

[For Immediate Release]

# SUN ART

Retail Group Limited

**Online business continued to grow,  
Same store sales growth stabilized**

**B2C business shows improved performance,  
Business integration shows good results**

## Financial Highlights

(In RMB million, unless stated  
otherwise)  
(Unaudited)

For the year ended 31 December

	2019	2018	Growth rate
Gross Sales Proceeds	101,868	101,315	0.5%
Revenue	95,357	99,359	-4.0%
Gross Profit	25,731	25,119	2.4%
Profit from Operations	4,890	4,698	4.1%
Profit for the Year	3,045	2,700	12.8%
Profit Attributable to Equity Shareholders of the Company	2,834	2,478	14.4%
Earnings per Share - Basic and Diluted	RMB 0.30	RMB 0.26	

## Business Highlights

- By 31 December 2019, the Group had 486 hypermarkets across China and secured 43 sites to open hypermarket complexes, of which 37 were under construction.
- For the year ended 31 December 2019, the Group opened seven hypermarkets and closed five loss-making stores.
- Daily order per store and ticket size of B2C business continued to grow steadily.
- B2B business kept growing. The revenue generated from B2B business realized approximately 50% growth in 2019 compared to that of 2018.
- During the year under review, the Group restructured 10 hypermarket complexes. The performance of restructured stores improved significantly.
- Further deepening the operation integration of the two banners significantly improved operating efficiency and produced improved results.

(20 February 2020 – Hong Kong) Sun Art Retail Group Limited (“Sun Art” or the “Group”, HKEX stock code: 6808), today announced its 2019 annual results. During the year under review, gross sales proceeds were RMB101,868million, increasing by 0.5%. The Same Store Sales Growth (“SSSG”), calculated based on sales of goods excluding electronic appliances, was -1.01%. Excluding the short-term impact brought by the convergence process, the RT-Mart banner achieved with a positive SSSG of 0.5% in 2019.

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For the year ended 31 December 2019, profit from operations increased by RMB192 million to RMB4,890 million, an increase of 4.1%. Profit for the year was RMB3,045 million, representing an increase of RMB345 million, or increased by 12.8%. Growing online business, stabilized SSSG, coupled with cost reduction from integration, has led to Group business returning to the right trajectory.

Basic earnings per share amounted to RMB0.30. The Board has recommended the payment of a final dividend of HK\$0.15 per ordinary share, subject to the approval by the shareholders at the annual general assembly. The dividend policy of the Group is to distribute no less than 30% of its distributable profit.

**Mr Daniel ZHANG, Chairman of the Group said,** *“We are delighted to see the vision that brought Alibaba Group, Auchan Retail and Sun Art together being realized step by step through persistence and hard work. Over the past year, the comprehensive New Retail online-offline integration has truly produced incremental gains for Sun Art. However, much like our peers, we are currently managing a range of challenges resulted from the novel coronavirus outbreak. We have been fully dedicated to supporting affected areas. During the process, we have observed more and more consumers adopting digital means for their daily needs and work requirements. In response to the accelerated changes in consumer lifestyles and behavior, we will continue to unleash the power of digitized physical footprints, the power of New Retail and the power of product innovation to provide better service to our consumers and customers.”*

**Mr. Peter HUANG, Chief Executive Officer of the Group commented,** *“Having gone through initial years of development, Sun Art has transformed itself from a mere participant to the leader in the New Retail sector. Thanks to the collaboration with Alibaba, the bottleneck of physical stores has been overcome and a profitable O2O business model has started to take shape. At the same time, by leveraging Alibaba’s resources and technology, we are empowered to constantly explore new sales models, such as “Tmall Supermarket Inventory Sharing”, “Group Purchase” and Supermarkets. By continuously diversifying shopping scenarios and enhancing customer’s shopping experience, we are driving our customers to adapt seamlessly into our retail ecosystem.”*

### **Online Business Followed a Steady Growth**

In 2019, the revenue of the Group's O2O business (“**online to offline business**”) was nearly 90% higher than that of last year. We expect that the proportion of online sales will continue to increase in the future.

- B2C business -

At present, customers can choose one-hour-delivery-to-home service through our own mobile applications (“RT mart Fresh” and “Auchan Daojia”), and through the platform entrances of our partners such as Taoxianda, Eleme or Tmall supermarket. These can service customers within 5-kilometer radius of the stores.

After a year of development, the current number of B2C users has exceeded 33 million, and the number of active users is more than 10 million. Daily Order per Store (“**DOPS**”) and ticket size continue to grow

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steadily. Taking "double 11" day as an example, the total order volume was doubled compared to last year exceeding our expectation, and our on-time delivery rate was above 99.5%.

The one-hour-delivery-to-home service has met the needs of younger customer's consumption habits and had been driven by changes in customer's lifestyle.

The success of our one-hour-delivery-to-home business derives from our national supply chain and store network, our "two-in-one model" i.e. integrated store and warehouse, superior store management capacity, delivery fulfillment capacity and ongoing improvement of the customers' experience.

- B2B business -

Our B2B business is another way to leverage the strength of our supply chain and store network.

In 2019, B2B business revenue increased by approximately 50% compared to the corresponding period of 2018. We expect that the revenue of our B2B business will be further expanded in 2020.

At present, we had the excess of 530,000 existing users in our B2B business. The active users are close to 240,000 and the ticket size is more than RMB 1,000. The main clients are wholesalers, retailers and corporates, along with catering businesses, canteens, entertainment and accommodation businesses.

In the future, our B2B team will further develop the operating model to satisfy the requirements of different type of customers. We will continue to engage with potential clients, improve the penetration within our service radius and deepen the collaboration with our existing clients.

### **Restructuring of Hypermarket Showed Remarkable Results**

In 2019, we restructured ten stores, including five in Shanghai, one in Suzhou, one in Jinan, one in Shenyang, one in Wuhan and one in Guangzhou. Judging from the earliest pilot stores, showed significant improvement in SSSG. This was especially true for the SSSG of fresh segment, with an average of double-digit growth.

In 2020, we will accelerate the restructuring initiative and upgrade 50 existing stores.

Restructuring the hypermarket includes reconstructing our functions, our categories and our mindset. In addition to featuring a more vibrant shopping environment and more professional displays, the restructuring focuses on differentiated selection and combination of offerings. We endeavor to become experts in the field of fresh and foods and to create a hypermarket with New Retail concept that delivers professional, fashionable goods that represent value for money.

We aim to encourage more young customers to experience our stores. The information regarding online customer profiles enables us to better understand the needs of young customers. This helps us to optimize our offerings, and reinvents reasons for customers to visit physical stores.

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## **Tmall Supermarket Inventory Sharing Initiative is Ready**

Based on LBS (location based services) technology, the "Tmall Supermarket Inventory Sharing" ("**Inventory Sharing**") initiative enables stores to serve customers within a radius of 5-20 kilometers.

Customers within 5 kilometers can be served by a one-hour delivery service, and customers within 5-20 kilometers can be served by a "half-day delivery" service. Facing the pressure from peer competition while offline customer footfall is being diluted, our "half-day delivery" service gives us an opportunity to expand our business radius and create incremental revenue for the Group.

By the end of September 2019, all Sun Art stores had launched a one-hour-delivery-to-home service upon the "Inventory Sharing" initiative.

Since October 2019, 178 stores have rolled out our "half-day delivery" service. Due to the larger service radius of our "half-day delivery" service, a total of 280 selected stores are planned to provide this service. We expect this initiative will be rolled out to all selected stores before the end of May 2020.

At present, our half-day-delivery service can provide approximately 20,000 Stock Keeping Units ("**SKUs**"), mainly Fast Moving Consumer Goods ("**FMCG**") and daily necessity products. In the future, we expect to gradually expand our half-day-delivery service to fresh products.

## **Further deepen the integration to Become Future Growth Momentum for Both Revenue and Profit**

This year we have integrated headquarters, supply chain, assortment and distribution centers of the two banners RT-Mart and Auchan. In terms of store operation and management under the Auchan banner, we have completed the I.T system switch, store layout amendment and realized changes to organizational structure.

After a year of integration, headquarters costs under the Auchan banner have been reduced significantly, and the gross profit margin has been rising month by month. The benefits of integration has been greatly improved.

In 2020, we will further deepen the integration, improve revenue and gross profit, and reduce controllable expenses of stores. We believe that the performance of the Auchan stores will be further improved in the future.

## **About Coronavirus Disease 2019 (COVID-19)**

The prospects of 2020, however, have been affected by the disruption to life by the COVID-19 virus. The spread of COVID-19 virus has had a major impact on both market and the Group's operating environment in China. The Group's hypermarkets under both banners fall under the consumer necessity industry, and their operations have not been substantially impacted by the spread of the epidemic as of the date of this

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Announcement. However, as a result of cooperating with the government's measures implemented against the spread of the epidemic, some of our tenants renting our gallery space in hypermarket complexes have been required to temporarily suspend their operations. While some of these tenants have been permitted to reopen their businesses recently, we are continuing to discuss with relevant government departments the timing of the reopening of the other such businesses.

Management is closely monitoring the development of the COVID-19 situation. We expect to discuss with relevant parties the reopening of those businesses temporarily suspended in our galleries to minimize the loss of rental income. It is too early to say at this stage how 2020 will turn out but we will do all we can to support our customers and partners in this difficult time. Every effort is being made to mitigate the negative impact to the bottom line. We may also make further announcement when appropriate.

**Mr. Peter HUANG concluded:** "By leveraging off our digital tools, we have become more capable in serving online customers. This becomes the foundation of our long-term competitiveness. At the same time, the physical stores have transformed from legacy hypermarkets to our 'two-in-one model' of integrated store and warehouse. Our current system allows one unified supply chain to meet the needs of different sales channels, and all channels to share one unified inventory system. This not only enhances the efficiency of the supply chain, but also realizes the diversification of sales channels. We hope 2020 to be the harvest year of our online business. We will center on multi-format and omni-channel development, comprehensive digital upgrading and transformation, acceleration in restructuring hypermarkets, and deepened integration of our two banners."

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### **About Sun Art Retail Group Limited**

Sun Art Retail is a leading retail with hypermarket and fast-growing e-commerce businesses in China. Sun Art Retail operates its hypermarket business under two recognized banners – “Auchan” (歐尚) and “RT-Mart” (大潤發). As of 31 December 2019, Sun Art Retail had a total of 486 outlets in China with a total gross floor area (“GFA”) of approximately 13 million square meters, covering 232 cities across 29 provinces, autonomous regions and municipalities.

On 20 November 2017, Alibaba Group Holding Limited (“Alibaba Group”), Auchan Retail International S.A. (“Auchan Retail”), and Ruentex Group announced a strategic alliance that brings together online and offline expertise to explore new retail opportunities in China’s food retail sector. As part of this strategic alliance, Auchan Retail obtained an indirect stake of approximately 36.18%, and Alibaba Group invested a total of approximately HK\$22.4 billion to obtain an aggregate direct and indirect stake of approximately 36.17% in Sun Art Retail Group Limited.

The priorities of the Group are to restructure hypermarket complexes, to explore multi-formats and omni-channels, and to become a leader in digital transformation for physical stores and a benchmarking enterprise for New Retail.

### **Enquiries:**

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