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SUN ART

Retail Group Limited

SUN ART RETAIL GROUP LIMITED

高鑫零售有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 06808)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board (the “**Board**”) of directors (the “**Directors**”) of Sun Art Retail Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2014, together with the comparative figures for the corresponding period in 2013 as below.

HIGHLIGHTS OF INTERIM RESULTS

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

The financial information set out below in this announcement represents an extract from the interim financial statements, which are unaudited but have been reviewed by the Group’s independent auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 and by the Company’s audit committee (the “**Audit Committee**”). KPMG’s unmodified review report is included in the interim report (the “**Interim Report**”) to be sent to shareholders.

Note:

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014 – Unaudited

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014 – Unaudited

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

	At 30 June 2014	At 31 December 2013
<i>Note</i>	<i>RMB million</i>	<i>RMB million</i>
Non-current liabilities		
Other financial liabilities	50	50
Deferred tax liabilities	50	113
	100	163
Net assets	19,048	19,381
Capital and reserves		
Share capital: nominal value	–	2,721
Other statutory capital reserves	–	7,299
Share capital and other statutory capital reserves	10,020	10,020
Other reserves	8,316	8,728
Total equity attributable to equity shareholders of the Company	18,336	18,748
Non-controlling interests	712	633
Total equity	19,048	19,381

NOTES:

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

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Company was 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 statements comprise the Company and its subsidiaries. The interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on the Stock Exchange, 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 statements have been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

The interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2013 annual financial statements. The condensed consolidated interim financial statements and the 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 statements are unaudited, but have been reviewed by the Audit Committee of the Company and approved for issue by the Board on 13 August 2014. The interim financial statements have 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.

The financial information relating to the year ended 31 December 2013 that is included in the interim financial statements as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2013 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 February 2014.

2. CHANGES IN ACCOUNTING POLICIES

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

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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

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

Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*

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

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

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

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

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

HK (IFRIC) 21, *Levies*

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

3. TURNOVER AND SEGMENT REPORTING

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

The Group is organised, for management purpose, into business units based on the banner under which the hypermarkets are operated. As all of the Group's hypermarkets are located in the PRC, have similar economic characteristics, and are similar in respect of products and services provided and customer type, the Group has one reportable operating segment which is the operation of hypermarkets in the PRC.

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

	Six months ended 30 June	
	2014	2013
	<i>RMB million</i>	<i>RMB million</i>
Sales of goods	46,690	43,420
Rental income	1,348	1,095
	48,038	44,515

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

4. OTHER REVENUE

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

Government grants represent subsidies received from local authorities.

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2014	2013
	<i>RMB million</i>	<i>RMB million</i>
Interest expense on borrowings		
– wholly repayable within five years	4	4
– wholly repayable after five years	3	3
	7	7

(b) Staff costs

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

(i) Contributions to Employee Trust Benefit Schemes

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

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

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

(c) Other items

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

6. INCOME TAX

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

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

- (i) The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the Company and its subsidiaries incorporated in Hong Kong (2013: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.
- (ii) All PRC subsidiaries are subject to income tax at 25% for the six months ended 30 June 2014 (2013: 25%) under the Enterprise Income Tax law (“**EIT law**”) which was enacted on 16 March 2007.
- (iii) The EIT law and its relevant regulations also impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, on dividend distributions made out of the PRC from earnings accumulated from 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax.

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.

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

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

As at 30 June 2014, deferred tax liabilities of RMB39 million (31 December 2013: RMB102 million) have been recognised in respect of the withholding tax payable on the retained profits of the Group’s PRC subsidiaries generated subsequent to 1 January 2008 which the directors expect to distribute outside the PRC in the foreseeable future. The deferred tax liabilities as at 30 June 2014 and 31 December 2013 were calculated at the withholding tax rate of 5%.

7. EARNINGS PER SHARE

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

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

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

8. FIXED ASSETS

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

9. TRADE AND OTHER RECEIVABLES

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

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

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

The amounts due from Contracted Store Owners comprise advances made by the Group to certain Contracted Store Owners and the Contracted Stores’ profit attributable to the Group.

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

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

10. INVESTMENTS AND TIME DEPOSITS

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

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

11. CASH AND CASH EQUIVALENTS

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

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

12. TRADE AND OTHER PAYABLES

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

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

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

The amounts due to Contracted Stores as at 30 June 2014 included advance payment made by Contracted Stores in respect of purchase of goods, and offset by balance of prepaid cards sold by the Contracted Stores which may be used by customers to purchase goods in certain of the Group's other stores.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

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

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

	Six Months ended 30 June		
	2014	2013	Change
	(RMB million)		
	Unaudited		
Sales of goods	46,690	43,420	7.5%
Rental income	1,348	1,095	23.1%
Total turnover	48,038	44,515	7.9%

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

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

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

Notes:

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

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

Gross Profit

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

Other Revenue

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

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

Store Operating Costs

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

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

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

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

Administrative Expenses

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

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

Profit from Operations

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

Finance Costs

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

Income Tax

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

Profit for the Period

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

Profit Attributable to Equity Shareholders of the Company

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

Profit Attributable to Non-Controlling Interests

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

Liquidity and Financial Resources

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

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

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

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

Investing activities

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

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

Financing activities

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

BUSINESS REVIEW

Operating Environment

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

Expansion of Retail Network

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

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

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

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

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

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

Notes:

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

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

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

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

Store Improvement

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

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

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

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

Optimization of Procurement and Merchandise Mix

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

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

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

Development of E-commerce Business

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

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

Optimization of Supply Chain Management

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

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

Optimization of Human Resources Management and Training

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

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

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

Strategies and Outlook

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

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

OTHER INFORMATION

Corporate Governance

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

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

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

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

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

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

Audit Committee

The Company established an Audit Committee on 27 June 2011 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to assist the Board in overseeing and reviewing (i) the effectiveness of the Company's internal control, risk management system and regulatory compliance of the Group; (ii) the balance, transparency and integrity of the Company's financial statements and application of financial reporting principle. The Audit Committee currently consists of five non-executive Directors, three of whom are independent. The members currently are Mr. Cheng Chuan-Tai, Mr. Xavier, Marie, Alain Delom de Mezerac, Ms. Karen Yifen Chang, Mr. He Yi and Mr. Desmond Murray. It is currently chaired by Mr. Desmond Murray, an independent non-executive Director. The Audit Committee has reviewed and discussed the unaudited consolidated financial statements for the six months ended 30 June 2014 and has met with the independent auditors, KPMG, who have reviewed the interim financial statements in accordance with Hong Kong Standard on Review Engagement 2410.

Nomination Committee

The Company established a nomination committee on 27 June 2011 with written terms of reference in compliance with the CG Code. The primary duties of the nomination committee are to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships. The nomination committee currently consists of five non-executive Directors, three of whom are independent. The members currently are Mr. Cheng Chuan-Tai, Mr. Philippe, David Baroukh, Ms. Karen Yifen Chang, Mr. He Yi and Mr. Desmond Murray. It is currently chaired by Mr. He Yi, an independent non-executive Director.

Remuneration Committee

The Company established a remuneration committee on 27 June 2011 with written terms of reference in compliance with the CG Code. The primary duties of the remuneration committee are to make recommendations to the Board on our Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The remuneration committee currently consists of five non-executive Directors, three of whom are independent. The members currently are Mr. Cheng Chuan-Tai, Mr. Philippe, David Baroukh, Ms. Karen Yifen Chang, Mr. He Yi and Mr. Desmond Murray. It is currently chaired by Ms. Karen Yifen Chang, an independent non-executive Director.

Disclosure Committee

In the light of the implementation of the new statutory disclosure regime under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) and the consequential amendments to the Listing Rules from 1 January 2013, the Company established a disclosure committee on 14 May 2013 with written terms of reference duly approved by the Board. The primary duties of the disclosure committee are to assist the Company and its officers to take all reasonable measures from time to time to ensure that proper safeguards exist to prevent breach of disclosure requirements. The disclosure committee currently consists of six members, including Mr. Huang Ming-Tuan and Mr. Bruno, Robert Mercier, both are executive Directors.

Securities Transactions by Directors

The Company has adopted its own policies for securities transactions (the “**Company Code**”) by Directors and relevant employees on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules.

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

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Dividends

At the board meeting held on 13 August 2014, no dividend for the six months ended 30 June 2014 has been declared.

Publication of 2014 Interim Results and Interim Report of the Company

The interim results announcement of the Company is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sunartretail.com). The interim report of the Company for the six months ended 30 June 2014 will be dispatched to the shareholders of the Company and made available for review on the aforesaid websites in due course.

By Order of the Board
Sun Art Retail Group Limited
Bruno, Robert MERCIER
Chief Executive Officer, Executive Director

Hong Kong, 13 August 2014

As at the date of this announcement, the directors of the Company are:

Executive Directors:

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

Non-executive Directors:

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

Independent Non-executive Directors:

Karen Yifen CHANG
Desmond MURRAY
HE Yi