 million restated for the corresponding period in 2018.

Expressed as a percentage, the amount of administrative expenses for the period ended 30 June 2019 as of the gross sales proceeds for the first half of 2019 was 2.6%, representing a decrease of 0.1 percentage points, from 2.7% restated percentage of the corresponding period in 2018.

Profit from Operations

For the six months ended 30 June 2019, the profit from operations was RMB3,014 million, representing an increase of RMB93 million, or 3.2%, from RMB2,921 million restated for the corresponding period in 2018. By adopting HKFRS 16, additional depreciation expenses, amounting to RMB610 million for the period ended 30 June 2019 and RMB645 million for the corresponding period in 2018, were recognized on the right-of-use assets capitalised over the lease contract duration period, instead of the operating lease charges originally recognized, amounting to RMB841 million for the period ended 30 June 2019 and RMB867 million for the corresponding period in 2018.

Had the impact of HKFRS 16 adoption been excluded for both periods, the amount of profit from operations for the period ended 30 June 2019 would have been RMB2,766 million, an increase of RMB67 million, or 2.5%, from RMB2,699 million for the corresponding period in 2018. Accordingly, the related operating margin, calculated on gross sales proceeds, would have been 5.1%, an increase of 0.1 percentage point, from 5.0% of the corresponding period in 2018, which was mainly attributable to the improved gross profit margin.

Finance Costs

Finance costs primarily consist of the interest expenses on borrowings and lease liabilities. For the six months ended 30 June 2019, the finance costs were RMB314 million, representing a decrease of RMB22 million, or 6.5%, from RMB336 million restated for the corresponding period in 2018. By adopting HKFRS 16, additional interest expenses of RMB310 million for the period ended June 2019, and RMB331 million for the corresponding period in 2018 were recognized on the lease liabilities calculated at the present value of future payments over the lease contracts duration.

Had the impact of HKFRS 16 adoption been excluded for both periods, the amount of financial costs for the period ended 30 June 2019 would have been RMB4 million, which was at the similar level as that for the corresponding period in 2018.

Income Tax

For the six months ended 30 June 2019, income tax expense was RMB792 million, representing an increase of RMB44 million, or 5.9%, from RMB748 million restated for the corresponding period in 2018. By adopting HKFRS 16, additional deferred tax credit of RMB15 million for the period ended June 2019, and RMB28 million for the corresponding period in 2018 were recognized on the additional temporary differences subject to tax computation.

Had the impact of HKFRS 16 adoption excluded for both periods, the amount of income tax for the period ended 30 June 2019 would have been RMB807 million, an increase of RMB31 million, or 4.0% from RMB776 million for the corresponding period in 2018. The related effective tax rate would have been 29.3%, an increase of 0.5 percentage points from 28.8% for the corresponding period in 2018. The deferred tax on losses generated in several entities was not recognized since the recoverability of those losses before their expiry was not certain.

Profit for the Period

For the six months ended 30 June 2019, profit for the period was RMB1,899 million, representing an increase of RMB66 million, or 3.6%, from RMB1,833 million restated for the corresponding period in 2018.

In summary, the adoption of HKFRS 16 under full retrospective method resulted in profit decrease of RMB47 million for the period ended 30 June 2019 and RMB81 million for the corresponding period in 2018.

Had the impact of HKFRS 16 been excluded for both periods, the amount of profit for the period would have been RMB1,946 million, representing an increase of RMB32 million, or 1.7%, from RMB1,914 million for the corresponding period in 2018. The related net profit margin, calculated on gross sales proceeds, for the period ended 30 June 2019 would have been 3.6%, increasing by 0.1 percentage point, from 3.5% of the corresponding period in 2018.

Profit Attributable to Equity Shareholders of the Company

For the six months ended 30 June 2019, the profit attributable to equity shareholders of the Company was RMB1,766 million, representing an increase of RMB84 million, or 5.0%, from RMB1,682 million restated for the corresponding period in 2018.

Profit Attributable to Non-Controlling Interests

For the six months ended 30 June 2019, the profit attributable to non-controlling interests was RMB133 million, representing a decrease of RMB18 million, or 11.9%, from RMB151 million restated for the corresponding period in 2018. 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 interest held by independent third parties in two of the subsidiaries, People's RT-Mart Limited Jinan and Fields Hong Kong Limited ("**Fields HK**"); and (iii) the interest held by Oney Bank S.A. ("**Oney Bank**") in Oney Accord Business Consulting (Shanghai) Co., Ltd. ("**Oney Accord**"); and (iv) the interest held by Alibaba (China) Network Technology Co., Ltd. in Shanghai Run He Internet Technology Co., Ltd..

Liquidity and Financial Resources

For the six months ended 30 June 2019, cash flow generated from operating activities was RMB2,431 million, representing a decrease of RMB2,387 million among which RMB1,330 million was related to the restricted deposits, or 49.5%, from RMB4,818 million restated for the corresponding period in 2018.

By adopting HKFRS 16, the regular settlement under certain store lease contracts was treated as payment of lease liabilities under financing activities, which led to the decrease of cash outflows from operating activities by RMB764 million for the period ended 30 June 2019 and RMB797 million for the corresponding period in 2018.

As of 30 June 2019, the net current liabilities decreased to RMB4,837 million from RMB6,546 million restated as of 31 December 2018. This decrease was primarily attributed to (i) a decrease in the current assets of RMB4,644 million, related to the reduced stock level as at 30 June 2019, partially offset by the increase in restricted deposits; and (ii) a decrease in current liabilities of RMB6,353 million mainly from the decreased balance of trade payables of RMB5,331 million. The decrease in current liabilities was greater than the decrease in current assets, which resulted in a decrease to the net current liabilities.

For the six months ended 30 June 2019, the inventory turnover days and trade payable turnover days were 57 days and 77 days, respectively, compared to 53 days and 76 days for the corresponding period of 2018.

* 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 Auchan (China) Hong Kong Limited ("**ACHK**") and its subsidiaries (the "**Auchan Scheme**"). For further details, please refer to Note 5(b) of "Notes to the unaudited interim financial report" on page 43 to 44 of the interim report.

Investing activities

For the six months ended 30 June 2019, cash flow used in investing activities was RMB1,089 million, representing an increase of RMB253 million, or 30.3%, from RMB836 million for the six months ended 30 June 2018.

The cash flow used in investing activities mainly reflected the capital expenditure of RMB878 million in respect of the development of new stores, the remodelling of existing stores and intangible assets, as well as the settlement of capital expenditure incurred in 2018 of RMB446 million.

Financing activities

For the six months ended 30 June 2019, cash flow used in financing activities was RMB2,032 million, with a decrease of RMB39 million, or 1.9%, from RMB2,071 million restated for the six months ended 30 June 2018.

By adopting HKFRS 16, the regular settlement under store lease contracts was defined as "capital element of lease rents paid" and "interest element of lease rents paid" under cash used in financing activities. The amounts settled for the period ended 30 June 2019 and corresponding period in 2018 were RMB764 million and RMB797 million, respectively.

Had the impact of HKFRS 16 adoption been excluded for both periods, the cash used in financing activities for the period ended 30 June 2019 would have been RMB1,268 million, a decrease of RMB6 million, or 0.5%, from RMB1,274 million for the corresponding period in 2018. The level of cash flows under financing activity remained stable.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

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

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

In the opinion of the Directors, the Company has complied with all the code provisions as set out in the CG Code for the six months ended 30 June 2019, save and except for the deviation of code provision A3 and C.3.7(a) of the CG Code.

Following the resignation of Mr. Holinier, the Board does not have any executive Director and deviates from paragraph A3 of the Corporate Governance Code set out in Appendix 14 of the Listing Rules. The Board, in concurrence with the nomination committee of the Company ("**Nomination Committee**"), is of the view that the Company has in place a senior management team (including the chief executive officer) to continue leading the day-to-day management of the Company. Given the vast knowledgeable and comprehensive team of senior management members, the Board and the Nomination Committees believes that the senior management team will be able to provide sufficient information to the Board so as to make informed decisions and the Board can thereby function effectively. The Board will be responsible for formulating high-level strategy and management guidelines in order to ensure the proper and efficient administration and management of the Group.

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 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 code of conduct regarding Directors' and relevant employees' dealings in the Company's securities (the "**Company Code**") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules.

Specific enquiry has been made of all the Directors and the relevant employees and they have confirmed that they have complied with the Model Code and the Company Code throughout the six months ended 30 June 2019.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

BOARD COMPOSITION

During the six months ended 30 June 2019 and as at the date of this interim report, the Directors were as follows:

Executive Director

Ludovic, Frédéric, Pierre HOLINIER *(Former Chief Executive Officer)* (Resigned on 17 May 2019)
(Ceased to act as alternate to Xavier, Marie, Alain DELOM de MEZERAC, Benoit, Claude, Francois, Marie, Joseph LECLERCQ and He Yi on 17 May 2019)
(Xavier, Marie, Alain DELOM de MEZERAC, Benoit, Claude, Francois, Marie, Joseph LECLERCQ and Wilhelm, Louis HUBNER, all ceased to act as his alternates on 17 May 2019)

Non-executive Directors

ZHANG Yong, *Chairman* (Appointed on 30 January 2018)
(CHEN Jun as his alternate, appointed on 30 January 2018)

Benoit, Claude, Francois, Marie, Joseph LECLERCQ (Appointed on 12 September 2012)
(Xavier, Marie, Alain DELOM de MEZERAC, as his alternate, appointed on 12 September 2012; Edgard, Michel, Marie, BONTE and Isabelle Claudine, Françoise BLONDÉ ép. BOUVIER as his alternates, appointed on 17 May 2019)

Edgard, Michel, Marie, BONTE (Appointed on 17 May 2019)
(Xavier, Marie, Alain DELOM de MEZERAC, Benoit, Claude, Francois, Marie, Joseph LECLERCQ and Isabelle Claudine, Françoise BLONDÉ ép. BOUVIER as his alternates, appointed on 17 May 2019)

Xavier, Marie, Alain DELOM de MEZERAC (Appointed on 8 February 2001)
(Benoit, Claude, Francois, Marie, Joseph LECLERCQ, as his alternate, appointed on 12 September 2012; Edgard, Michel, Marie, BONTE and Isabelle Claudine, Françoise BLONDÉ ép. BOUVIER as his alternates, appointed on 17 May 2019)

Wilhelm, Louis HUBNER (Resigned on 17 May 2019)
(Ceased to act as alternate to Xavier, Marie, Alain DELOM de MEZERAC, Benoit, Claude, Francois, Marie, Joseph LECLERCQ and Ludovic, Frédéric, Pierre HOLINIER on 17 May 2019)
(Benoit, Claude, Francois, Marie, Joseph LECLERCQ, Xavier, Marie, Alain DELOM de MEZERAC and Ludovic, Frédéric, Pierre HOLINIER, all ceased to act as his alternates on 17 May 2019)

CHEN Jun (Appointed on 30 January 2018)
(ZHANG Yong and XU Panhua as his alternates, appointed on 30 January 2018)

Isabelle Claudine, Françoise BLONDÉ ép. BOUVIER (Appointed on 17 May 2019)
(Xavier, Marie, Alain DELOM de MEZERAC, Benoit, Claude, Francois, Marie, Joseph LECLERCQ and Edgard, Michel, Marie, BONTE as her alternates, appointed on 17 May 2019)

Independent Non-executive Directors

Karen Yifen CHANG (Appointed on 27 June 2011)
(Desmond MURRAY as her alternate, appointed on 2 March 2018)

Desmond MURRAY (Appointed on 27 June 2011)
(Karen Yifen CHANG as his alternate, appointed on 2 March 2018)

HE Yi (Appointed on 27 June 2011)
(Isabelle Claudine, Françoise BLONDÉ ép. BOUVIER as his alternate, appointed on 17 May 2019 and ceased to act as his alternate on 7 August 2019)

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

During the six months ended 30 June 2019, 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 7 August 2019, no dividend for the six months ended 30 June 2019 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATED CORPORATIONS

As at 30 June 2019, 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
Edgard, Michel, Marie, BONTE[(2)]	Auchan Retail International S.A.[(3)] ("**Auchan Retail**")	Beneficial owner	1(L)[(4)]	0.0000%
Xavier, Marie, Alain DELOM de MEZERAC	Auchan Holding S.A.[(5)]	Beneficial owner	736(L)[(6)]	0.0025%
	Oney Bank S.A.[(7)]	Beneficial owner	1,078(L)[(8)]	0.0744%
Desmond MURRAY	Company	Beneficial owner	55,000(L)	0.0006%
HUANG Ming-Tuan[(9)]	Company	Interest of spouse[(10)]	77,590,702(L)	0.81%

Notes:

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

(2) Mr Edgard, Michel, Marie, BONTE has been appointed as Non-executive Director on 17 May 2019.

(3) Auchan Retail is a company incorporated in France which is wholly-owned by Auchan Holding S.A. A-RT is 55.74% directly owned by Auchan Retail, therefore Auchan Retail 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) This represents 1 ordinary share in Auchan Retail allotted on 10 October 2018.

(5) 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 (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.

(ii) 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 29,210,091 shares as at 30 June 2019.

(6) This represents stock options in respect of 736 shares in Auchan Holding S.A. granted pursuant to the Auchan Holding S.A. Stock Option Plan (2019).

(7) 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 2019 is 1,449,749 shares.

(8) This represents 938 free shares and 140 free shares in Oney Bank S.A. exercised on 25 August 2018 and 24 January 2019 respectively.

(9) Mr. Huang Ming-Tuan has been appointed as Chief Executive Officer on 17 May 2019.

(10) Ms. LEE Chih-Lan is the spouse of Mr. HUANG Ming-Tuan. Ms. Lee holds 76,039,464 shares through Unique Grand Trading Limited and 1,551,238 shares under her name. Accordingly, Mr. HUANG Ming-Tuan is deemed to be interested in all of the shares held by Ms. LEE Chih-Lan.

Save as disclosed above, so far as known to any Directors, as at 30 June 2019, 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 2019, 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 Retail Holding Limited[2] ("**A-RT**")	Beneficial owner	4,865,338,686(L)[11]	51.0009%
Auchan Retail International S.A.[3] ("**Auchan Retail**")	Interest in a controlled corporation	4,865,338,686(L)[11]	51.0009%
Auchan Holding S.A.[4]	Interest in a controlled corporation	4,865,338,686(L)[11]	51.0009%
Au Marché S.A.S[5]	Interest in a controlled corporation	4,865,338,686(L)[11]	51.0009%
Mulliez Family[6]	Interest in controlled corporations	4,865,338,686(L)[11]	51.0009%
Taobao China Holding Limited[7] ("**Taobao China**")	Beneficial owner	2,001,753,643(L)[12]	20.9834%
Taobao Holding Limited[8] ("**Taobao Holding**")	Interest in a controlled corporation	2,001,753,643(L)[12]	20.9834%
New Retail Strategic Opportunities Investments 1 Limited[9] ("**New Retail**")	Beneficial owner	480,369,231(L)[13]	5.0355%
New Retail Strategic Opportunities Fund, L.P.[9]	Interest in a controlled corporation	480,369,231(L)[13]	5.0355%
New Retail Strategic Opportunities Fund GP, L.P.[9]	Interest in a controlled corporation	480,369,231(L)[13]	5.0355%
New Retail Strategic Opportunities GP Limited.[9]	Interest in a controlled corporation	480,369,231(L)[13]	5.0355%
Alibaba Investment Limited[9]	Interest in a controlled corporation	480,369,231(L)[13]	5.0355%
Alibaba Group[10]	Interest in a controlled corporation	2,482,122,874(L)	26.0189%

Notes:

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

(2) A-RT is directly owned by Auchan Retail as to 55.74% interest, therefore Auchan Retail 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 owned by Taobao China as to 19.90%, Concord Greater China Limited ("**CGC**") as to 4.75%, Kofu International Limited ("**Kofu**") as to 4.41% and Monicole Exploitatie Maatschappij BV ("**Monicole BV**") as to 15.20%.

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

Kofu is a company incorporated in the British Virgin Islands, which is indirectly wholly-owned by Mr. YIN Chung Yao.

CGC is a company incorporated in the British Virgin Islands and a company under Ruentex (Ruentex Development Co., Ltd., Ruentex Industries Limited, CGC and Kofu collectively).

Taobao China is a company incorporated in Hong Kong with limited liability, and is directly wholly-owned by Taobao Holding, which is in turn owned by Alibaba Group.

(3) Auchan Retail is a company incorporated in France which is wholly-owned by Auchan Holding S.A. A-RT is 55.74% directly owned by Auchan Retail, therefore Auchan Retail 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 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 is interested in by virtue of Part XV of the SFO.

(5) Auchan Holding S.A. is 65.73% owned by Au Marché S.A.S, therefore Au Marché 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., Gerard Mulliez, and other members of the Mulliez family in France. Au Marché S.A.S is wholly-owned by the Mulliez Family through certain intermediate holding companies. No member of the Mulliez Family is solely able to exert a dominant influence over other members in their voting rights in Au Marché 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 Marché S.A.S.

(7) Taobao China is a company incorporated in Hong Kong with limited liability, and is directly wholly-owned by Taobao Holding, which is in turn owned by Alibaba Group, and as at 30 June 2019 had a long interest of 20.98% in the Company.

(8) Taobao Holding is a company incorporated in Cayman Islands, which is wholly owned by Alibaba Group. Taobao China is wholly owned by Taobao Holding, therefore Taobao Holding is deemed to be interested in all the shares in which Taobao China is interested in by virtue of Part XV of the SFO.

(9) New Retail is an investment vehicle wholly-owned by New Retail Strategic Opportunities Fund, L.P.. New Retail Strategic Opportunities Fund, L.P. is controlled by New Retail Strategic Opportunities Fund GP, L.P. as general partner, and in turn controlled by its general partner, New Retail Strategic Opportunities GP Limited and ultimately controlled by Alibaba Investment Limited (a wholly-owned subsidiary of Alibaba Group).

(10) Alibaba Group is a company incorporated in the Cayman Islands and its American depositary shares are listed on the New York Stock Exchange. Each of Taobao China and New Retail is ultimately controlled by Alibaba Group, therefore Alibaba Group is deemed to be interested in all the shares in which Taobao China and New Retail are interested in by virtue of Part XV of the SFO.

(11) Such 4,865,338,686 shares belong to the same batch of shares.

(12) Such 2,001,753,643 shares belong to the same batch of shares.

(13) Such 480,369,231 shares belong to the same batch of shares.

Save as disclosed above, as at 30 June 2019, 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 2019, the shareholding interests of nine of the operating subsidiaries are partially held by independent third parties. Those operating subsidiaries are Fields 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 Shanghai Run He Internet Technology Co., Ltd.. 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, Monicole BV, CGC, Kofu (collectively, the "**Covenantors**") and the Company, each of the Covenantors 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 Covenantors during the six months ended 30 June 2019.

BOARD COMMITTEES

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 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 and their independence assessments; and (iv) the effectiveness of the Company's internal audit function. The Audit Committee currently consists of five non-executive Directors, three of whom are independent. The members currently are Mr. Xavier, Marie, Alain Delom de Mezerac, Mr. Edgard, Michel, Marie, Bonte, Ms. Karen Yifen Chang, Mr. He Yi and Mr. Desmond Murray, an Independent Non-executive Director, being the Chairman of the Audit Committee. The Audit Committee has reviewed and discussed the unaudited consolidated financial statements for the six months ended 30 June 2019 which have been prepared in accordance with the applicable standards, the Listing Rules and the statutory provisions and sufficient disclosure have been made. The Audit Committee 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 on 27 June 2011 with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to (i) review the structure, size and composition of the Board pursuant to the Diversity Policy adopted by the Board, (ii) identify individuals suitably qualified to become Board members, (iii) make recommendations to the Board on the selection of individuals nominated for directorships, and (iv) assess the independence of Independent Non-executive Directors pursuant to the Listing Rules and the nomination policy adopted by the Board. The Nomination Committee currently consists of five Non-executive Directors, three of whom are independent. The members currently are Mr. Chen Jun, Mr. Edgard, Michel, Marie, Bonte, Ms. Karen Yifen Chang, Mr. Desmond Murray and Mr. He Yi, an Independent Non-executive Director, being the Chairman of the Nomination Committee.

Remuneration Committee

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

OTHER CHANGES IN DIRECTORS' INFORMATION

Other changes in Directors' information of the Company subsequent to the publication of the 2018 Annual Report are set out below:–

- Mr. Benoit, Claude, Francois, Marie, Joseph Leclercq resigned as the Director of RT Mart International Limited with effect from 17 May 2019.

- Mr. Benoit, Claude, Francois, Marie, Joseph Leclercq has been appointed as the Director of Auchan Retail International S.A. with effect from 25 March 2019.

- Mr. Xavier, Marie, Alain Delom de Mezerac resigned as the Chairman and Director of Auchan Coordination Services S.A. with effect from 1 May 2019, permanent representative of Auchan Holding S.A., President of both Sofinex and Sosek with effect from 15 February 2019, Board Member and President of Gesare with effect from 8 April 2019 and Director of Immochan Coordination Services S.A. with effect from 25 March 2019.

- Mr. Xavier, Marie, Alain Delom de Mezerac has been appointed as Director of Auchan (China) Hong Kong Ltd with effect from 16 May 2019, permanent representative of Auchan Holding S.A. and President of Soparalinea S.A.S. with effect from 1 July 2018 and Director of Concord Investment China Ltd with effect from 21 March 2018.

- Ms. Isabelle Claudine, Françoise Blondé ép. Bouvier has been appointed as the permanent representative of Auchan Retail International S.A. and Director of Auchan Retail International Technology with effect from 12 March 2019.

Save for those disclosed above, 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 25 to 52 which comprises the consolidated statement of financial position of Sun Art Retail Group Limited as at 30 June 2019 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 2019 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

7 August 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019 – Unaudited

		Six months ended 30 June	
		2019	2018
		RMB million	*RMB million*
	Note		*(Note)*
Revenue	*3*	**50,586**	54,060
Cost of sales		**(37,398)**	(41,138)
Gross profit		**13,188**	12,922
Other income	*4*	**797**	949
Operating costs		**(9,561)**	(9,505)
Administrative expenses		**(1,410)**	(1,445)
Profit from operations		**3,014**	2,921
Finance costs	*5(a)*	**(314)**	(336)
Share of results of associates and joint ventures		**(9)**	(4)
Profit before taxation	*5*	**2,691**	2,581
Income tax	*6*	**(792)**	(748)
Profit for the period		**1,899**	1,833
Other comprehensive income for the period		**–**	–
Total comprehensive income for the period		**1,899**	1,833

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 2.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019 – Unaudited

		Six months ended 30 June	
		2019	2018
		RMB million	*RMB million*
	Note		*(Note)*
Profit attributable to:			
Equity shareholders of the Company		**1,766**	1,682
Non-controlling interests		**133**	151
Profit for the period		**1,899**	1,833
Total comprehensive income attributable to:			
Equity shareholders of the Company		**1,766**	1,682
Non-controlling interests		**133**	151
Total comprehensive income for the period		**1,899**	1,833
Earnings per share			
Basic and diluted	*7*	**RMB0.19**	RMB0.18

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 2.

The notes on pages 33 to 52 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 13.

	Note	At 30 June 2019 RMB million	At 31 December 2018 RMB million (Note)
Non-current assets			
Investment properties	2, 8	**6,987**	7,049
Other property, plant and equipment	2, 8	**29,977**	31,104
		36,964	38,153
Intangible assets	8	**29**	39
Goodwill		**99**	99
Equity-accounted investees		**35**	41
Deferred tax assets		**928**	942
		38,055	39,274
Current assets			
Inventories		**9,058**	14,468
Trade and other receivables	9	**2,774**	2,649
Time deposits		**16**	15
Restricted deposits		**1,330**	–
Cash and cash equivalents	10	**12,779**	13,469
		25,957	30,601
Current liabilities			
Trade and other payables	11	**20,212**	26,442
Lease liabilities	2(e)	**1,017**	1,048
Contract liabilities	12	**9,221**	9,107
Bank loans		**–**	1
Income tax payables		**344**	549
		30,794	37,147
Net current liabilities		**(4,837)**	(6,546)
Total assets less current liabilities		**33,218**	32,728

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019 – Unaudited

	Note	**At 30 June 2019 *RMB million***	At 31 December 2018 *RMB million* *(Note)*
Non-current liabilities			
Lease liabilities	*2(e)*	**8,543**	8,822
Other financial liabilities		**50**	50
Deferred tax liabilities		**270**	207
		8,863	9,079
Net assets		**24,355**	23,649
Capital and reserves			
Share capital	*13*	**10,020**	10,020
Reserves		**12,862**	12,267
Total equity attributable to equity shareholders of the Company		**22,882**	22,287
Non-controlling interests		**1,473**	1,362
Total equity		**24,355**	23,649

Approved and authorised for issue by the Board of Directors on 7 August 2019.

Isabelle Claudine, Françoise BLONDÉ ép. BOUVIER
Non-Executive Director

Xavier, Marie, Alain DELOM de MEZERAC
Non-Executive Director

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 2.

The notes on pages 33 to 52 form part of this interim financial report.

		Attributable to equity shareholders of the Company							
	Note	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 31 December 2017 as previously reported		10,020	1,856	45	1,278	9,116	22,315	1,234	23,549
First adoption of HKFRS 16		–	–	–	–	(1,268)	(1,268)	(66)	(1,334)
Balance restated at 1 January 2018 *(Note)*		10,020	1,856	45	1,278	7,848	21,047	1,168	22,215
Changes in equity for the six months ended 30 June 2018:									
Profit for the period *(Note)*		–	–	–	–	1,682	1,682	151	1,833
Other comprehensive income		–	–	–	–	–	–	–	–
Total comprehensive income *(Note)*		–	–	–	–	1,682	1,682	151	1,833
Dividend declared in respect of the previous year	*13(b)*	–	–	–	–	(1,238)	(1,238)	–	(1,238)
Balance at 30 June 2018 and 1 July 2018 *(Note)*		10,020	1,856	45	1,278	8,292	21,491	1,319	22,810

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 2.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 – Unaudited

		Attributable to equity shareholders of the Company							
	Note	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 30 June 2018 and 1 July 2018 *(Note)*		10,020	1,856	45	1,278	8,292	21,491	1,319	22,810
Changes in equity for the six months ended 31 December 2018:									
Profit for the period *(Note)*		–	–	–	–	796	796	71	867
Other comprehensive income		–	–	–	–	–	–	–	–
Total comprehensive income *(Note)*		–	–	–	–	796	796	71	867
Profit appropriation to statutory reserve		–	–	–	132	(132)	–	–	–
Cash injection from the non-controlling shareholder		–	–	–	–	–	–	49	49
Dividends declared and payable to non-controlling shareholders		–	–	–	–	–	–	(77)	(77)
Balance at 31 December 2018 *(Note)*		10,020	1,856	45	1,410	8,956	22,287	1,362	23,649

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 2.

		Attributable to equity shareholders of the Company							
	Note	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 2019		10,020	1,856	45	1,410	8,956	22,287	1,362	23,649
Changes in equity for the six months ended 30 June 2019:									
Profit for the period		–	–	–	–	1,766	1,766	133	1,899
Other comprehensive income		–	–	–	–	–	–	–	–
Total comprehensive income		–	–	–	–	1,766	1,766	133	1,899
Dividend declared in respect of the previous year	*13(b)*	–	–	–	–	(1,171)	(1,171)	–	(1,171)
Dividends declared and payable to non-controlling shareholders		–	–	–	–	–	–	(22)	(22)
Balance at 30 June 2019		10,020	1,856	45	1,410	9,551	22,882	1,473	24,355

The notes on pages 33 to 52 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019 – Unaudited

	Note	Six months ended 30 June 2019 RMB million	2018 RMB million (Note)
Operating activities			
Cash generated from operations		**3,380**	5,740
Income tax paid		**(949)**	(922)
Net cash generated from operating activities		**2,431**	4,818
Investing activities			
Payment for the purchase of investment properties, other property, plant and equipment, and intangible assets		**(1,324)**	(1,181)
Other cash flows arising from investing activities		**235**	345
Net cash used in investing activities		**(1,089)**	(836)
Financing activities			
Capital element of lease rentals paid		**(454)**	(466)
Interest element of lease rentals paid		**(310)**	(331)
Dividends paid		**(1,263)**	(1,238)
Other cash flows arising from financing activities		**(5)**	(36)
Net cash used in financing activities		**(2,032)**	(2,071)
Net (decrease)/increase in cash and cash equivalents		**(690)**	1,911
Cash and cash equivalents at 1 January		**13,469**	10,362
Cash and cash equivalents at 30 June	*10*	**12,779**	12,273

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 2.

The notes on pages 33 to 52 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 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 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 2018 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 7 August 2019. 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 24.

The financial information relating to the year ended 31 December 2018 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 2018 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

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

HKFRS 16, *Leases*

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

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

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below.

a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

a) Changes in the accounting policies (continued)

(ii) Lessee accounting

The Group's leasing activities as a lessee primarily relate to leasing of land and buildings for use as hypermarket stores, for subleasing and for offices and warehouses.

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically store and office equipment. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

a) *Changes in the accounting policies (continued)*

(ii) Lessee accounting (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of- use asset has been reduced to zero.

(iii) Leasehold investment property

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

(iv) Lessor accounting

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

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

b) *Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies*

Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options or early termination options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options or early termination options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken, penalties for early termination and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

c) *Transitional impact*

The Group presents right-of-use assets that do not meet the definition of investment property in 'other property, plant and equipment'. Right-of-use assets that meet the definition of investment property are presented within investment property. The Group presents lease liabilities separately in the consolidated statement of financial position.

As the Group has elected to use the full retrospective approach to adopt HKFRS 16, comparative information has been restated. Impacts on the consolidated financial position, consolidated statement of profit or loss and other comprehensive income, and condensed consolidated cash flow statements are summarised in the following tables:

(i) Consolidated statement of financial position

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

	At 31 December 2018		
	Previously reported *RMB million*	Adjustments *RMB million*	Restated *RMB million*
Non-current assets			
Investment properties	3,718	3,331	7,049
Other property, plant and equipment	20,386	10,718	31,104
Land use rights	5,843	(5,843)	–
	29,947	8,206	38,153
Intangible assets	39	–	39
Goodwill	99	–	99
Equity-accounted investees	41	–	41
Trade and other receivables	185	(185)	–
Deferred tax assets	455	487	942
	30,766	8,508	39,274
Current assets			
Inventories	14,468	–	14,468
Trade and other receivables	3,061	(412)	2,649
Time deposits	15	–	15
Cash and cash equivalents	13,469	–	13,469
	31,013	(412)	30,601

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

c) *Transitional impact (continued)*

(i) Consolidated statement of financial position (continued)

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

	At 31 December 2018 Previously reported *RMB million*	Adjustments *RMB million*	Restated *RMB million*
Current liabilities			
Trade and other payables	26,764	(322)	26,442
Lease liabilities	–	1,048	1,048
Contract liabilities	9,107	–	9,107
Bank loans	1	–	1
Income tax payables	549	–	549
	36,421	726	37,147
Net current liabilities	(5,408)	(1,138)	(6,546)
Total assets less current liabilities	25,358	7,370	32,728
Non-current liabilities			
Lease liabilities	–	8,822	8,822
Other financial liabilities	50	–	50
Deferred tax liabilities	207	–	207
	257	8,822	9,079
Net assets	25,101	(1,452)	23,649
Capital and reserves			
Share capital	10,020	–	10,020
Reserves	13,645	(1,378)	12,267
Total equity attributable to equity shareholders of the Company	23,665	(1,378)	22,287
Non-controlling interests	1,436	(74)	1,362
Total equity	25,101	(1,452)	23,649

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

c) *Transitional impact (continued)*

(ii) Consolidated statement of profit or loss and other comprehensive income

Impact on the consolidated statement of profit or loss and other comprehensive income (increase/(decrease)):

	Six months ended 30 June 2018		
	Previously reported *RMB million*	Adjustments *RMB million*	Restated *RMB million*
Revenue	54,060	–	54,060
Cost of sales	(41,138)	–	(41,138)
Gross profit	12,922	–	12,922
Other income	949	–	949
Operating costs	(9,720)	215	(9,505)
Administrative expenses	(1,452)	7	(1,445)
Profit from operations	2,699	222	2,921
Finance costs	(5)	(331)	(336)
Share of results of associates and joint ventures	(4)	–	(4)
Profit before taxation	2,690	(109)	2,581
Income tax	(776)	28	(748)
Profit for the period	1,914	(81)	1,833
Other comprehensive income for the period	–	–	–
Total comprehensive income for the period	1,914	(81)	1,833
Profit attributable to:			
Equity shareholders of the Company	1,758	(76)	1,682
Non-controlling interests	156	(5)	151
Profit for the period	1,914	(81)	1,833
Total comprehensive income attributable to:			
Equity shareholders of the Company	1,758	(76)	1,682
Non-controlling interests	156	(5)	151
Total comprehensive income for the period	1,914	(81)	1,833
Earning per share			
Basic and diluted	RMB0.18	–	RMB0.18

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

c) *Transitional impact (continued)*

(iii) Condensed consolidated cash flow statement

Impact on the condensed consolidated cash flow statement (increase/(decrease)):

	Six months ended 30 June 2018		
	Previously reported *RMB million*	Adjustments *RMB million*	Restated *RMB million*
Operating activities			
Cash generated from operations	4,943	797	5,740
Income tax paid	(922)	–	(922)
Net cash generated from operating activities	4,021	797	4,818
Investing activities			
Payment for the purchase of investment properties, other property, plant and equipment, land use rights and intangible assets	(1,181)	–	(1,181)
Other cash flows arising from investing activities	345	–	345
Net cash used in investing activities	(836)	–	(836)
Financing activities			
Capital element of lease rentals paid	–	(466)	(466)
Interest element of lease rentals paid	–	(331)	(331)
Dividends paid	(1,238)	–	(1,238)
Other cash flows arising from financing activities	(36)	–	(36)
Net cash used in financing activities	(1,274)	(797)	(2,071)
Net increase in cash and cash equivalents	1,911	–	1,911
Cash and cash equivalents at 1 January	10,362	–	10,362
Cash and cash equivalents at 30 June	12,273	–	12,273

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

d) *Right-of-use assets*

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period is as follows:

	At 30 June 2019 *RMB million*	At 31 December 2018 *RMB million*
Included in "Other property, plant and equipment":		
Ownership interests in leasehold land for own use	**4,126**	4,212
Other properties leased for own use	**6,175**	6,506
	10,301	10,718
Leasehold investment properties	**3,200**	3,331
	13,501	14,049

e) *Lease liabilities*

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 31 December 2018	
	Present value of the minimum lease payments *RMB million*	**Total minimum lease payments** *RMB million*	Present value of the minimum lease payments *RMB million*	Total minimum lease payments *RMB million*
Within 1 year	**1,017**	**1,612**	1,048	1,659
After 1 year but within 2 years	**1,103**	**1,627**	1,158	1,724
After 2 years but within 5 years	**3,253**	**4,391**	3,513	4,673
After 5 years	**4,187**	**5,516**	4,151	5,584
	8,543	**11,534**	8,822	11,981
	9,560	**13,146**	9,870	13,640
Less: Total future interest expenses		**(3,586)**		(3,770)
Present value of lease liabilities		**9,560**		9,870

3 REVENUE AND SEGMENT REPORTING

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

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

Revenue mainly represents the revenue from customers and revenue from leasing areas in the hypermarket buildings. Disaggregation of revenue from contracts with customers by major products or services is as follows:

	Six months ended 30 June	
	2019	2018
	RMB million	*RMB million*
Revenue from contracts with customers within the scope of HKFRS 15 – sales of goods	**48,522**	52,163
Revenue from other sources – rental income from tenants	**2,064**	1,897
	50,586	54,060

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

4 OTHER INCOME

	Six months ended 30 June	
	2019	2018
	RMB million	*RMB million*
Income from aged unutilised prepaid cards	**126**	179
Service income	**209**	236
Disposal of packaging materials	**106**	152
Interest income on financial assets measured at amortised cost	**237**	239
Government grants	**119**	143
	797	949

5 PROFIT BEFORE TAXATION

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

(a) Finance costs:

	Six months ended 30 June	
	2019	2018
	RMB million	*RMB million*
		(Note)
Interest expense on bank loans and other financial liabilities	**4**	5
Interest on lease liabilities	**310**	331
	314	336

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 2.

(b) Staff costs:

	Six months ended 30 June	
	2019	2018
	RMB million	*RMB million*
Salaries, wages and other benefits	**4,619**	4,469
Contributions to defined contribution retirement plans	**546**	548
Contributions to Employee Trust Benefit Schemes (i)	**175**	190
Share-based payments	**(16)**	3
	5,324	5,210

(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.

5 PROFIT BEFORE TAXATION (CONTINUED)

(b) Staff costs (continued):

(i) Contributions to Employee Trust Benefit Schemes (continued)

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	
	2019	2018
	RMB million	*RMB million*
		(Note 1)
Cost of inventories	**37,373**	41,112
Depreciation		
– owned property, plant and equipment	**1,478**	1,482
– right-of-use assets	**709**	740
Amortisation	**11**	12
Impairment losses – other property, plant and equipment and intangible assets	**14**	100
Operating lease charges *(Note 2)*	**669**	621
Loss on disposal of property, plant and equipment	**25**	3

Note 1: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 2 from page 34 to 41.

Note 2: Operating lease charges are payments for variable leases, short-term leases and leases of low-value assets which are not required to be capitalised under HKFRS 16.

6 INCOME TAX

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

	Six months ended 30 June	
	2019	2018
	RMB million	*RMB million*
		(Note)
Current tax – Hong Kong Profits Tax		
Provision for the period (i)	**–**	–
Over-provision in respect of prior years	**–**	–
Current tax – PRC income tax		
Provision for the period	**721**	740
Over-provision in respect of prior years	**(6)**	(7)
	715	733
Deferred tax		
Origination of temporary differences, net	**77**	15
	792	748

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 2.

(i) The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the Company and its subsidiaries incorporated in Hong Kong (2018: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

(ii) Most PRC subsidiaries are subject to income tax at 25% for the six months ended 30 June 2019 (2018: 25%) under the Enterprise Income Tax law ("**EIT law**").

Pursuant to the related regulations in respect of the Notice of Certain Tax Policies for Implementation of Exploration and Development of Western Region (Cai Shui [2011] No. 58) jointly issued by the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation, five PRC subsidiaries of the Group are entitled to a preferential income tax rate of 15% during the six months ended 30 June 2019 and 2018.

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

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

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 2019, deferred tax liabilities of RMB31 million (2018: RMB31 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 Mainland China in the foreseeable future.

7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB1,766 million (six months ended 30 June 2018 restated: RMB1,682 million) (note) and the weighted average of 9,539,704,700 ordinary shares (six months ended 30 June 2018: 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 2019 and 2018 and therefore diluted earnings per share is equivalent to basic earnings per share.

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 2.

8 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(a) Right-of-use assets

As discussed in note 2, the Group has initially applied HKFRS 16 using the full retrospective method and restated the comparative figures to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The capitalised value of right-of-use assets is arrived at by reference to the reasonably certain duration of the lease and the present value of lease payments, discounted using an appropriate incremental borrowing rate. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 2(d).

During the six months ended 30 June 2019, the Group entered into a number of lease agreements for use of hypermarket buildings, and therefore recognised the additions to right-of-use assets of RMB187 million. The leases of hypermarket buildings contain variable lease payment terms that are based on sales generated from the hypermarkets and minimum annual lease payment terms that are fixed. These payment terms are common in hypermarkets in Mainland China where the Group operates.

(b) Acquisitions and disposals

During the six months ended 30 June 2019, the Group incurred capital expenditure of RMB878 million (six months ended 30 June 2018: RMB944 million), primarily in respect of new store developments and store remodeling. Items of store equipments and construction in progress with a net book value of RMB27 million were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB9 million), resulting in a loss on disposal of RMB25 million (six months ended 30 June 2018: RMB3 million) (note 5(c)).

(c) Impairment provision

For the six months period ended 30 June 2019, impairment losses were made against the carrying amount of leasehold improvements and equipment in one store of the Group in North China of RMB11 million, and intangible assets of RMB3 million. The impairment loss of RMB14 million in total (six months ended 30 June 2018: RMB100 million) was recognised in "Operating costs" (note 5(c)).

9 TRADE AND OTHER RECEIVABLES

	At 30 June 2019 RMB million	At 31 December 2018 RMB million *(Note)*
Trade receivables	**481**	372
Amounts due from related parties *(note 16)*	**120**	128
Other debtors	**950**	837
Value-added tax recoverable	**615**	892
Prepayments:		
– rentals	**566**	378
– property, plant and equipment and intangible assets	**42**	42
Trade and other receivables	**2,774**	2,649

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 2.

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

Rental prepayments mainly represent variable lease prepayments and deposits which 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.

10 CASH AND CASH EQUIVALENTS

	At 30 June 2019 RMB million	At 31 December 2018 RMB million
Deposits with banks within three months of maturity	**1,434**	175
Cash at bank and on hand	**6,636**	5,686
Other financial assets and cash equivalents	**4,709**	7,608
Cash and cash equivalents in the consolidated statement of financial position and condensed consolidated cash flow statement	**12,779**	13,469

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

11 TRADE AND OTHER PAYABLES

	At 30 June 2019 RMB million	At 31 December 2018 RMB million (Note)
Trade payables	**13,257**	18,588
Amounts due to related parties *(note 16)*	**136**	297
Construction costs payable	**827**	1,273
Dividends payable to non-controlling interest	**105**	193
Accruals and other payables	**5,887**	6,091
Trade and other payables	**20,212**	26,442

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Under this approach, comparative information has been restated. See note 2.

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

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

	At 30 June 2019 RMB million	At 31 December 2018 RMB million
Due within six months	**12,974**	18,293
Due after six months but within 12 months	**283**	295
	13,257	18,588

12 CONTRACT LIABILITIES

	30 June 2019 RMB million	31 December 2018 RMB million
Prepaid cards	**9,091**	8,690
Advance receipts from customers for sales of merchandise	**112**	404
Customer loyalty program points liability	**18**	13
Contract liabilities	**9,221**	9,107

13 SHARE CAPITAL AND DIVIDENDS

(a) Share capital

	At 30 June 2019		At 31 December 2018	
	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 HKD0.16 (equivalent to RMB0.13) per ordinary share in respect of the year ended 31 December 2017 was approved on 9 May 2018, and payments were made on 15 June 2018.

A final dividend of HKD0.14 (equivalent to RMB0.12) per ordinary share in respect of the year ended 31 December 2018 was approved on 17 May 2019, and payments were made on 14 June 2019.

No interim dividend has been declared in respect of the six months ended 30 June 2019.

14 COMMITMENTS

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

	At 30 June 2019 ***RMB million***	At 31 December 2018 *RMB million*
Contracted for	**1,445**	1,524
Authorised but not contracted for	**1,192**	1,550
	2,637	3,074

15 CONTINGENCIES

As at 30 June 2019, legal actions have commenced against the Group by certain customers, certain suppliers and landlords in respect of disputes on purchase agreements and property lease agreements. The total amount claimed is RMB456 million as at 30 June 2019 (31 December 2018: RMB436 million). As at 30 June 2019, the legal actions were ongoing, with most of the actions not yet set for trial dates. Provision of RMB60 million (31 December 2018: RMB34 million) has been made within trade and other payables as at 30 June 2019, which the directors believe is adequate to cover the amounts, if any probable to be payable in respect of these claims.

16 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

	Six months ended 30 June	
	2019	2018
	RMB million	*RMB million*
Short-term employee benefits	**30**	41
Post-employment benefits	**–**	2
Share-based payments	**–**	3
	30	46

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

16 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Identity of related parties

During the six months ended 30 June 2019 and 2018, the directors are of the view that the following entities are related parties of the Group:

Name of Party	Relationship
Auchan Holding and its subsidiaries	Ultimate holding company and its subsidiaries
Alibaba Group and its subsidiaries	The shareholder and its subsidiaries
Hwabao Trust Co., Ltd.	Trustee of RT-Mart and Auchan Scheme trusts

(c) 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 2019 and 2018.

	Six months ended 30 June	
	2019	2018
	RMB million	*RMB million*
Agency fees receivable (i)	**19**	20
Other fees receivable (ii)	**80**	–
Trademark fee payable (iii)	**12**	14
IT services fee payable (iv)	**(7)**	14
Expenses payable (v)	**21**	54
Contributions to Employee Trust Benefit Schemes	**175**	190
Purchase of goods (vi)	**46**	65
Purchase of fixed assets (vii)	**14**	–
Other expenses payable for business cooperation (viii)	**388**	14
Sales of goods (ix)	**49**	–
Commission income (x)	**8**	–
Factoring service fee receivable	**1**	–
Technical service fee payable	**2**	–

(i) Agency fees receivable relates to amounts accrued from international suppliers by a subsidiary of Auchan Holding, net of fees payable to the subsidiary of Auchan Holding.

(ii) Other fees receivable represents fees receivable from a subsidiary of Alibaba Group.

(iii) Trademark fees payable represents the fees charged by a subsidiary of Auchan Holding for the grant of licenses to the Group to use the Auchan trademarks and domain names.

(iv) IT services fees payable represents the fees charged by a subsidiary of Auchan Holding for IT support and services provided.

(v) Expenses payable primarily relate to personnel and administrative costs paid by Auchan Holding and its subsidiaries on behalf of the Group, which are reimbursed and expensed by the Group.

16 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Related party transactions (continued)

(vi) Purchase of goods represents purchase of merchandise from subsidiaries of Alibaba Group and a subsidiary of Auchan Holding.

(vii) Purchase of fixed assets represents purchase of equipment from a subsidiary of Alibaba Group.

(viii) Other expenses payable for business cooperation represents expenses payable to Alibaba Group and its subsidiaries in respect of the services provided under the respective business cooperation agreements.

(ix) Sales of goods represents sales of merchandise is a subsidiary of Alibaba Group.

(x) Commission income represents the income from a subsidiary of Alibaba Group for the consignment sales.

(d) Related party balances

	At 30 June 2019 *RMB million*	At 31 December 2018 *RMB million*
Amounts due from Auchan Holding and its subsidiaries	**59**	40
Amounts due from the joint venture	**2**	–
Amounts due from Alibaba Group and its subsidiaries	**59**	88
Amounts due to Auchan Holding and its subsidiaries	**119**	197
Amounts due to Alibaba Group and its subsidiaries	**17**	100

17 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective method. Under this approach, comparative information has been restated. Further details of the changes in accounting policies are disclosed in note 2.