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 2017

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 2017, together with the comparative figures for the corresponding period in 2016 as below.

HIGHLIGHTS OF INTERIM RESULTS

	For the six months ended 30 June		
	2017	2016	**Change**
	RMB million		
Revenue	**54,080**	52,943	2.1%
Gross Profit	**12,582**	12,059	4.3%
Profit from Operations	**2,925**	2,199	33.0%
Profit for the Period	**1,898**	1,461	29.9%
Profit Attributable to Equity Shareholders of the Company	**1,757**	1,432	22.7%
Earnings Per Share ("**EPS**")			
– Basic and diluted [(1)]	**RMB0.18**	RMB0.15	

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 2017 and 2016 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 2017-Unaudited

		Six months ended 30 June	
		2017	2016
	Note	***RMB million***	*RMB million*
Revenue	*4*	**54,080**	52,943
Cost of sales		**(41,498)**	(40,884)
Gross profit		**12,582**	12,059
Other income	*5*	**1,020**	436
Operating costs		**(9,260)**	(8,886)
Administrative expenses		**(1,417)**	(1,410)
Profit from operations		**2,925**	2,199
Finance costs	*6(a)*	**(5)**	(12)
Share of results of an associate and joint ventures		**(1)**	(4)
Profit before taxation	*6*	**2,919**	2,183
Income tax	*7*	**(1,021)**	(722)
Profit for the period		**1,898**	1,461
Other comprehensive income for the period			
Items that will not be reclassified to profit or loss:			
Changes in fair value of long-term other financial liabilities		**–**	7
Total comprehensive income for the period		**1,898**	1,468
Profit attributable to:			
Equity shareholders of the Company		**1,757**	1,432
Non-controlling interests		**141**	29
Profit for the period		**1,898**	1,461
Total comprehensive income attributable to:			
Equity shareholders of the Company		**1,757**	1,439
Non-controlling interests		**141**	29
Total comprehensive income for the period		**1,898**	1,468
Earnings per share			
Basic and diluted	*8*	**RMB0.18**	RMB0.15

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2017-Unaudited

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2017-Unaudited

	Note	**At 30 June 2017** ***RMB million***	At 31 December 2016 *RMB million*
Non-current liabilities			
Bank loans		**2**	3
Other financial liabilities		**50**	50
Deferred tax liabilities		**233**	11
		285	64
Net assets		**22,702**	22,809
Capital and reserves			
Share capital		**10,020**	10,020
Reserves		**11,454**	11,765
Total equity attributable to equity shareholders of the Company		**21,474**	21,785
Non-controlling interests		**1,228**	1,024
Total equity		**22,702**	22,809

NOTES:

*(Expressed in Renminbi ("**RMB**") unless otherwise stated)*

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Sun Art Retail Group Limited 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 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 on the Stock Exchange (the "**Listing Rules**") 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 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of 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 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

The interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company and approved for issue by the Board of Directors on 9 August 2017. The interim financial 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 2016 that is included in the interim financial statements 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), ("**Companies Ordinance**"), is as follows:

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

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

2. CHANGES IN ACCOUNTING POLICIES

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

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

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

3. CHANGE IN ACCOUNTING ESTIMATE

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

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

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

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

4. REVENUE AND SEGMENT REPORTING

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

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

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

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

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

5. OTHER INCOME

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

Government grants represent subsidies received from local authorities.

6. PROFIT BEFORE TAXATION

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

(a) Finance costs

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

(b) Staff costs

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

(i) Contributions to Employee Trust Benefit Schemes

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

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

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

(c) **Other items**

	Six months ended 30 June	
	2017	2016
	RMB million	*RMB million*
Cost of inventories	**41,479**	40,796
Depreciation	**1,503**	1,472
Amortisation	**112**	100
Impairment provision – other property, plant and equipment	**40**	–
Operating lease charges	**1,446**	1,402
Loss on disposal of property, plant and equipment	**63**	–

7. INCOME TAX

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

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

(i) The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the Company and its subsidiaries incorporated in Hong Kong (2016: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

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

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

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

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

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

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

8. EARNINGS PER SHARE

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

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

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

(a) Acquisitions and disposals

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

(b) Impairment provision

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

10. TRADE AND OTHER RECEIVABLES

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

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

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

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

11. INVESTMENTS AND TIME DEPOSITS

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

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

Time deposits have original maturity over three months.

12. CASH AND CASH EQUIVALENTS

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

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

13. TRADE AND OTHER PAYABLES

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

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

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

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

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

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

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

Notes:

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

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

For the six months ended 30 June 2017, revenue from rental income was RMB1,786 million, representing an increase of RMB91 million, or 5.4%, from RMB1,695 million for the corresponding period in 2016. This increase was primarily attributable to an increase in rentable area from new stores and an increase in rental income from existing stores as a result of better management of tenant mix.

Gross Profit

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

Other Income

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

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

Operating Costs

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

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

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

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

Administrative Expenses

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

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

Profit from Operations

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

Finance Costs

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

Income Tax

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

Profit for the Period

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

Profit Attributable to Equity Shareholders of the Company

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

Profit Attributable to Non-Controlling Interests

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

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

Liquidity and Financial Resources

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

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

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

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

Investing Activities

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

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

Financing Activities

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

BUSINESS REVIEW

Operating Environment

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

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

Continue the Initiatives of New Formats and Prudent Closure of stores

During the period under review, the Group opened two new hypermarket complexes under the RT-mart banner, of which one was located in Eastern China, one was located in Central China.

As of 30 June 2017, the Group had a total of 446 hypermarket complexes in China with a total gross floor area ("**GFA**") of approximately 12.105 million square meters. Approximately 69% of the GFA was operated as leased space, 30.8% of the GFA was in self-owned properties and 0.2% of the GFA was contracted stores ("**Contracted Stores**"). Please refer to note 1 below for definitions of regional zones.

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

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

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

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

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

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

As of 30 June 2017, the number of stores and their GFA in each major region of China are set forth below:

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

Notes:

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

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

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

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

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

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

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

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

Human Resource

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

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

Outlook

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

OTHER INFORMATION

Corporate Governance

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

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

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

In the opinion of the Board, the Company has complied with all the code provisions as set out in the CG Code for the six months ended 30 June 2017, save and except for the deviation of code provision C.3.7(a) of the CG Code.

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

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

Audit Committee

The Company established the Audit Committee on 27 June 2011 with written terms of reference in compliance with the CG Code (new terms of reference were adopted by the Board on 11 December 2015). The primary duties of the Audit Committee are to assist the Board in overseeing and reviewing (i) the effectiveness of the Company's risk management and internal control systems and regulatory compliance of the Group; (ii) the balance, transparency and integrity of the Company's financial statements and application of financial reporting principle; (iii) the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and (iv) agree with internal auditors for their annual plan of work and the results of this work. The Audit Committee currently consists of five non-executive Directors, three of whom are independent. The members currently are Mr. Cheng Chuan-Tai, Mr. Xavier, Marie, Alain Delom de Mezerac, Ms. Karen Yifen Chang, Mr. He Yi and Mr. Desmond Murray. It is currently chaired by Mr. Desmond Murray, an independent non-executive Director. The Audit Committee has reviewed and discussed the unaudited consolidated financial statements for the six months ended 30 June 2017 and has met with the external auditors, KPMG, who have reviewed the interim financial statements in accordance with Hong Kong Standard on Review Engagements 2410.

Nomination Committee

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

Remuneration Committee

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

Securities Transactions by Directors

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

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

Purchase, Sale and Redemption of The Company's Listed Securities

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Dividends

At the board meeting held on 9 August 2017, no dividend for the six months ended 30 June 2017 has been declared.

Publication of 2017 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 2017 will be dispatched to the shareholders of the Company and make available for review on the aforesaid websites in due course.

By Order of the Board
Sun Art Retail Group Limited
CHENG Chuan-Tai
Chairman

Hong Kong, 9 August 2017

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

Executive Directors:
Ludovic, Frédéric, Pierre HOLINIER *(Chief Executive Officer)*
HUANG Ming-Tuan

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

Independent Non-executive Directors:
Karen Yifen CHANG
Desmond MURRAY
HE Yi