

# Sun Art Retail Group Ltd.

(Incorporated in Hong Kong with limited liability)

Stock Code: 6808



ADVANCING PHYGITAL  
**DEVELOPMENT ACROSS CHINA**

**2020**  
Interim Report

**DIRECTORS****Executive Director**

HUANG Ming-Tuan (*Chief Executive Officer*)

**Non-Executive Directors**

ZHANG Yong (*Chairman*)

Benoit, Claude, Francois, Marie, Joseph LECLERCQ

Xavier, Marie, Alain DELOM de MEZERAC

Edgard, Michel, Marie BONTE

CHEN Jun

Isabelle, Claudine, Françoise BLONDÉ ép. BOUVIER

**Independent Non-Executive Directors**

Karen Yifen CHANG

Desmond MURRAY

HE Yi

Dieter YIH

**AUDIT COMMITTEE**

Desmond MURRAY (*Chairman*)

Xavier, Marie, Alain DELOM de MEZERAC

Isabelle, Claudine, Françoise BLONDÉ ép. BOUVIER

Karen Yifen CHANG

HE Yi

Dieter YIH

**REMUNERATION COMMITTEE**

Karen Yifen CHANG (*Chairman*)

Edgard, Michel, Marie BONTE

CHEN Jun

Isabelle, Claudine, Françoise BLONDÉ ép. BOUVIER

Desmond MURRAY

HE Yi

Dieter YIH

**NOMINATION COMMITTEE**

HE Yi (*Chairman*)

Edgard, Michel, Marie BONTE

CHEN Jun

Isabelle, Claudine, Françoise BLONDÉ ép. BOUVIER

Karen Yifen CHANG

Desmond MURRAY

Dieter YIH

**COMPANY SECRETARY**

CHO Wing Han, FCIS, FCS

**AUTHORISED REPRESENTATIVES**

Xavier, Marie, Alain DELOM de MEZERAC

CHO Wing Han

**REGISTERED OFFICE IN HONG KONG**

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**BRANCH OFFICE IN HONG KONG**

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

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Jing'an District, Shanghai, China

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**LEGAL ADVISOR**

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**HONG KONG SHARE REGISTRAR**

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East, Wanchai, Hong Kong

**AUDITORS**

KPMG

*Public Interest Entity Auditor registered in accordance*

*with the Financial Reporting Council Ordinance*

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road, Central, Hong Kong

**COMPANY'S WEBSITE**

[www.sunartretail.com](http://www.sunartretail.com)

**STOCK CODE**

6808

## HIGHLIGHTS OF INTERIM RESULTS

|   | For the six months ended 30 June |                    |        |
|---|----------------------------------|--------------------|--------|
|   | 2020                             | 2019               | Change |
|   | <i>RMB million</i>               | <i>RMB million</i> |        |
| Revenue   | <b>53,170</b>                    | 50,586             | 5.1%   |
| Gross Profit  | <b>13,054</b>                    | 13,188             | (1.0)% |
| Profit from Operations                                    | <b>3,346</b>                     | 3,014              | 11.0%  |
| Profit for the Period                                     | <b>2,191</b>                     | 1,899              | 15.4%  |
| Profit Attributable to Equity Shareholders of the Company | <b>2,062</b>                     | 1,766              | 16.8%  |
| <b>Earnings Per Share (“EPS”)</b>                         |                                  |                    |        |
| – Basic and diluted <sup>(1)</sup>                        | <b>RMB0.22</b>                   | RMB0.19            |        |

Note:

- (1) The calculation of basic and diluted EPS for the six months ended 30 June 2020 and 2019 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 of 2020, due to the impact of COVID-19, China's gross domestic product ("GDP") in the PRC decreased by 1.6% to approximately RMB45,661.4 billion. The GDP for the second quarter of 2020 grew by 3.2% year on year, better than the expected growth of 2.4%, and that for the first quarter declined by 6.8%. The overall consumer price index ("CPI") was up by 3.8% compared to the first half of 2019, of which the food CPI was up by 16.2%.

The facts that pork production was seriously under-capacity and imports decreased (a few cases of COVID-19 infections have occurred in several overseas meat-processing factories since the global pandemic outbreak), resulted in a tight pork supply and a significant increase of pork CPI by 104.3%. This also caused an increase of meat CPI by 70.5%, of which beef CPI increased by 20.2% and lamb CPI increased by 11.1%. The non-food CPI observed a minimal increase of 0.7%.

As the pandemic came under control, consumption gradually resumed. Total retail sales of consumer goods in China amounted to RMB17,225.6 billion for the six months ended 30 June 2020, representing a year-on-year decline of 11.4%. The decline has narrowed month by month.

Sales of catering services amounted to RMB1,460.9 billion, representing a decrease of 32.8%. National online retail sales reached RMB5,150.1 billion, increasing by 7.3% compared to the corresponding period last year. Online physical goods retail sales for the six months ended 30 June 2020 amounted to RMB4,348.1 billion, representing an increase of 14.3%, contributed to more than a quarter of total retail sales amounting to 25.2%.

#### Formation of customers' online consumption mindset accelerated, and delivery-to-home business continued to grow with steady steps

The outbreak of COVID-19 in 2020 accelerated the formation of customers' online shopping mindset, and quickened the arrival of digital transformation. The proportion of the Group's online business to total revenue further expanded. B2C business has contributed more to the total revenue than the B2B business.

#### – B2C Business –

During the pandemic in 2020, Fresh food online players have experienced significant growth. Customers appeared to switch to online shopping mode. In addition, offline retailers speeded up the establishment of their online capability. As a result, competition of Fresh food e-commerce intensified further. Nevertheless, the Group's daily order per store ("DOPS") and online proportion continued to increase steadily in such a complex and changeable competitive environment.

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## MANAGEMENT DISCUSSION AND ANALYSIS

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In the first quarter (“Q1”) and second quarter (“Q2”) of 2020, the online DOPS was more than 750 and 950 respectively.

On the day of the 6·18 promotion, DOPS leaped to more than 1,750, and ticket size was more than RMB70. Meanwhile, the Group doubled the total revenue and total orders of the B2C business compared to that of the same day last year. In addition, the Group set a new record exceeding the previous peak that was created on “double 11” in 2019.

Owing to the effective control of the pandemic, society gradually re-opened and returned to work. Despite the Group’s ticket size of B2C business being normalized, falling back from RMB85 in Q1 to RMB68 in Q2, it was still above the Group’s expectation. With the expansion of ticket size and order density, B2C’s unit economics was further optimized and profitability was further improved.

As of the date of this interim report, the number of B2C users reached nearly 50 million and the number of active users reached nearly 13 million. Please refer to note 1 below for definitions of active users.

### – B2B Business –

B2B business was affected by the shutdown and closure of many businesses amid the pandemic, and the performance was below the Group’s expectation. However, B2B business has progressively recovered. As of 30 June 2020, B2B business realized a mid-single-digit growth compared to the same period of 2019. The number of existing users and active users was more than 600,000 and 250,000 respectively. Please refer to note 1 below for definitions of active users.

The Group will continue to provide value-added products for all kinds of B2B clients by leveraging the supply chain and covering a full range of categories. As of 30 June 2020, fresh products contributed to approximately 32% of the total B2B revenue.

## Tmall supermarket inventory sharing, and community group purchase

### – Tmall supermarket inventory sharing –

Tmall supermarket inventory sharing refers to one-hour-delivery of Tmall Supermarket (“**Tmall one-hour-delivery**”) orders within a five-kilometer radius and half-day-delivery of Tmall Supermarket (“**Tmall half-day-delivery**”) applicable to a catchment area within a five to twenty kilometers radius. These two are collectively referred to as Tmall supermarket inventory sharing.

At present, all stores of the Group can provide Tmall one-hour-delivery service. There are 180 stores available for Tmall half-day-delivery service and therefore, basically each city will roll out one selected store for the half-day initiative.

The Tmall supermarket inventory sharing initiative is still at a pilot stage, and orders continued to increase month by month.

*Note:*

- (1) Active users of B2C or B2B business: Customers who were used to purchase via the Group’s B2C or B2B platforms at least once during two consecutive months.

### – Community group purchase –

The Group began to collaborate with Cainiao in terms of a community group purchase initiative (“**Group purchase**”) last year. At present, more than 3,000 Cainiao pick-up stations across 16 cities have rolled out this service. Customers can place an order on day one and collect the delivery at Cainiao stations on day two.

By leveraging the Group’s supply chain, it provides Cainiao stations with added value in terms of retail service. In addition, it also provides a new shopping scenario to customers.

### Continued implementation of the remodeling initiative

In the first half of 2020, the remodeling initiative was delayed due to the pandemic outbreak. However, the Group has restarted the remodeling of planned stores since March 2020. As of 30 June 2020, construction started for more than 20 stores, of which nine stores are located in Eastern China.

By the end of June 2020, five stores have been remodeled. In some planned stores, the remodeling focused on not only the in-store shopping environment, but also the upgrade of galleries. The Group expects to provide customers with a completely new shopping experience.

Generally speaking, the remodeling features an upgrade of the stores’ shopping environment. In fact, bettering the offerings is the most important part of this remodeling. The change of offerings is not only presented in the remodeling stores but synchronized to all stores. The aim of remodeling is to leverage the Group’s core competencies such as products, prices and services to encourage the customers find the reasons to return to the brick-and-mortar stores again.

### Kick-off of multi-format store expansion mode

2020 is the first year of the Group’s multi-format expansion mode. In recent years, brick-and-mortar stores have been impacted by e-commerce and peer competition, and the catchment areas have been shrinking. Meanwhile, the customers are demanding ever more convenience in shopping. Therefore, expanding store footprints by opening smaller and community-based formats is an inevitable direction of development.

This year, the Group expects to open approximately ten hypermarkets, two to three supermarkets and 30 mini stores. The expansion of the store network will further shorten the travel distance for customers. Supermarkets and mini-stores will center on fresh products and Fast Moving Consumer Goods (“**FMCG**”), and reduce or omit home appliances, apparel and some other categories.

In the future, supermarkets and mini stores will become the key drivers of the Group’s store expansion.

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## MANAGEMENT DISCUSSION AND ANALYSIS

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### Integration plays a prominent part to drive the growth of the Group's revenue and profit

In 2019, the Group integrated the headquarters, supply chain, assortment and distribution centers of the two banners RT-Mart and Auchan.

Meanwhile, the steady decline of fresh goods wastage under the Auchan banner has gradually decreased to a reasonable level. In addition, the synergies among departments became more evident and controllable costs were further optimized. As of 30 June 2020, the performance of Auchan stores has been significantly improved.

DOPS of B2C business under the Auchan banner has improved. The growth of DOPS has caught up with RT-Mart. This has enhanced employees' efficiency and greatly improved the profit earning of its B2C business.

### Expansion Status

During the six months ended 30 June 2020 under review, the Group opened one supermarket under the RT-Mart banner in Eastern China, with a business area of more than 5,000 square meters. During the period under review, the Group closed three loss-making stores, and all were located in Eastern China.

As of 30 June 2020, the Group had a total of 481 hypermarkets and three supermarkets in China with a total gross floor area ("**GFA**") of approximately 12.97 million square meters. Approximately 69.9% of the GFA was operated as leased space, 29.8% of the GFA was in self-owned properties and 0.3% of the GFA was in contracted stores. Please refer to note 2 below for definitions of regional zones.

As of 30 June 2020, approximately 7.6% of the Group's stores were located in first-tier cities, 16.1% in second-tier cities, 46.5% in third-tier cities, 21.7% in fourth-tier cities and 8.1% in fifth-tier cities. Please refer to note 3 below for definitions of tiers.

## MANAGEMENT DISCUSSION AND ANALYSIS

As of 30 June 2020, through the execution of lease contracts or acquisition of land plots, the Group had identified and secured 43 sites to open hypermarkets, of which 37 were under construction.

In addition, the Group plans to open two to three supermarkets as well as 30 mini stores in the second half of this year.

| Region             | Number of *Brick-and-Mortar Stores<br>(As of 30 June 2020) |             |            |             | Total GFA of *Brick-and-Mortar Stores<br>(sq.m.)<br>(As of 30 June 2020) |                   |                   |             |
|--------------------|--|-------------|------------|-------------|--|-------------------|-------------------|-------------|
|                    | Supermarket  | Hypermarket | Total      | Percentage  | Supermarket  | Hypermarket       | Total             | Percentage  |
| Eastern China      | 2  | 188         | 190        | 39%         | 32,945   | 5,397,803         | 5,430,748         | 42%         |
| Northern China     | 1  | 49          | 50         | 10%         | 10,283   | 1,236,543         | 1,246,826         | 10%         |
| Northeastern China | -  | 52          | 52         | 11%         | -  | 1,446,005         | 1,446,005         | 11%         |
| Southern China     | -  | 90          | 90         | 19%         | -  | 2,188,522         | 2,188,522         | 17%         |
| Central China      | -  | 76          | 76         | 16%         | -  | 1,933,517         | 1,933,517         | 15%         |
| Western China      | -  | 26          | 26         | 5%          | -  | 719,759           | 719,759           | 5%          |
| <b>Total</b>       | <b>3</b>   | <b>481</b>  | <b>484</b> | <b>100%</b> | <b>43,228</b>  | <b>12,922,149</b> | <b>12,965,377</b> | <b>100%</b> |

\* Brick-and-Mortar Stores include 481 hypermarkets and 3 supermarkets

Notes:

(2) 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                         |

(3) 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   |



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## MANAGEMENT DISCUSSION AND ANALYSIS

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### Human Resources

As of 30 June 2020, the Group had 142,584 employees.

During the 2020 pandemic, the Group adopted a series of health measures and to promptly provided employees with the necessary protective equipment. The Group closely monitored the health status of the employees across the country. The health and safety of the employees was a top priority of the Group at all time during the pandemic. This also protected our stores and customers and fully reflected the Group's "people-oriented" culture and social responsibility.

During the pandemic, the infection rate of employees was about 1 in 10,000.

### Outlook

2020 is destined to be an extremely unusual year. The development of customers' online shopping behavior has been accelerated by the pandemic. This vindicated the Group's strategy in terms of digital transformation two years ago. It was correct, far-sighted and opportune. Opportunities are always coexisting with crises. We believe that online competition will further intensify after the pandemic. In order to keep staying in a winning position, it requires us to continue to think from the perspective of customers, and to provide good products with good prices and services through omni-channels and multi-formats, thus creating a seamless shopping experience for the customers.

We are delighted that, after years of development, transformation and accumulation, the Group has returned to a growth trajectory. In the past three years, the Group has reached several milestone events, notably the strategic alliance with Alibaba in 2017, opening a new chapter of delivery-to-home service when the Taoxianda initiative was rolled out to all the Group's stores in 2018, and the execution of business integration in 2019. The Group has the best partner, the best resources and the best foundation. We cannot and will not stand still. We have reasons to believe that the Group will continue to break new ground and achieve further progress.

## 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 brick-and-mortar stores and online sales channels where merchandise, mainly food, groceries, textile and general goods, are made available for sale. Revenue from sales of goods is net of value added tax and other applicable sales taxes after deducting any trade discounts. Rental income from tenants is derived from renting gallery space in brick-and-mortar stores complexes to operators of businesses that the Group believes 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 |                       | Change  |
|-------------------------------|--------------------------|-----------------------|---------|
|                               | 2020<br>(RMB million)    | 2019<br>(RMB million) |         |
| Revenue                       | 53,170                   | 50,586                | 5.1%    |
| – Revenue from sales of goods | 51,494                   | 48,522                | 6.1%    |
| – Rental income from tenants  | 1,676                    | 2,064                 | (18.8)% |

For the six months ended 30 June 2020, revenue from sales of goods was RMB51,494 million, representing an increase of RMB2,972 million, or 6.1%, from RMB48,522 million for the corresponding period in 2019.

For the six months ended 30 June 2020, the Same Store Sales Growth<sup>(1)</sup> (“SSSG”) calculated based on sales of goods excluding electronic appliances was 5.7%. The Group’s online Business to Customer (the “B2C”) business, primarily through Taoxianda and Tmall platform, achieved significant progress and contributed to the Group’s sales growth.

During the period from 1 July 2019 to 30 June 2020, the Group continued to expand in various areas of China and opened six new stores with five in the second half of 2019 and one in the first half of 2020, respectively. The new stores brought additional sales of goods in the first half of 2020.

For the six months ended 30 June 2020, revenue from rental income was RMB1,676 million, representing a decrease of RMB388 million, or 18.8%, from RMB2,064 million for the corresponding period in 2019. The rental income was impacted by COVID-19 since some of the Group’s tenants renting the Group’s gallery space suspended their operations during the pandemic period. The rental income from those tenants was waived during this period.

Note:

- (1) Same store sales growth: the growth rate of sales of the stores opened before 30 June 2019. It is calculated by comparing the sales derived from those stores during their operating periods in first half of 2020 with sales during the corresponding periods in 2019.

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## MANAGEMENT DISCUSSION AND ANALYSIS

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### Gross Profit

For the six months ended 30 June 2020, gross profit was RMB13,054 million, representing a decrease of RMB134 million, or 1.0%, from RMB13,188 million for the corresponding period in 2019. The gross profit margin for the six months ended 30 June 2020 was 24.6%, representing a decrease of 1.5 percentage point from 26.1% for the corresponding period in 2019. The decrease in gross profit was mainly due to less rental income collected in the first half of 2020.

### Other Income

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

For the six months ended 30 June 2020, other income was RMB904 million, representing an increase of RMB107 million, or 13.4%, from RMB797 million for the corresponding period in 2019. The increase was primarily attributable to an increase of RMB136 million in government grants. Government subsidies, which related to employment stabilisation, were received during the pandemic period. This increase was partially offset by a decrease of RMB55 million in income from the recognition of aged unutilised balances on prepaid cards.

### Operating Costs

Operating costs represent the costs attributable to the operations of the stores and online 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 2020, operating costs were RMB9,387 million, representing a decrease of RMB174 million, or 1.8%, from RMB9,561 million for the corresponding period in 2019. The continuous development of the business including the on-going expansion of the brick-and-mortar store network and the development of the O2O business required investment in personnel and other related projects. The Group also followed government guidance on the increase in the minimum wage for staff. These developments brought additional operating costs. In the first half of 2020 during the pandemic period, the government announced the reduction and exemption in the payment of certain social welfare items, which resulted in a decrease in social welfare costs.

Expressed as a percentage, the amount of operating costs for the period ended 30 June 2020 as of revenue in the first half of 2020 was 17.7%, representing a decrease of 1.2 percentage point from 18.9% for the corresponding period in 2019.

### 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 2020, administrative expenses were RMB1,225 million, representing a decrease of RMB185 million, or 13.1%, from RMB1,410 million for the corresponding period in 2019. The integration between the two banners improved the headoffice efficiency and helped reduce administrative expenses at the headquarters.

Expressed as a percentage, the amount of administrative expenses for the period ended 30 June 2020 as of the revenue for the first half of 2020 was 2.3%, representing a decrease of 0.5 percentage point, from 2.8% of the corresponding period in 2019.

### Profit from Operations

For the six months ended 30 June 2020, the profit from operations was RMB3,346 million, representing an increase of RMB332 million, or 11.0%, from RMB3,014 million for the corresponding period in 2019. The operating margin during the six months ended 30 June 2020 was 6.3%, an increase of 0.3 percentage point, from 6.0% of the corresponding period in 2019. The integration between the two banners, starting from 2019, helped to increase the productivity of the Group's stores and improve the performance.

### Finance Costs

Finance costs primarily consist of the interest expenses on borrowings and lease liabilities. For the six months ended 30 June 2020, the finance costs were RMB286 million, representing a decrease of RMB28 million, or 8.9%, from RMB314 million for the corresponding period in 2019. The decrease was in line with the reduced balance of lease liabilities.

### Income Tax

For the six months ended 30 June 2020, income tax expense was RMB871 million, representing an increase of RMB79 million, or 10.0%, from RMB792 million for the corresponding period in 2019.

The related effective tax rate for the six months ended 30 June 2020 was 28.4%, a decrease of 1.0 percentage point from 29.4% for the corresponding period in 2019. The decrease in effective tax rate was attributable to the utilisation of previously unrecognised tax losses generated by certain legal entities, which were established in prior years since those legal entities continued generating profits to recover those losses.

### Profit for the Period

For the six months ended 30 June 2020, profit for the period was RMB2,191 million, representing an increase of RMB292 million, or 15.4%, from RMB1,899 million for the corresponding period in 2019.

The net profit margin for the six months ended 30 June 2020 was 4.1%, an increase of 0.3 percentage points, from 3.8 % of the corresponding period in 2019. The increase in net profit margin was mainly from the higher operating margin and the improved effective tax rate.

### Profit Attributable to Equity Shareholders of the Company

For the six months ended 30 June 2020, the profit attributable to equity shareholders of the Company was RMB2,062 million, representing an increase of RMB296 million, or 16.8%, from RMB1,766 million for the corresponding period in 2019.

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## MANAGEMENT DISCUSSION AND ANALYSIS

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### Profit Attributable to Non-Controlling Interests

For the six months ended 30 June 2020, the profit attributable to non-controlling interests was RMB129 million, representing a decrease of RMB4 million, or 3.0%, from RMB133 million for the corresponding period in 2019. The profit attributable to non-controlling interests represented (i) interests in ACI and 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**"); (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 Hema (China) Co., Ltd. in Shanghai Runhe Internet Technology Co., Ltd.

### Liquidity and Financial Resources

For the six months ended 30 June 2020, cash flow generated from operating activities was RMB5,724 million, representing an increase of RMB3,293 million, or 135.5%, from RMB2,431 million for the corresponding period in 2019.

As of 30 June 2020, net current liabilities decreased to RMB1,249 million from RMB3,290 million as of 31 December 2019. This decrease was primarily attributed to (i) a decrease in the current assets of RMB5,874 million, related to the reduced stock level as at 30 June 2020; and (ii) a decrease in current liabilities of RMB7,915 million mainly from the decreased balance of trade payables of RMB6,418 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 2020, the inventory turnover days and trade payable turnover days, calculated on average balances of inventories and trade payables, together with the cost of inventories during past 12 months, were 59 days and 76 days, respectively, compared to 54 days and 84 days restated for the corresponding period of 2019.

### Investing activities

For the six months ended 30 June 2020, cash flow used in investing activities was RMB2,016 million, representing an increase of RMB927 million, or 85.1%, from RMB1,089 million for the six months ended 30 June 2019.

The cash flow used in investing activities mainly reflected: 1) the addition of fixed assets and intangible assets of RMB632 million in respect of the development of new stores and the remodeling and digitalization of existing stores, as well as the settlement of capital expenditure incurred in 2019 of RMB79 million; 2) the net investment in financial instrument measured at FVPL of RMB1,569 million.

### Financing activities

For the six months ended 30 June 2020, cash flow used in financing activities was RMB1,936 million, with a decrease of RMB96 million, or 4.7%, from RMB2,032 million for the six months ended 30 June 2019.

### 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 to the Listing Rules.

The Company reviews regularly its organizational structure to ensure operations are in line with the good corporate governance practices as set out in the CG Code and 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 2020, save and except for the deviation of code provision C.3.7(a) of the CG Code.

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

The Company had not established any formal arrangement for employees to raise concern about possible improprieties in financial reporting, internal control or other matters. However, in practice, employees have direct access to the internal audit department via either a telephone line or a mailbox. In addition, they have direct access by email to the Executive Director and the senior management. The Directors regularly receive and review monthly financial reports. The Directors, through the Company's 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 proper actions to deal with any issue reported by any employee about improprieties in financial reporting, internal control and other matters.

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## CORPORATE GOVERNANCE AND OTHER INFORMATION

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### 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 to the Listing Rules.

Specific enquiry has been made of all the Directors and the relevant employees and they have confirmed that they have complied with the Model Code and the Company Code throughout the six months ended 30 June 2020.

### 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/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

### BOARD COMPOSITION

During the six months ended 30 June 2020 and as at the date of this interim report, the Directors were as follows:

#### **Executive Director**

HUANG Ming-Tuan (*Chief Executive Officer*) (Appointed on 11 December 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)

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)

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)

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)  
(Benoit, Claude, Francois, Marie, Joseph LECLERCQ, Xavier, Marie, Alain DELOM de MEZERAC, 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)

Dieter YIH (Appointed on 11 December 2019)

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

During the six months ended 30 June 2020, 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 12 August 2020, no dividend for the six months ended 30 June 2020 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.



## CORPORATE GOVERNANCE AND OTHER INFORMATION

### 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 2020, 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 <sup>(1)</sup> | Approximate percentage shareholding of the relevant entity |
|----------------------------------|--|-----------------------------------|---------------------------------------|--|
| HUANG Ming-Tuan                  | Company  | Interest of spouse <sup>(2)</sup> | 77,590,702(L)                         | 0.81%  |
| Edgard, Michel, Marie BONTE      | Auchan Retail International S.A. <sup>(3)</sup><br>("Auchan Retail") | Beneficial owner                  | 1(L) <sup>(4)</sup>                   | 0.0000%  |
| Desmond MURRAY                   | Company  | Beneficial owner                  | 55,000(L)                             | 0.0006%  |

Notes:

- (1) The letter "L" denotes the person's long position in the shares.
- (2) Ms. LEE Chih-Lan is the spouse of Mr. HUANG Ming-Tuan. Ms. LEE Chih-Lan 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.
- (3) Auchan Retail is a company incorporated in France which is more than 99.99% owned by Auchan Holding S.A.. A-RT Retail Holdings Limited ("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.

Save as disclosed above, so far as known to any Directors, as at 30 June 2020, 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 2020, 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:

| <b>Name of substantial shareholder</b>  | <b>Nature of interest</b>            | <b>Number and class of shares<sup>(1)</sup></b> | <b>Approximate percentage of shareholding</b> |
|---|--------------------------------------|---|---|
| A-RT <sup>(2)</sup>   | Beneficial owner                     | 4,865,338,686(L) <sup>(11)</sup>                | 51.0009%                                      |
| Auchan Retail <sup>(3)</sup>  | Interest in a controlled corporation | 4,865,338,686(L) <sup>(11)</sup>                | 51.0009%                                      |
| Auchan Holding S.A. <sup>(4)</sup>  | Interest in a controlled corporation | 4,865,338,686(L) <sup>(11)</sup>                | 51.0009%                                      |
| Au Marché S.A.S. <sup>(5)</sup>   | Interest in a controlled corporation | 4,865,338,686(L) <sup>(11)</sup>                | 51.0009%                                      |
| Mulliez Family <sup>(6)</sup>   | Interest in controlled corporations  | 4,865,338,686(L) <sup>(11)</sup>                | 51.0009%                                      |
| Taobao China Holding Limited <sup>(7)</sup><br>("Taobao China")                           | Beneficial owner                     | 2,001,753,643(L) <sup>(12)</sup>                | 20.9834%                                      |
| Taobao Holding Limited <sup>(8)</sup><br>("Taobao Holding")                               | Interest in controlled corporations  | 2,001,753,643(L) <sup>(12)</sup>                | 20.9834%                                      |
| New Retail Strategic Opportunities Investments 1 Limited <sup>(9)</sup><br>("New Retail") | Beneficial owner                     | 480,369,231(L) <sup>(13)</sup>                  | 5.0355%                                       |
| New Retail Strategic Opportunities Fund, L.P. <sup>(9)</sup>                              | Interest in controlled corporations  | 480,369,231(L) <sup>(13)</sup>                  | 5.0355%                                       |
| New Retail Strategic Opportunities Fund GP, L.P. <sup>(9)</sup>                           | Interest in controlled corporations  | 480,369,231(L) <sup>(13)</sup>                  | 5.0355%                                       |
| New Retail Strategic Opportunities GP Limited <sup>(9)</sup>                              | Interest in controlled corporations  | 480,369,231(L) <sup>(13)</sup>                  | 5.0355%                                       |
| Alibaba Investment Limited <sup>(9)</sup>   | Interest in controlled corporations  | 480,369,231(L) <sup>(13)</sup>                  | 5.0355%                                       |
| Alibaba Group <sup>(10)</sup>   | Interest in controlled corporations  | 2,482,122,874(L)                                | 26.0189%                                      |

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## CORPORATE GOVERNANCE AND OTHER INFORMATION

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*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 Exploitation 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 more than 99.99% 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 more than 99.99% owned by Auchan Holding S.A., therefore Auchan Holding S.A. is deemed to be interested in all the shares in which A-RT is interested in by virtue of Part XV of the SFO.
- (5) Auchan Holding S.A. is 68.72% 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 2020 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.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

- (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 2020, 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 2020, the shareholding interests of eight of the operating subsidiaries in the PRC 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.. The shareholding interest of Oney Accord is partially held by Oney Bank S.A., which is a connected person of the Company. The shareholding interest of Shanghai Runhe Internet Technology Co., Ltd is partially held by Hema (China) Co., Ltd, 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 2020.

### BOARD COMMITTEES

#### Audit Committee

The Company established the Audit Committee on 27 June 2011 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to assist the Board in overseeing and reviewing (i) the effectiveness of the Company's risk management and internal control systems and regulatory compliance of the Group; (ii) the balance, transparency and integrity of the Company's financial statements and application of financial reporting principle; (iii) the relationship with the external auditors and their independence assessments; and (iv) the effectiveness of the Company's internal audit function. The Audit Committee currently consists of six Non-executive Directors, four of whom are independent. The members currently are Mr. Xavier, Marie, Alain DELOM de MEZERAC, Mrs. Isabelle, Claudine, Françoise BLONDÉ ép. BOUVIER, Ms. Karen Yifen CHANG, Mr. HE Yi, Mr. Dieter YIH 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 2020 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 (the "**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 seven Non-executive Directors, four of whom are independent. The members currently are Mr. Edgard, Michel, Marie BONTE, Mr. CHEN Jun, Mrs. Isabelle, Claudine, Françoise BLONDÉ ép. BOUVIER, Ms. Karen Yifen CHANG, Mr. Desmond MURRAY, Mr. Dieter YIH and Mr. HE Yi, an Independent Non-executive Director, being the Chairman of the Nomination Committee.

#### Remuneration Committee

The Company established a remuneration committee (the "**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 seven Non-executive Directors, four of whom are independent. The members currently are Mr. Edgard, Michel, Marie BONTE, Mr. CHEN Jun, Mrs. Isabelle, Claudine, Françoise BLONDÉ ép. BOUVIER, Mr. Desmond MURRAY, Mr. HE Yi, Mr. Dieter YIH 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 2019 Annual Report are set out below:

- Mr. Benoit, Claude, Francois, Marie, Joseph LECLERCQ resigned as the Chairman of Creadev USA Inc. and ZTP SERVICES with effect from 25 January 2020 and 4 March 2020 respectively.
- Mr. Xavier, Marie, Alain DELOM de MEZERAC resigned as the general secretary and a member of the "Directoire" of Auchan Holding S.A. with effect from 13 February 2020, supervisor of RT-Mart International Ltd. with effect from 4 March 2020 and the chairman of Soparalinea S.A.S. with effect from 31 March 2020.
- Mr. Edgard, Michel, Marie BONTE resigned as liquidator of Villa Saint Michel parc des promenades with effect from 4 October 2019, the Chairman and Member of the Executive Board of Auchan Holding S.A. with effect from 13 February 2020, the Chairman of the Board and the Director of Immosulnei with effect from 10 March 2020 and the Chairman of the Board of Auchan Russie SARL with effect from 27 March 2020.
- Mr. Edgard, Michel, Marie BONTE was appointed as the Managing Director and Chairman of the Board of IDS International Drugstore Italia and General director of Auchan Holding S.A. with effect from 12 February 2020 and 13 February 2020 respectively. His mandates as the Managing Director and Chairman of the Board of IDS International Drugstore Italia ended on 31 July 2020.
- Mrs. Isabelle, Claudine, Françoise BLONDÉ ép. BOUVIER resigned as Director of Auchan LLC (Auchan Russie SARL) and Auchan Retail France SAS with effect from 11 March 2020 and 28 May 2020 respectively.
- Mrs. Isabelle, Claudine, Françoise BLONDÉ ép. BOUVIER was appointed as the Chairman of the Board of Auchan Retail Espana SL with effect from 8 April 2020. Her mandate as director of the Board of IDS INTERNATIONAL DRUGSTORE ITALIA ended on 31 July 2020.

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.

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## REVIEW REPORT

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### **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 23 to 50 which comprises the consolidated statement of financial position of Sun Art Retail Group Limited as at 30 June 2020 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 2020 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

12 August 2020

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2020 – Unaudited*

|   | Notes | Six months ended 30 June |                     |
|---|-------|--------------------------|---------------------|
|   |       | 2020<br>RMB million      | 2019<br>RMB million |
| <b>Revenue</b>                                    | 3     | <b>53,170</b>            | 50,586              |
| Cost of sales                                     |       | <b>(40,116)</b>          | (37,398)            |
| <b>Gross profit</b>                               |       | <b>13,054</b>            | 13,188              |
| Other income                                      | 4     | <b>904</b>               | 797                 |
| Operating costs                                   |       | <b>(9,387)</b>           | (9,561)             |
| Administrative expenses                           |       | <b>(1,225)</b>           | (1,410)             |
| <b>Profit from operations</b>                     |       | <b>3,346</b>             | 3,014               |
| Finance costs                                     | 5(a)  | <b>(286)</b>             | (314)               |
| Share of results of associates and joint ventures |       | <b>2</b>                 | (9)                 |
| <b>Profit before taxation</b>                     | 5     | <b>3,062</b>             | 2,691               |
| Income tax  | 6     | <b>(871)</b>             | (792)               |
| <b>Profit for the period</b>                      |       | <b>2,191</b>             | 1,899               |
| <b>Other comprehensive income for the period</b>  |       | –                        | –                   |
| <b>Total comprehensive income for the period</b>  |       | <b>2,191</b>             | 1,899               |



## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020 – Unaudited

|  | Note | Six months ended 30 June |                     |
|--|------|--------------------------|---------------------|
|  |      | 2020<br>RMB million      | 2019<br>RMB million |
| <b>Profit attributable to:</b>                     |      |                          |                     |
| Equity shareholders of the Company                 |      | 2,062                    | 1,766               |
| Non-controlling interests                          |      | 129                      | 133                 |
| <b>Profit for the period</b>                       |      | <b>2,191</b>             | <b>1,899</b>        |
| <b>Total comprehensive income attributable to:</b> |      |                          |                     |
| Equity shareholders of the Company                 |      | 2,062                    | 1,766               |
| Non-controlling interests                          |      | 129                      | 133                 |
| <b>Total comprehensive income for the period</b>   |      | <b>2,191</b>             | <b>1,899</b>        |
| <b>Earnings per share</b>                          |      |                          |                     |
| Basic and diluted                                  | 7    | RMB0.22                  | RMB0.19             |

The notes on pages 31 to 50 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 – Unaudited

|  | Notes | 30 June<br>2020<br>RMB million | 31 December<br>2019<br>RMB million |
|--|-------|--------------------------------|------------------------------------|
| <b>Non-current assets</b>                    |       |                                |                                    |
| Investment properties                        | 8     | 6,458                          | 6,699                              |
| Other property, plant and equipment          | 8     | 27,438                         | 28,572                             |
|  |       | <b>33,896</b>                  | 35,271                             |
| Intangible assets                            | 8     | 18                             | 25                                 |
| Goodwill                                     |       | 99                             | 99                                 |
| Equity-accounted investees                   |       | 19                             | 17                                 |
| Deferred tax assets                          | 6     | 1,049                          | 1,052                              |
|  |       | <b>35,081</b>                  | 36,464                             |
| <b>Current assets</b>                        |       |                                |                                    |
| Inventories                                  |       | 8,914                          | 17,724                             |
| Trade and other receivables                  | 9     | 2,754                          | 2,962                              |
| Time deposits                                |       | 16                             | 16                                 |
| Restricted deposits                          |       | 562                            | 769                                |
| Financial assets measured at FVPL            | 10    | 1,579                          | –                                  |
| Cash and cash equivalents                    | 11    | 15,023                         | 13,251                             |
|  |       | <b>28,848</b>                  | 34,722                             |
| <b>Current liabilities</b>                   |       |                                |                                    |
| Trade and other payables                     | 12    | 18,535                         | 25,827                             |
| Lease liabilities                            | 13    | 1,061                          | 1,057                              |
| Contract liabilities                         | 14    | 10,025                         | 10,669                             |
| Income tax payables                          |       | 476                            | 459                                |
|  |       | <b>30,097</b>                  | 38,012                             |
| <b>Net current liabilities</b>               |       | <b>(1,249)</b>                 | <b>(3,290)</b>                     |
| <b>Total assets less current liabilities</b> |       | <b>33,832</b>                  | 33,174                             |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 – Unaudited

|  | Notes | 30 June<br>2020<br>RMB million | 31 December<br>2019<br>RMB million |
|--|-------|--------------------------------|------------------------------------|
| <b>Non-current liabilities</b>   |       |                                |                                    |
| Lease liabilities  | 13    | 7,156                          | 7,511                              |
| Other financial liabilities  |       | 50                             | 50                                 |
| Deferred tax liabilities   | 6     | 309                            | 255                                |
|  |       | 7,515                          | 7,816                              |
| <b>Net assets</b>  |       | <b>26,317</b>                  | <b>25,358</b>                      |
| <b>Capital and reserves</b>  |       |                                |                                    |
| Share capital  | 15    | 10,020                         | 10,020                             |
| Reserves   |       | 14,657                         | 13,905                             |
| <b>Total equity attributable to equity shareholders<br/>of the Company</b> |       | <b>24,677</b>                  | <b>23,925</b>                      |
| <b>Non-controlling interests</b>   |       | <b>1,640</b>                   | <b>1,433</b>                       |
| <b>Total equity</b>  |       | <b>26,317</b>                  | <b>25,358</b>                      |

Approved and authorised for issue by the Board of Directors on 12 August 2020.

**HUANG Ming-Tuan**  
Chief Executive Officer & Executive Director

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

The notes on pages 31 to 50 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 – Unaudited

| Attributable to equity shareholders of the Company              |                              |                                |                                 |                                  |                                 |                      |  |                             |                             |
|---|------------------------------|--------------------------------|---------------------------------|----------------------------------|---------------------------------|----------------------|--|-----------------------------|-----------------------------|
| Note  | Share capital<br>RMB million | Capital reserve<br>RMB million | Exchange reserve<br>RMB million | Statutory reserve<br>RMB million | Retained profits<br>RMB million | Total<br>RMB million | Non-controlling interests<br>RMB million | Total equity<br>RMB million | Total equity<br>RMB million |
| <b>Balance at 1 January 2019</b>                                | 10,020                       | 1,856                          | 45                              | 1,410                            | 8,956                           | 22,287               | 1,362                                    | 23,649                      | 23,649                      |
| <b>Changes in equity for the six months ended 30 June 2019:</b> |                              |                                |                                 |                                  |                                 |                      |  |                             |                             |
| Profit for the period   | -                            | -                              | -                               | -                                | 1,766                           | 1,766                | 133                                      | 1,899                       | 1,899                       |
| Other comprehensive income                                      | -                            | -                              | -                               | -                                | -                               | -                    | -  | -                           | -                           |
| Total comprehensive income                                      | -                            | -                              | -                               | -                                | 1,766                           | 1,766                | 133                                      | 1,899                       | 1,899                       |
| Dividend declared in respect of the previous year               | -                            | -                              | -                               | -                                | (1,171)                         | (1,171)              | -  | (1,171)                     | (1,171)                     |
| Dividends declared and payable to non-controlling shareholders  | -                            | -                              | -                               | -                                | -                               | -                    | (22)                                     | (22)                        | (22)                        |
| <b>Balance at 30 June 2019 and 1 July 2019</b>                  | 10,020                       | 1,856                          | 45                              | 1,410                            | 9,551                           | 22,882               | 1,473                                    | 24,355                      | 24,355                      |

The notes on pages 31 to 50 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 – Unaudited

|   | Attributable to equity shareholders of the Company |                                |                                 |                                  |                                 |                      |  |                             |
|---|--|--------------------------------|---------------------------------|----------------------------------|---------------------------------|----------------------|--|-----------------------------|
|   | Share capital<br>RMB million                       | Capital reserve<br>RMB million | Exchange reserve<br>RMB million | Statutory reserve<br>RMB million | Retained profits<br>RMB million | Total<br>RMB million | Non-controlling interests<br>RMB million | Total equity<br>RMB million |
| <b>Balance at 30 June 2019 and 1 July 2019</b>                      | 10,020   | 1,856                          | 45                              | 1,410                            | 9,551                           | 22,882               | 1,473                                    | 24,355                      |
| <b>Changes in equity for the six months ended 31 December 2019:</b> |  |                                |                                 |                                  |                                 |                      |  |                             |
| Profit for the period   | -  | -                              | -                               | -                                | 1,068                           | 1,068                | 78                                       | 1,146                       |
| Other comprehensive income  | -  | -                              | -                               | -                                | -                               | -                    | -  | -                           |
| <b>Total comprehensive income</b>                                   | -  | -                              | -                               | -                                | 1,068                           | 1,068                | 78                                       | 1,146                       |
| Dividends declared and payable to non-controlling shareholders      | -  | -                              | -                               | -                                | -                               | -                    | (97)                                     | (97)                        |
| Profit appropriation to statutory reserve                           | -  | -                              | -                               | 58                               | (58)                            | -                    | -  | -                           |
| Acquisition of non-controlling interests                            | -  | (21)                           | -                               | -                                | -                               | (21)                 | (21)                                     | (42)                        |
| Share-based payments  | -  | (4)                            | -                               | -                                | -                               | (4)                  | -  | (4)                         |
| <b>Balance at 31 December 2019</b>                                  | 10,020   | 1,831                          | 45                              | 1,468                            | 10,561                          | 23,925               | 1,433                                    | 25,358                      |

The notes on pages 31 to 50 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 – Unaudited

| Attributable to equity shareholders of the Company                  |                  |                    |                     |                      |                     |                |                                  |                |                |                |
|---|------------------|--------------------|---------------------|----------------------|---------------------|----------------|----------------------------------|----------------|----------------|----------------|
|   | Share<br>capital | Capital<br>reserve | Exchange<br>reserve | Statutory<br>reserve | Retained<br>profits | Total          | Non-<br>controlling<br>interests | Total          |                |                |
| Note  | RMB<br>million   | RMB<br>million     | RMB<br>million      | RMB<br>million       | RMB<br>million      | RMB<br>million | RMB<br>million                   | RMB<br>million | RMB<br>million | RMB<br>million |
| <b>Balance at 1 January 2020</b>                                    | 10,020           | 1,831              | 45                  | 1,468                | 10,561              | 23,925         | 1,433                            | 25,358         |                |                |
| <b>Changes in equity for the<br/>six months ended 30 June 2020:</b> |                  |                    |                     |                      |                     |                |                                  |                |                |                |
| Profit for the period   | -                | -                  | -                   | -                    | 2,062               | 2,062          | 129                              | 2,191          |                |                |
| Other comprehensive income  | -                | -                  | -                   | -                    | -                   | -              | -                                | -              |                |                |
| <b>Total comprehensive income</b>                                   | -                | -                  | -                   | -                    | 2,062               | 2,062          | 129                              | 2,191          |                |                |
| Dividend declared in respect of<br>the previous year                | -                | -                  | -                   | -                    | (1,310)             | (1,310)        | -                                | (1,310)        |                |                |
| Cash injection from non-controlling interests                       | -                | -                  | -                   | -                    | -                   | -              | 78                               | 78             |                |                |
| <b>Balance at 30 June 2020</b>                                      | 10,020           | 1,831              | 45                  | 1,468                | 11,313              | 24,677         | 1,640                            | 26,317         |                |                |

The notes on pages 31 to 50 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2020 – Unaudited

|   | Note | Six months ended 30 June |                     |
|---|------|--------------------------|---------------------|
|   |      | 2020<br>RMB million      | 2019<br>RMB million |
| <b>Operating activities</b>   |      |                          |                     |
| Cash generated from operations  |      | 6,521                    | 3,380               |
| Income tax paid   |      | (797)                    | (949)               |
| <b>Net cash generated from operating activities</b>   |      | <b>5,724</b>             | <b>2,431</b>        |
| <b>Investing activities</b>   |      |                          |                     |
| Payment for the purchase of investment properties,<br>other property, plant and equipment,<br>and intangible assets |      | (711)                    | (1,324)             |
| Payment for the purchase of financial assets<br>measured at FVPL  |      | (3,430)                  | –                   |
| Proceeds from redemption of financial assets<br>measured at FVPL  |      | 1,878                    | –                   |
| Other cash flows arising from investing activities  |      | 247                      | 235                 |
| <b>Net cash used in investing activities</b>  |      | <b>(2,016)</b>           | <b>(1,089)</b>      |
| <b>Financing activities</b>   |      |                          |                     |
| Capital element of lease rentals paid   |      | (418)                    | (454)               |
| Interest element of lease rentals paid  |      | (281)                    | (310)               |
| Dividends paid  |      | (1,310)                  | (1,263)             |
| Cash injection from non-controlling interests   |      | 78                       | –                   |
| Other cash flows arising from financing activities  |      | (5)                      | (5)                 |
| <b>Net cash used in financing activities</b>  |      | <b>(1,936)</b>           | <b>(2,032)</b>      |
| <b>Net increase/(decrease) in cash and cash equivalents</b>   |      | <b>1,772</b>             | <b>(690)</b>        |
| <b>Cash and cash equivalents at 1 January</b>   |      | <b>13,251</b>            | <b>13,469</b>       |
| <b>Cash and cash equivalents at 30 June</b>   | 11   | <b>15,023</b>            | <b>12,779</b>       |

The notes on pages 31 to 50 form part of this interim financial report.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

## 1 BASIS OF PREPARATION

Sun Art Retail Group Limited (the “**Company**”) is a company incorporated in Hong Kong on 13 December 2000 with limited liability. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (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 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 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 2019 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 12 August 2020. 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 22.

The financial information relating to the year ended 31 December 2019 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:



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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

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### 1 BASIS OF PREPARATION (CONTINUED)

The Company has delivered the financial statements for the year ended 31 December 2019 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 Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

Amendments to HKFRS 3, *Definition of a Business*

Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

Other than the above amendments, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

#### **Amendments to HKFRS 3, Definition of a Business**

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The amendments to HKFRS 3 do not have 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.

#### **Amendment to HKFRS 16, Covid-19-Related Rent Concessions**

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“**COVID-19-related rent concessions**”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred (see Note 8(a)). There is no impact on the opening balance of equity at 1 January 2020.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

### 3 REVENUE AND SEGMENT REPORTING

The principal activity of the Group is the operation of brick-and-mortar stores 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 brick-and-mortar stores and online sales channels are operated. As all of the Group’s brick-and-mortar stores 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 brick-and-mortar stores 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 |                    |
|---|--------------------------|--------------------|
|   | 2020                     | 2019               |
|   | <i>RMB million</i>       | <i>RMB million</i> |
| Revenue from contracts with customers within the scope of HKFRS 15 – sales of goods | 51,494                   | 48,522             |
| Revenue from other sources – rental income from tenants                             | 1,676                    | 2,064              |
|   | <b>53,170</b>            | 50,586             |

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

### 4 OTHER INCOME

|   | Six months ended 30 June |                     |
|---|--------------------------|---------------------|
|   | 2020<br>RMB million      | 2019<br>RMB million |
| Income from aged unutilised prepaid cards                         | 71                       | 126                 |
| Service income  | 251                      | 209                 |
| Disposal of packaging materials                                   | 70                       | 106                 |
| Interest income on financial assets measured<br>at amortised cost | 230                      | 237                 |
| Gain on financial assets measured at FVPL                         | 27                       | –                   |
| Government grants   | 255                      | 119                 |
|   | <b>904</b>               | <b>797</b>          |

### 5 PROFIT BEFORE TAXATION

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

#### (a) Finance costs:

|   | Six months ended 30 June |                     |
|---|--------------------------|---------------------|
|   | 2020<br>RMB million      | 2019<br>RMB million |
| Interest expense on other financial liabilities | 5                        | 4                   |
| Interest on lease liabilities                   | 281                      | 310                 |
|   | <b>286</b>               | <b>314</b>          |

#### (b) Staff costs:

|  | Six months ended 30 June |                     |
|--|--------------------------|---------------------|
|  | 2020<br>RMB million      | 2019<br>RMB million |
| Salaries, wages and other benefits                     | 4,806                    | 4,619               |
| Contributions to defined contribution retirement plans | 181                      | 546                 |
| Contributions to Employee Trust Benefit Schemes (i)    | 175                      | 175                 |
| Share-based payments                                   | –                        | (16)                |
|  | <b>5,162</b>             | <b>5,324</b>        |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

### 5 PROFIT BEFORE TAXATION (CONTINUED)

#### (b) Staff costs: (continued)

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

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

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

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

#### (c) Other items:

|   | Six months ended 30 June |                     |
|---|--------------------------|---------------------|
|   | 2020<br>RMB million      | 2019<br>RMB million |
| Cost of inventories   | 40,100                   | 37,373              |
| Depreciation  |                          |                     |
| – owned property, plant and equipment   | 1,385                    | 1,478               |
| – right-of-use assets   | 659                      | 709                 |
| Amortisation  | 9                        | 11                  |
| Impairment losses – other property, plant and equipment and intangible assets | 33                       | 14                  |
| Operating lease charges ( <i>Note</i> )                                       | 672                      | 669                 |
| Loss on disposal of property, plant and equipment                             | 4                        | 25                  |

*Note:* 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

### 6 INCOME TAX

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

|  | Six months ended 30 June |                     |
|--|--------------------------|---------------------|
|  | 2020<br>RMB million      | 2019<br>RMB million |
| <b>Current tax – Hong Kong Profits Tax</b>             |                          |                     |
| Provision for the period (i)                           | –                        | –                   |
| Over-provision in respect of prior years               | –                        | –                   |
| <b>Current tax – PRC income tax</b>                    |                          |                     |
| Provision for the period                               | 797                      | 721                 |
| Under/(over)-provision in respect of prior years       | 17                       | (6)                 |
|  | 814                      | 715                 |
| <b>Deferred tax</b>                                    |                          |                     |
| Origination and reversal of temporary differences, net | 57                       | 77                  |
|  | 871                      | 792                 |

- (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 (2019: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

### 6 INCOME TAX (CONTINUED)

- (ii) PRC subsidiaries are subject to income tax at 25% for the six months ended 30 June 2020 (2019: 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 in the PRC, five PRC subsidiaries of the Group are entitled to a preferential income tax rate of 15% during the six months ended 30 June 2020 and 2019.

Pursuant to the relevant regulations in respect of the Notice on the Implementation of Inclusive Tax Concessions for Small and Micro Enterprises (Cai Shui [2019] No.13) jointly issued by the Ministry of Finance and the State Administration of Taxation in the PRC, for the portion of annual taxable income which does not exceed RMB1 million, income tax shall be calculated at 25% of the annual taxable income using the tax rate of 20%; for the portion of annual taxable income from RMB1 million to RMB3 million (inclusive), income tax shall be calculated at 50% of the annual taxable income using the tax rate of 20%. 27 PRC subsidiaries of the Group enjoyed this preferential income tax treatment during the 2019 annual tax filing.

- (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.

During the six months ended 30 June 2020, deferred tax expenses of RMB37 million (30 June 2019: 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.

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

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### 6 INCOME TAX (CONTINUED)

- (iv) The deferred tax assets/(liabilities) recognised in the consolidated statements of financial position at the end of current and previous reporting period are arising from depreciation charges on investment properties and other property, plant and equipment including right-of use assets, income recognised from aged unutilised prepaid cards, accruals and other timing differences from the respective tax bases.

### 7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB2,062 million (six months ended 30 June 2019: RMB1,766 million) and the weighted average of 9,539,704,700 ordinary shares (six months ended 30 June 2019: 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 2020 and 2019 and therefore diluted earnings per share is equivalent to basic earnings per share.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

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

#### (a) Right-of-use assets

During the six months ended 30 June 2020, the Group recognised the additions to right-of-use assets of RMB100 million (six months ended 30 June 2019: 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. The amount of fixed and variable lease payments for the interim reporting period is summarised below:

|                     | Six months ended 30 June 2020 |                                  |                               |
|---------------------|-------------------------------|----------------------------------|-------------------------------|
|                     | Fixed payments<br>RMB million | Variable payments<br>RMB million | Total payments<br>RMB million |
| Retail stores – PRC | 292                           | 452                              | 744                           |

  

|                     | Six months ended 30 June 2019 |                                  |                               |
|---------------------|-------------------------------|----------------------------------|-------------------------------|
|                     | Fixed payments<br>RMB million | Variable payments<br>RMB million | Total payments<br>RMB million |
| Retail stores – PRC | 293                           | 426                              | 719                           |

As disclosed in note 2, the Group has early adopted the Amendment to HKFRS 16, *Leases, Covid-19-Related Rent Concessions*, and has applied the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the period. The Group received rent concessions of RMB52 million for the six months ended 30 June 2020 in the form of a discount on lease payments during the period of severe social distancing and travel restriction measures introduced to contain the spread of COVID-19.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

### 8 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

#### (b) Acquisitions and disposals

During the six months ended 30 June 2020, the Group incurred capital expenditure of RMB632 million (six months ended 30 June 2019: RMB878 million), primarily in respect of new store developments and store remodeling and digitalization. Items of store equipment and construction in progress with a net book value of RMB16 million were disposed during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB27 million), resulting in a loss on disposal of RMB4 million (six months ended 30 June 2019: RMB25 million) (note 5(c)).

#### (c) Impairment provision

For the six months period ended 30 June 2020, impairment losses were made against the carrying amount of leasehold improvements and equipment in one store of the Group. The impairment losses of RMB33 million (six months ended 30 June 2019: RMB14 million) were recognised in “Operating costs” (note 5(c)).

### 9 TRADE AND OTHER RECEIVABLES

|   | 30 June<br>2020<br><i>RMB million</i> | 31 December<br>2019<br><i>RMB million</i> |
|---|---------------------------------------|---|
| Trade receivables                                     | 341                                   | 423                                       |
| Amounts due from related parties ( <i>note 19</i> )   | 495                                   | 333                                       |
| Value-added tax receivables                           | 575                                   | 1,049                                     |
| Prepayments:  |                                       |   |
| – rentals   | 623                                   | 345                                       |
| – property, plant and equipment and intangible assets | 53                                    | 74  |
| Other debtors   | 667                                   | 738                                       |
| <b>Trade and other receivables</b>                    | <b>2,754</b>                          | <b>2,962</b>                              |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

### 9 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

Rental prepayments mainly represent prepayments for variable rents and deposits which may be offset against future rentals due to landlords of hypermarket premises leased by the Group in accordance with the related lease agreements.

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

### 10 FINANCIAL ASSETS MEASURED AT FVPL

As at 30 June 2020, the Group had principal-guaranteed structured deposits in place with commercial banks in the PRC. Certain structured deposits with aggregate principal amount of RMB1,569 million and a net unrealised gain of RMB10 million are designated as financial assets measured at FVPL as their contractual cash flows are not solely payments for principal and interest.

### 11 CASH AND CASH EQUIVALENTS

|  | <b>30 June<br/>2020</b> | 31 December<br>2019 |
|--|-------------------------|---------------------|
|  | <b>RMB million</b>      | RMB million         |
| Deposits with banks within three months of maturity  | <b>93</b>               | 875                 |
| Cash at bank and on hand   | <b>6,544</b>            | 4,324               |
| Other financial assets and cash equivalents  | <b>8,386</b>            | 8,052               |
| Cash and cash equivalents in the consolidated statement of financial position and condensed consolidated cash flow statement | <b>15,023</b>           | 13,251              |

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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

### 12 TRADE AND OTHER PAYABLES

|  | <b>30 June<br/>2020</b> | 31 December<br>2019 |
|--|-------------------------|---------------------|
|  | <b>RMB million</b>      | <b>RMB million</b>  |
| Trade payables                                 | <b>11,849</b>           | 18,267              |
| Amounts due to related parties (note 19)       | <b>280</b>              | 217                 |
| Construction costs payable                     | <b>802</b>              | 902                 |
| Dividends payable to non-controlling interests | <b>202</b>              | 202                 |
| Accruals and other payables                    | <b>5,402</b>            | 6,239               |
| <b>Trade and other payables</b>                | <b>18,535</b>           | 25,827              |

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:

|                                       | <b>30 June<br/>2020</b> | 31 December<br>2019 |
|---------------------------------------|-------------------------|---------------------|
|                                       | <b>RMB million</b>      | <b>RMB million</b>  |
| Within six months                     | <b>11,553</b>           | 17,999              |
| After six months but within 12 months | <b>296</b>              | 268                 |
|                                       | <b>11,849</b>           | 18,267              |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

### 13 LEASE LIABILITIES

The following table shows the remaining maturities of the Group’s reasonably certain lease liabilities at the end of the current and previous reporting periods:

|                                      | At 30 June 2020  |  | At 31 December 2019  |  |
|--------------------------------------|--|--|--|--|
|                                      | Present value of<br>the minimum<br>lease payments<br>RMB million | Total minimum<br>lease payments<br>RMB million | Present value of<br>the minimum<br>lease payments<br>RMB million | Total minimum<br>lease payments<br>RMB million |
| Within 1 year                        | 1,061  | 1,640  | 1,057  | 1,634  |
| After 1 year but within 2 years      | 1,073  | 1,530  | 1,099  | 1,563  |
| After 2 years but within 5 years     | 2,253  | 3,252  | 2,442  | 3,504  |
| After 5 years                        | 3,830  | 4,959  | 3,970  | 5,290  |
|                                      | <b>7,156</b>   | <b>9,741</b>                                   | 7,511  | 10,357   |
|                                      | <b>8,217</b>   | <b>11,381</b>                                  | 8,568  | 11,991   |
| Less: Total future interest expenses |  | <b>(3,164)</b>                                 |  | (3,423)  |
| Present value of lease liabilities   |  | <b>8,217</b>                                   |  | 8,568  |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

### 14 CONTRACT LIABILITIES

|  | <b>30 June<br/>2020</b> | 31 December<br>2019 |
|--|-------------------------|---------------------|
|  | <b>RMB million</b>      | <i>RMB million</i>  |
| Prepaid cards  | <b>9,817</b>            | 9,944               |
| Advance receipts from customers for sales of merchandise | <b>183</b>              | 705                 |
| Customer loyalty program points liability                | <b>25</b>               | 20                  |
| Contract liabilities                                     | <b>10,025</b>           | 10,669              |

### 15 SHARE CAPITAL AND DIVIDENDS

#### (a) Share capital

|   | At 30 June 2020      |               | At 31 December 2019 |             |
|---|----------------------|---------------|---------------------|-------------|
|   | No. of shares        | RMB million   | No. of shares       | RMB million |
| Ordinary shares, issued and fully paid: | <b>9,539,704,700</b> | <b>10,020</b> | 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 HKD0.14 (equivalent to approximately 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.

A final dividend of HKD0.15 (equivalent to approximately RMB0.14) per ordinary share in respect of the year ended 31 December 2019 was approved on 12 May 2020, and payments were made on 15 June 2020.

No interim dividend has been declared in respect of the six months ended 30 June 2020.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

### 16 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

#### (a) Financial assets measured at fair value

##### *Fair value hierarchy*

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

|   | Fair value measurements as at<br>30 June 2020 categorised into |                        |                        |                        |
|---|--|------------------------|------------------------|------------------------|
|   | Fair value at<br>30 June 2020<br>RMB million                   | Level 1<br>RMB million | Level 2<br>RMB million | Level 3<br>RMB million |
| <b>Recurring fair value measurement</b> |  |                        |                        |                        |
| Financial assets:                       |  |                        |                        |                        |
| – Financial assets measured at FVPL     | 1,579  | –                      | 1,579                  | –                      |

The Group did not have any financial assets measured at fair value as at 31 December 2019.

##### *Valuation techniques and inputs used in Level 2 fair value measurements*

The fair value of structured deposits in Level 2 is determined by observable inputs which are derived and evaluated based on the yield rate written in contracts with the commercial banks.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

### 16 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

#### (b) Fair values of financial assets carried at other than fair value

The carrying amounts of the Group’s financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2020 and 31 December 2019.

### 17 COMMITMENTS

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

|                                   | <b>30 June<br/>2020</b> | 31 December<br>2019 |
|-----------------------------------|-------------------------|---------------------|
|                                   | <i>RMB million</i>      | <i>RMB million</i>  |
| Contracted for                    | <b>1,451</b>            | 1,469               |
| Authorised but not contracted for | <b>469</b>              | 467                 |
|                                   | <b>1,920</b>            | 1,936               |

### 18 CONTINGENCIES

As at 30 June 2020, 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 RMB558 million as at 30 June 2020 (31 December 2019: RMB470 million). As at 30 June 2020, the legal actions were ongoing, with most of the actions not yet set for trial dates. Provision of RMB103 million (31 December 2019: RMB155 million) has been made within trade and other payables as at 30 June 2020, which the directors believe is adequate to cover the amounts, if any probable to be payable in respect of these claims.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

### 19 MATERIAL RELATED PARTY TRANSACTIONS

#### (a) Key management personnel remuneration

|                              | Six months ended 30 June |                     |
|------------------------------|--------------------------|---------------------|
|                              | 2020<br>RMB million      | 2019<br>RMB million |
| Short-term employee benefits | 34                       | 30                  |
| Post-employment benefits     | –                        | –                   |
| Share-based payments         | –                        | –                   |
|                              | <b>34</b>                | <b>30</b>           |

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

#### (b) Identity of related parties

During the six months ended 30 June 2020 and 2019, 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   |



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

### 19 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

#### (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 2020 and 2019.

|  | Six months ended 30 June |                     |
|--|--------------------------|---------------------|
|  | 2020<br>RMB million      | 2019<br>RMB million |
| Agency fees receivable (i)                             | 15                       | 19                  |
| Other fees receivable (ii)                             | 188                      | 80                  |
| Trademark fee payable (iii)                            | 10                       | 12                  |
| IT services fee payable (iv)                           | –                        | (7)                 |
| Expenses payable (v)                                   | 2                        | 21                  |
| Contributions to Employee Trust Benefit Schemes        | 175                      | 175                 |
| Purchase of goods and service (vi)                     | 110                      | 46                  |
| Purchase of fixed assets (vii)                         | 1                        | 14                  |
| Other expenses payable for business cooperation (viii) | 680                      | 388                 |
| Sales of goods (ix)                                    | 1,020                    | 49                  |
| Commission income (x)                                  | –                        | 8                   |
| Technical service fee payable                          | 3                        | 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 subsidiaries 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

### 19 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

#### (c) Related party transactions (continued)

- (vi) Purchase of goods and service represents purchase of merchandise and service 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 to subsidiaries of Alibaba Group.
- (x) Commission income represents the income from a subsidiary of Alibaba Group for the consignment sales.

#### (d) Related party balances

|  | <b>30 June<br/>2020<br/>RMB million</b> | 31 December<br>2019<br>RMB million |
|--|---|------------------------------------|
| Amounts due from Auchan Holding and its subsidiaries | <b>42</b>                               | 30                                 |
| Amounts due from Alibaba Group and its subsidiaries  | <b>451</b>                              | 301                                |
| Amounts due from the joint venture                   | <b>2</b>                                | 2                                  |
| Amounts due to Auchan Holding and its subsidiaries   | <b>108</b>                              | 97                                 |
| Amounts due to Alibaba Group and its subsidiaries    | <b>172</b>                              | 120                                |

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

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### 20 IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group’s operating environment and has impacted the Group’s operations and financial position.

The Group has been closely monitoring the impact of the developments on the Group’s business. As far as the Group’s businesses are concerned, COVID-19 pandemic has impacted on the Group’s financial position and financial performance for the six months ended 30 June 2020 in the following aspects:

- i. Rental income was impacted by the COVID-19 pandemic since some of the Group’s tenants renting the Group’s gallery space suspended their operations during the pandemic period. Rental income from those tenants was fully or partially waived during the lockdown period;
- ii. The Group has received more subsidies related to employment stabilization from the government in response to COVID-19; and
- iii. The Group was entitled to certain social welfare reductions and exemptions during the first half of 2020 pursuant to the relevant regulations published by the government effective from 2020 February in response to COVID-19.