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 2019

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 2019, together with the comparative figures for the corresponding period in 2018 as below.

HIGHLIGHTS OF INTERIM RESULTS

	For the six months ended 30 June		
	2019	2018 *(Restated)*[1]	**Change**
	RMB million		
Gross Sales Proceeds[2]	**54,396**	54,060	0.6%
Revenue	**50,586**	54,060	(6.4)%
Gross Profit	**13,188**	12,922	2.1%
Profit from Operations	**3,014**	2,921	3.2%
Profit for the Period	**1,899**	1,833	3.6%
Profit Attributable to Equity Shareholders of the Company	**1,766**	1,682	5.0%
Earnings Per Share ("**EPS**") – Basic and diluted[3]	**RMB0.19**	RMB0.18	

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.

Notes:

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

(2) Gross Sales Proceeds consist of gross proceeds from product sales including consignment sales and rental income, excluding value-added tax. For further information, please refer to the analysis of revenue on Page 16.

(3) The calculation of basic and diluted EPS for the six months ended 30 June 2019 and 2018 is based on the weighted average number of 9,539,704,700 ordinary shares in issue during the periods.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019-Unaudited

		Six months ended 30 June	
		2019	2018
	Note	***RMB million***	*RMB million*
			(Note)
Revenue	*3*	**50,586**	54,060
Cost of sales		**(37,398)**	(41,138)
Gross profit		**13,188**	12,922
Other income	*4*	**797**	949
Operating costs		**(9,561)**	(9,505)
Administrative expenses		**(1,410)**	(1,445)
Profit from operations		**3,014**	2,921
Finance costs	*5(a)*	**(314)**	(336)
Share of results of associates and joint ventures		**(9)**	(4)
Profit before taxation	*5*	**2,691**	2,581
Income tax	*6*	**(792)**	(748)
Profit for the period		**1,899**	1,833
Other comprehensive income for the period		**–**	–
Total comprehensive income for the period		**1,899**	1,833
Profit attributable to:			
Equity shareholders of the Company		**1,766**	1,682
Non-controlling interests		**133**	151
Profit for the period		**1,899**	1,833
Total comprehensive income attributable to:			
Equity shareholders of the Company		**1,766**	1,682
Non-controlling interests		**133**	151
Total comprehensive income for the period		**1,899**	1,833
Earnings per share			
Basic and diluted	*7*	**RMB0.19**	RMB0.18

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019-Unaudited

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019-Unaudited

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

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

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 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of 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 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

The interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company and approved for issue by the Board of Directors on 7 August 2019. The interim financial 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 2018 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 Hong Kong Companies Ordinance (Cap.622), ("**Companies Ordinance**"), is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

2. CHANGE IN ACCOUNTING POLICIES

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

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

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

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the full retrospective approach and has therefore applied the new standards retrospectively to the comparative information for each prior reporting period presented, utilizing the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Impacts on the consolidated financial position, consolidated statement of profit or loss and other comprehensive income, and condensed consolidated cash flow statements are summarised as follows:

(i) Consolidated statement of financial position

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

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

2. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(i) Consolidated statement of financial position (continued)

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

2. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

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

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

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

2. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(iii) Condensed consolidated cash flow

Cash outflows from operating activities for the six months ended 30 June 2018 decreased by RMB797 million and cash outflows from financing activities increased by the same amount, representing the payments for the principal and interest portion of newly recognised lease liabilities.

(iv) There is no material impact on other comprehensive income and the basic and diluted EPS.

3. REVENUE AND SEGMENT REPORTING

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

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

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

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

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

4. OTHER INCOME

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

5. PROFIT BEFORE TAXATION

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

(a) Finance costs

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

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

(b) Staff costs

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

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

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

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

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

(c) Other items

	Six months ended 30 June	
	2019	2018
	RMB million	*RMB million*
		(Note 1)
Cost of inventories	**37,373**	41,112
Depreciation		
– owned property, plant and equipment	**1,478**	1,482
– right-of-use assets	**709**	740
Amortisation	**11**	12
Impairment losses – other property, plant and equipment and intangible assets	**14**	100
Operating lease charges *(Note 2)*	**669**	621
Loss on disposal of property, plant and equipment	**25**	3

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

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

6. INCOME TAX

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

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

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

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

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

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

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

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

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

As at 30 June 2019, deferred tax liabilities of RMB31 million (30 June 2018: RMB31 million) have been recognised in respect of the withholding tax payable on the retained profits of the Group's PRC subsidiaries generated subsequent to 1 January 2008 which the directors expect to distribute outside the Mainland China in the foreseeable future.

7. EARNINGS PER SHARE

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

There were no dilutive potential ordinary shares during the six months ended 30 June 2019 and 2018 and therefore diluted earnings per share is equivalent to basic earnings per share.

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

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

(a) Right-of-use assets

As discussed in note 2, the Group has initially applied HKFRS 16 using the full retrospective method and restated the comparative figures to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The capitalised value of right-of-use assets is arrived at by reference to the reasonably certain duration of the lease and the present value of lease payments, discounted using an appropriate incremental borrowing rate.

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

(b) Acquisitions and disposals

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

(c) Impairment provision

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

9. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

10. CASH AND CASH EQUIVALENTS

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

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

11. TRADE AND OTHER PAYABLES

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

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

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

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

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

12. CONTRACT LIABILITIES

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

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

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

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

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

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

For the six months ended 30 June 2019, the Same Store Sales Growth[(1)] ("**SSSG**") calculated based on sales of goods excluding electronic appliances was -1.76%. From the beginning of 2019, our stores under both banners have started to integrate their operating systems and supply chains. During the convergence process, Auchan stores had changes in product mix, supplier structure and operating process. Currently, the convergence has been substantially completed and we expect the store performance to be back on track in the second half of 2019. The SSSG of stores under RT-Mart banner, calculated on gross sales proceeds, if we included electric appliances sales, was positive in first half of 2019.

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

Notes:

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

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

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

Gross Profit

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

Other Income

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

For the six months ended 30 June 2019, other income was RMB797 million, representing a decrease of RMB152 million, or 16.0%, from RMB949 million for the corresponding period in 2018. The decrease was primarily attributable to: (1) a decrease of RMB53 million in income from the release of aged unutilised balances on prepaid cards; (2) a decrease in the disposal of packaging materials of RMB46 million which mainly resulted from the decreased sales price of cardboard boxes in 2019; and (3) a decrease in government grants of RMB24 million since in the first half of 2018, some of the government subsidies were one-off.

Operating Costs

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

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

The increase was primarily attributable to the development of the business including the on-going expansion of the hypermarket network and the development of the B2C business which required investment in personnel and other related projects. Meanwhile, the Group followed government guidance in relation to the increase in the minimum wage for staff. These developments led to the increase in personnel expenses, operating lease charges and depreciation of property, plant and equipment and other operating expenses.

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

Administrative Expenses

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

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

Profit from Operations

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

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

Finance Costs

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

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

Income Tax

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

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

Profit for the Period

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

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

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

Profit Attributable to Equity Shareholders of the Company

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

Profit Attributable to Non-Controlling Interests

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

Liquidity and Financial Resources

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

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

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

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

Investing activities

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

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

Financing activities

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

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

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

BUSINESS REVIEW

Operating Environment

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

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

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

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

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

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

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

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

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

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

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

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

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

Practice Smooth Integration and Further Deepen the Convergence

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

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

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

Restructuring the Hypermarket Proved Successful

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

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

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

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

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

Expansion Status

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

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

As of 30 June 2019, approximately 8% of the Group's stores were located in first-tier cities, 16% in second-tier cities, 46% in third-tier cities, 22% in fourth-tier cities and 8% in fifth-tier cities. Please refer to note 2 below for definitions of tiers.

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

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

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

Notes:

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

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

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

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

Human Resource

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

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

Outlook

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

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

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

OTHER INFORMATION

Corporate Governance

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

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

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

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

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

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

The Company had not established any formal arrangement for employees to raise concern about possible improprieties in financial reporting, internal control or other matters. In practice, employees have direct access to the internal audit department via either a telephone line or a mailbox. In addition, they have direct access by email to the 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 an Audit Committee on 27 June 2011 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to assist the Board in overseeing and reviewing (i) the effectiveness of the Company's risk management and internal control systems and regulatory compliance of the Group; (ii) the balance, transparency and integrity of the Company's financial statements and application of financial reporting principle; (iii) the relationship with the external auditors and their independence assessments; and (iv) the effectiveness of the Company's internal audit function. The Audit Committee currently consists of five non-executive Directors, three of whom are independent. The members currently are Mr. Xavier, Marie, Alain Delom de Mezerac, Mr. Edgard, Michel, Marie, Bonte, Ms. Karen Yifen Chang, Mr. He Yi and Mr. Desmond Murray, an Independent Non-executive Director, being the Chairman of the Audit Committee. The Audit Committee has reviewed and discussed the unaudited consolidated financial statements for the six months ended 30 June 2019 which have been prepared in accordance with the applicable standards, the Listing Rules and the statutory provisions and sufficient disclosure have been made. The Audit Committee has met with the external auditors, KPMG, who have reviewed the interim financial statements in accordance with Hong Kong Standard on Review Engagement 2410.

Nomination Committee

The Company established a Nomination Committee on 27 June 2011 with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to (i) review the structure, size and composition of the Board pursuant to the Diversity Policy adopted by the Board, (ii) identify individuals suitably qualified to become Board members, (iii) make recommendations to the Board on the selection of individuals nominated for directorships, and (iv) assess the independence of Independent Non-executive Directors pursuant to the Listing Rules and the nomination policy adopted by the Board. The Nomination Committee currently consists of five Non-executive Directors, three of whom are independent. The members currently are Mr. Chen Jun, Mr. Edgard, Michel, Marie, Bonte, Ms. Karen Yifen Chang, Mr. Desmond Murray and Mr. He Yi, an Independent Non-executive Director, being the Chairman of the Nomination Committee.

Remuneration Committee

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

Securities Transactions by Directors

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

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

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Dividends

At the board meeting held on 7 August 2019, no dividend for the six months ended 30 June 2019 has been declared.

Publication of 2019 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 2019 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
HUANG Ming-Tuan
Chief Executive Officer

Hong Kong, 7 August 2019

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

Non-executive Directors:
ZHANG Yong *(Chairman)*
Benoit, Claude, Francois, Marie, Joseph LECLERCQ
Xavier, Marie, Alain DELOM de MEZERAC
Edgard, Michel, Marie, BONTE
CHEN Jun
Isabelle Claudine, Françoise BLONDÉ ép. BOUVIER

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