SUN ART
Retail Group Limited

高鑫零售有限公司

Stock code: 6808

2016 Annual Results Announcement

About SUN ART

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Operating Environment

(1) Growth of GDP & Total Retail Sales of Consumer Goods

Legend: GDP Growth, TTL Retail Sales Growth

TTL Retail Sales Growth (%): 10.1%, 11.8%, 9.1%, 13.3%, 12.9%, 13.7%, 16.8%, 21.6%, 15.5%, 18.4%, 17.1%, 14.3%, 13.1%, 12.0%, 10.7%, 10.4%

GDP Growth (%): 8.3%, 9.1%, 10.0%, 10.1%, 11.3%, 12.7%, 14.2%, 9.6%, 9.2%, 10.4%, 9.3%, 7.7%, 7.7%, 7.4%, 6.9%, 6.7%

Years: 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016

(2) Year 2016 : CPI 2.0% (Food CPI 4.6%, Non Food CPI 1.4%)

Legend: CPI, Food CPI, Non-food CPI

Y2014 (CPI=2) | Y2015 (CPI=1.4) | 2016 (CPI=2)

Months: Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec (repeated for each year)
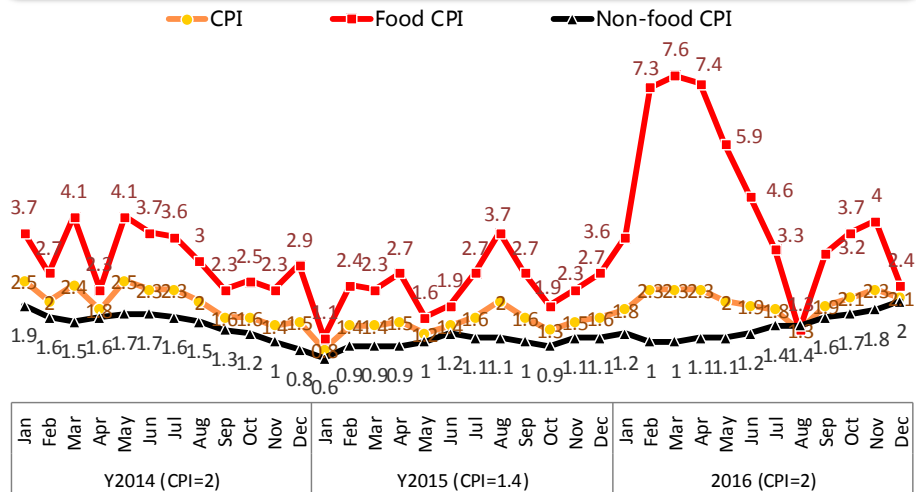
(3) Year 2016 : 50 Key Retailers Sales Growth was -0.5%

Year 2014, 50 Key (+0.4%): 2.1, -0.6, -7.0, 1.7, 0.2, -2.2, 1.4, -0.3, -0.1, 0.8, 0.4, 1.8

Year 2015, 50 Key (-0.2%): 0.6, -0.3, 0.4, 2.0, 0.3, -1.4, -1.1, 0.8, -1.2, -5.6, -6.2, -2.3

Year 2016, 50 Key (-0.5%): 2.9, -4.1, -0.2, 1.3, -0.8, 2.3, 1.6, 2.6, 5.1

Months: Jan-Feb, Mar, Apr, May, Jun, Jul, Aug, Sep, Oct, Nov, Dec
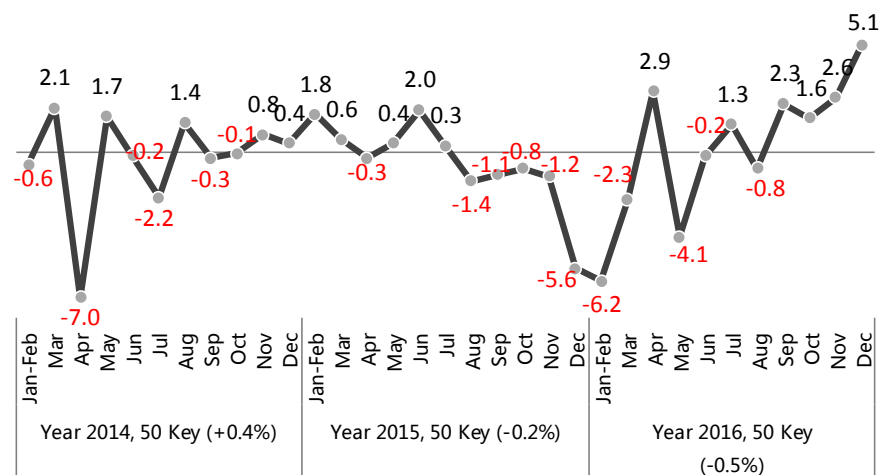
(4) Online sales accounted for 14.8% of total retail sales in Year 2016, up by 23.9%
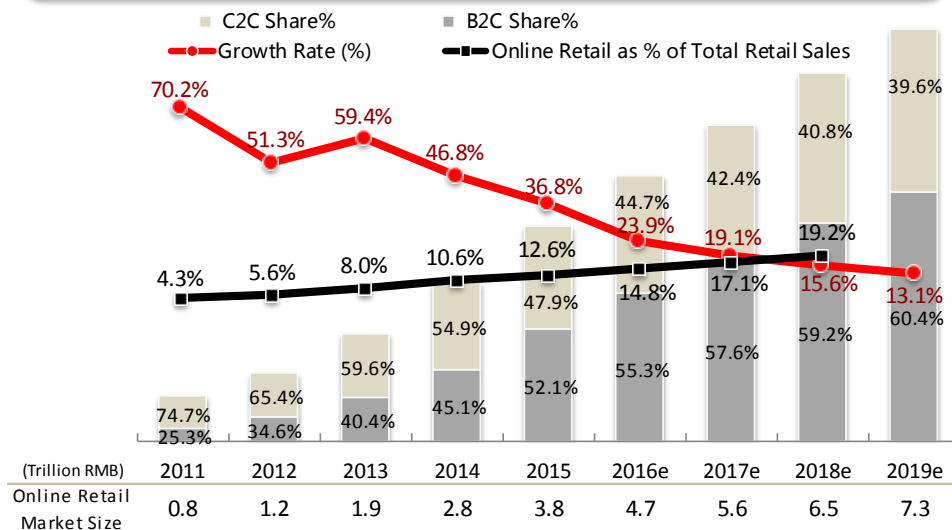
Legend: C2C Share%, B2C Share%, Growth Rate (%), Online Retail as % of Total Retail Sales

Growth Rate (%): 70.2%, 51.3%, 59.4%, 46.8%, 36.8%, 23.9%, 19.1%, 15.6%, 13.1%

Online Retail as % of Total Retail Sales: 4.3%, 5.6%, 8.0%, 10.6%, 12.6%, 14.8%, 17.1%, 19.2%

C2C Share%: 74.7%, 65.4%, 59.6%, 54.9%, 47.9%, 44.7%, 42.4%, 40.8%, 39.6%

B2C Share%: 25.3%, 34.6%, 40.4%, 45.1%, 52.1%, 55.3%, 57.6%, 59.2%, 60.4%

(Trillion RMB)	2011	2012	2013	2014	2015	2016e	2017e	2018e	2019e
Online Retail Market Size	0.8	1.2	1.9	2.8	3.8	4.7	5.6	6.5	7.3

Leading Retailer in China

Average Sales（Excluding Sales Tax) Per Store in 2015 and 2016 in the Hypermarkets Industry

RMB (million)

Year 2015 — Year 2016

226, 222 · 173, 166 · 160, 163 · 154, 154 · 151, 137 · 126, 123 · 122, 117 · 114, 105 · 112, 112 · 107, 108 · 104, 104 · 104, 101 · 85, 85 · 95, 83

(SUN ART Retail Group Limited, LOTUS, Walmart, 物美 WUMART, Carrefour, 新一佳 A.Best, ItoYokado, 永辉超市 YONGHUI SUPERSTORES, 华润, SHINSEGAE, 京客隆, 百联集团 BAILIAN GROUP, 天虹 RAINBOW, SPAR)
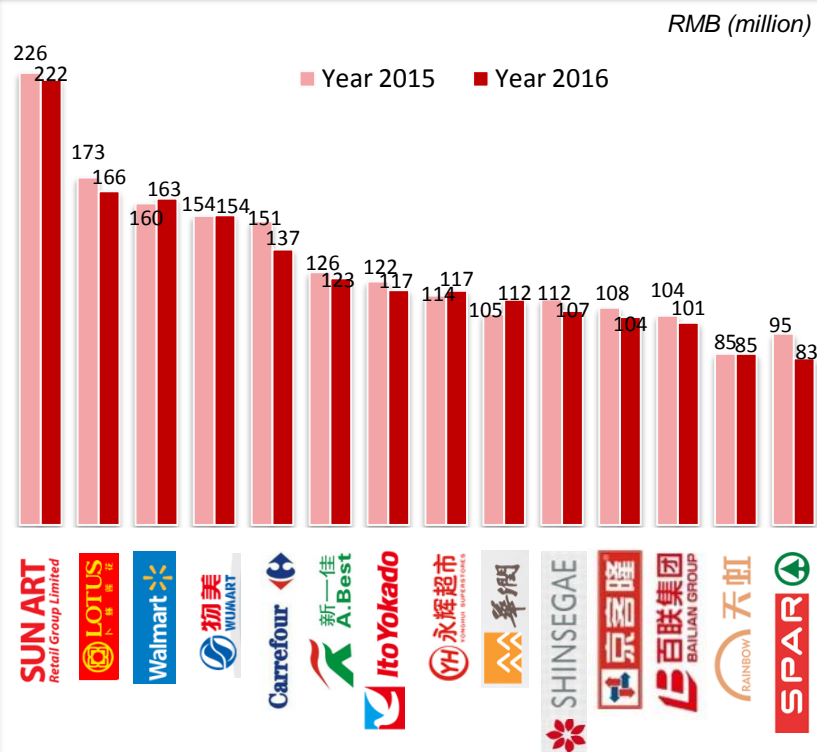
Market Share in the Hypermarkets industry 2015 and 2016
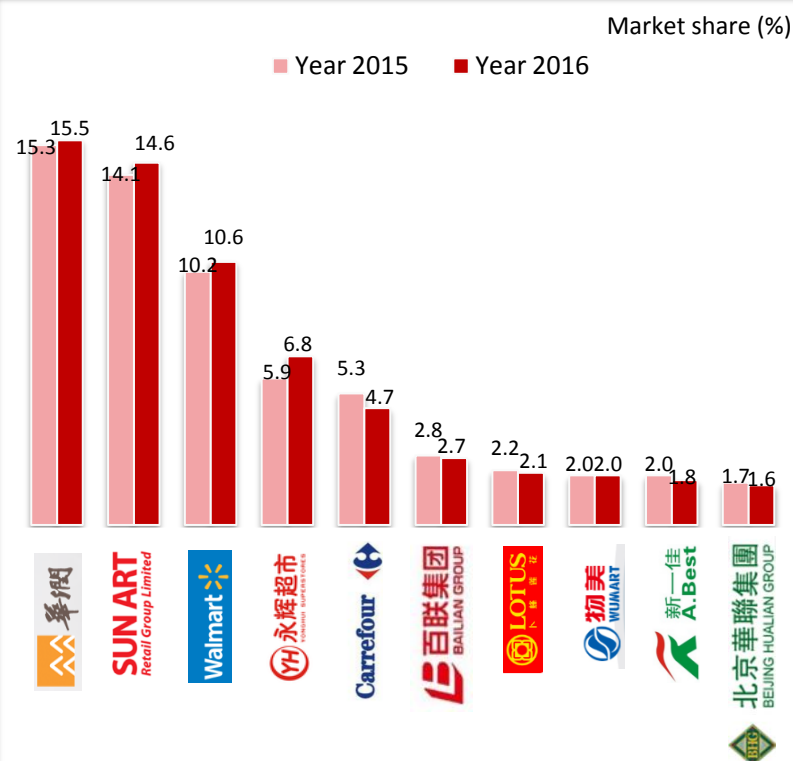
Market share (%)

Year 2015 — Year 2016

15.3, 15.5 · 14.1, 14.6 · 10.2, 10.6 · 5.9, 6.8 · 5.3, 4.7 · 2.8, 2.7 · 2.2, 2.1 · 2.0, 2.0 · 2.0, 1.8 · 1.7, 1.6

(华润, SUN ART Retail Group Limited, Walmart, 永辉超市 YONGHUI, Carrefour, 百联集团 BAILIAN GROUP, LOTUS, 物美 WUMART, 新一佳 A.Best, 北京华联集团 BEIJING HUALIAN GROUP)

Source: Euromonitor

(1) All 2015 numbers are the historical actual performance data and 2016 numbers are estimated based on the first half year actual performance of 2016.

(2) The definition of Hypermarkets from Euromonitor is retail outlets with a selling space of over **2,500 square meters** and with a primary focus on selling food / beverages / tobacco and other groceries.

(3) In the hypermarkets of Euromonitor data:
    Walmart including "Wal-Mart (China) Investment Co. Ltd." and "Trust-Mart Co. Ltd.";
    Bailian Group including "Lianhua Supermarket Holdings Co. Ltd." and "Hualian GMS Shopping Center Co. Ltd.".

Leading Retailer in China

	2015 Market Share (%)	2016 Market Share (%)
Top 10 China Retailers Market Share in 2015 and 2016		
Alibaba Group Holding Ltd	6.3	7.5
JD.com Inc	2.3	3.5
Suning Commerce Group Co Ltd	1.0	1.2
China Resources Holdings Co Ltd	1.2	1.1
GOME Electrical Appliances Holding Ltd	0.9	0.9
Sun Art Retail Group Ltd	0.7	0.7
Wal-Mart Stores Inc	0.7	0.5
Vipshop Holdings Ltd	0.4	0.5
Bailian Group Co Ltd	0.4	0.4
Yonghui Superstores Group	0.3	0.3
Top 10 Aggregated	**14.2**	**16.6**

Source: Euromonitor

(1) All 2015 numbers are the historical actual performance data and 2016 numbers are estimated based on the first half year actual performance of 2016.

(2) The definition of Retailing from Euromonitor is retail sales of new and used goods to the general public for personal or household consumption. Excludes specialist retailers of motor vehicles, motorcycles, vehicle parts, fuel. Also excludes foodservice, rental and hire and wholesale industries (Cash and Carry).

(3) For Alibaba Group, Euromonitor data just including T-mall. For "JD.com Inc." 2016 data including "YHD.com". Walmart including "Wal-Mart (China) Investment Co Ltd" and "Trust-Mart Co. Ltd.". Bailian Group including "Lianhua Supermarket Holdings Co. Ltd.", "Hualian GMS Shopping Center Co. Ltd.", "Shanghai Bailian Group Co. Ltd.", "Hualian Supermarket Co. Ltd.", "Shanghai Friendship Group Inc. Co." and "Shanghai Sanlian Group".

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Financial Highlights

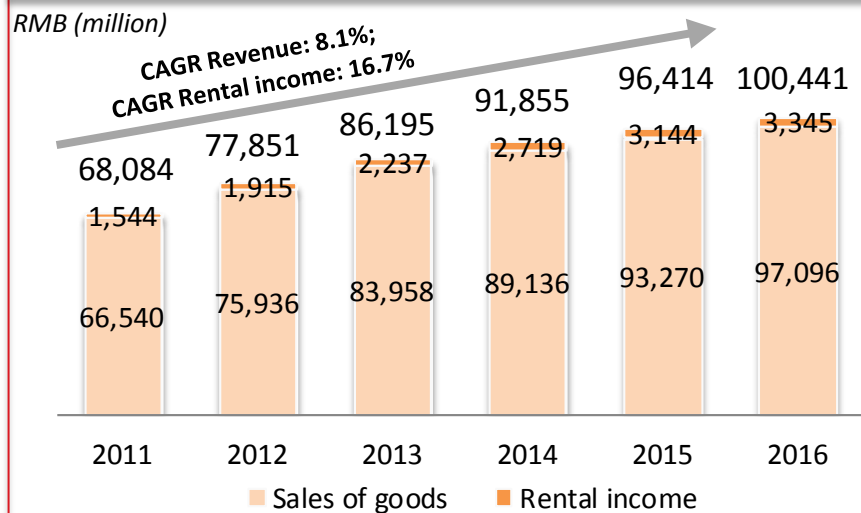| (RMB in million)	2016	2015	Change
Revenue	100,441	96,414	+4.2%
Same store sales growth [1]	-0.34%	-3.6%	
Gross Profit	23,981	22,463	+6.8%
Gross Profit Margin	23.9%	23.3%	+0.6ppt
EBIT	3,936	3,575	+10.1%
EBIT Margin	3.9%	3.7%	+0.2ppt
Profit for the year [3]	2,629	2,464	+6.7%
Net profit margin	2.6%	2.6%	+0.0ppt
Profit attributable to equity shareholders	2,571	2,443	+5.2%
Earnings per share -Basic and diluted (RMB) [2]	0.27	0.26	

(1) Same store sales: the growth rate of sales of the stores opened before 31 December 2015. It is calculated by comparing the sales derived from those stores during their operating periods in 2016 with sales during the corresponding periods in 2016.

(2) The calculation of basic and diluted EPS for the years ended 31 December 2016 and 2015 is based on the weighted average number of 9,539,704,700 ordinary shares in issue during the year.
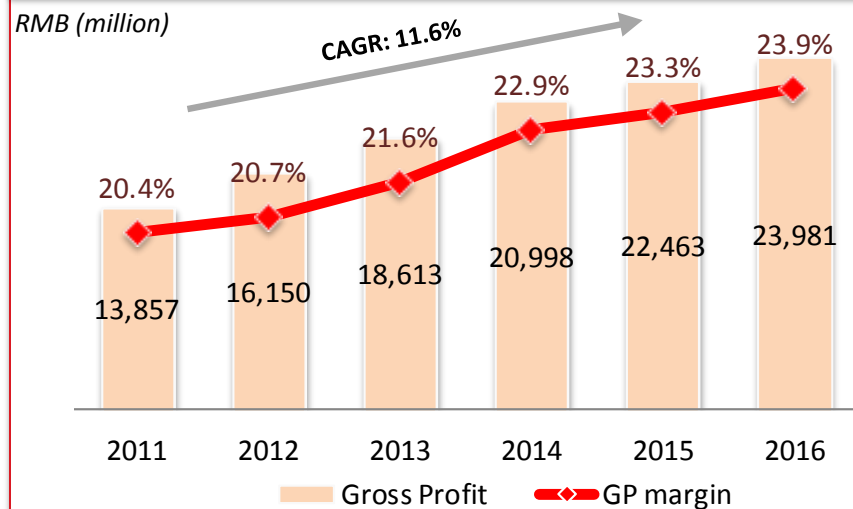
(3) The profit for the period ended 31 December 2016, compared to the corresponding period in 2015, would have increased by 8.7%, had the losses occurred by the E-commerce entities and Oney Accord been excluded from both periods.
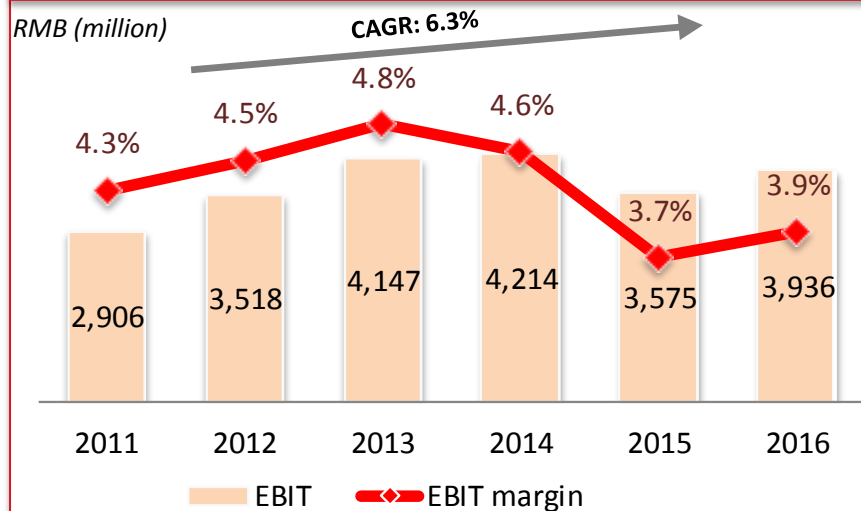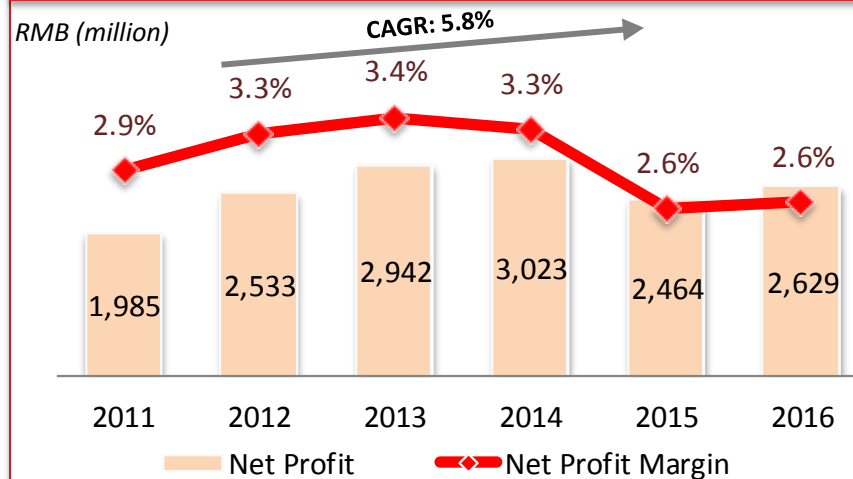
Financial Highlights

Revenue

RMB (million)

CAGR Revenue: 8.1%;
CAGR Rental income: 16.7%

	2011	2012	2013	2014	2015	2016
Total	68,084	77,851	86,195	91,855	96,414	100,441
Rental income	1,544	1,915	2,237	2,719	3,144	3,345
Sales of goods	66,540	75,936	83,958	89,136	93,270	97,096

■ Sales of goods ■ Rental income

Gross Profit Margin

RMB (million)

CAGR: 11.6%

	2011	2012	2013	2014	2015	2016
GP margin	20.4%	20.7%	21.6%	22.9%	23.3%	23.9%
Gross Profit	13,857	16,150	18,613	20,998	22,463	23,981

■ Gross Profit ◆ GP margin

EBIT and EBIT Margin

RMB (million)

CAGR: 6.3%

	2011	2012	2013	2014	2015	2016
EBIT margin	4.3%	4.5%	4.8%	4.6%	3.7%	3.9%
EBIT	2,906	3,518	4,147	4,214	3,575	3,936

■ EBIT ◆ EBIT margin

Net Profit[1] and Margin

RMB (million)

CAGR: 5.8%

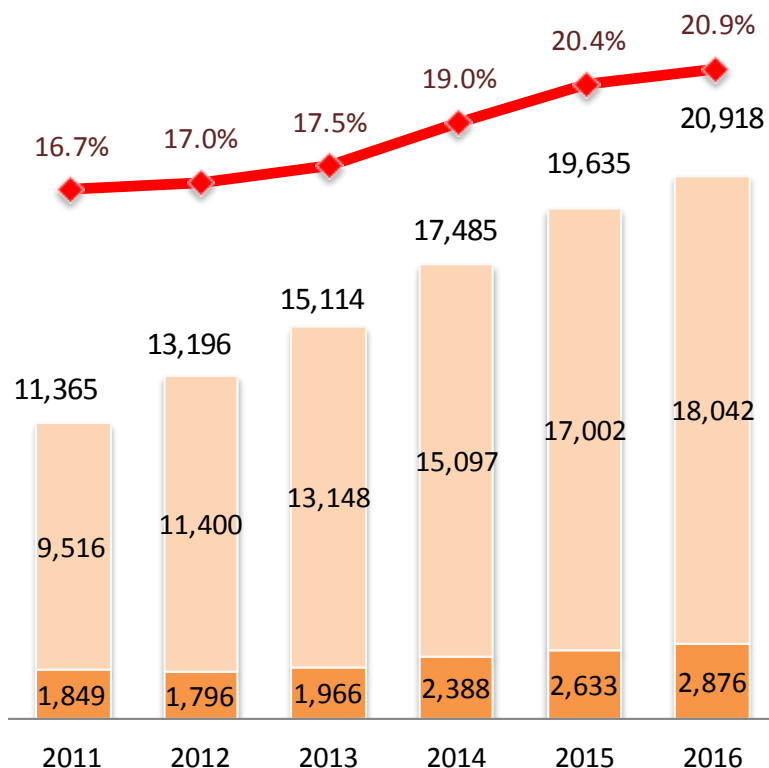|	2011	2012	2013	2014	2015	2016
Net Profit Margin	2.9%	3.3%	3.4%	3.3%	2.6%	2.6%
Net Profit	1,985	2,533	2,942	3,023	2,464	2,629

■ Net Profit ◆ Net Profit Margin

Note: (1) Showing profit for the year, i.e. including the non-controlling interests
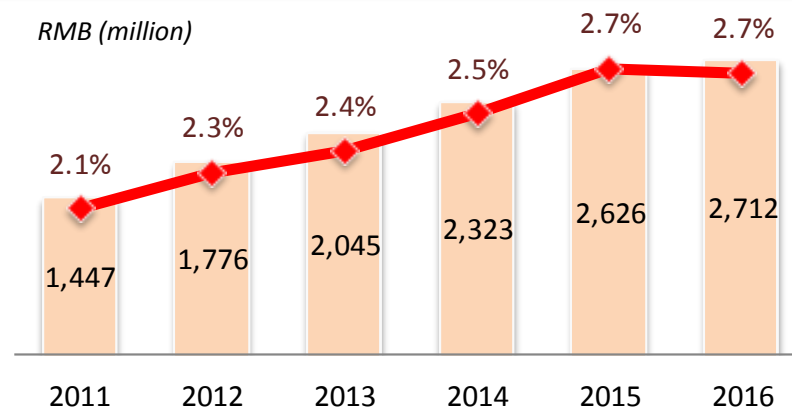
Expenses

Expenses

RMB (million)

16.7% 17.0% 17.5% 19.0% 20.4% 20.9%

	2011	2012	2013	2014	2015	2016
Total	11,365	13,196	15,114	17,485	19,635	20,918
Store operating cost	9,516	11,400	13,148	15,097	17,002	18,042
Administrative expense	1,849	1,796	1,966	2,388	2,633	2,876

■ Administrative expense ■ Store operating cost

◆ Total opex as % of Revenue

Operating Lease Charges

RMB (million)

2.1% 2.3% 2.4% 2.5% 2.7% 2.7%

	2011	2012	2013	2014	2015	2016
Operating Lease Rental	1,447	1,776	2,045	2,323	2,626	2,712

■ Operating Lease Rental

◆ Operating Lease Rental as % of Revunue

Staff Cost

RMB (million)

6.5% 7.0% 7.3% 7.7% 8.5% 9.0%

	2011	2012	2013	2014	2015	2016
Staff cost	4,412	5,458	6,256	7,114	8,163	8,999
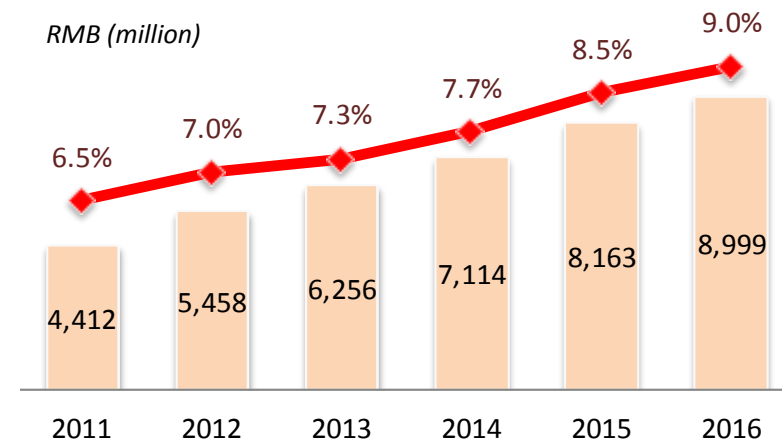
■ Staff cost ◆ Staff cost as % of Revenue

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Balance Sheet

Stable Working Capital Days

Year	Inventory	Payable
2011	60	91
2012	61	87
2013	58	82
2014	58	83
2015	59	85
2016	67	93

■ Inventory ■ Payable
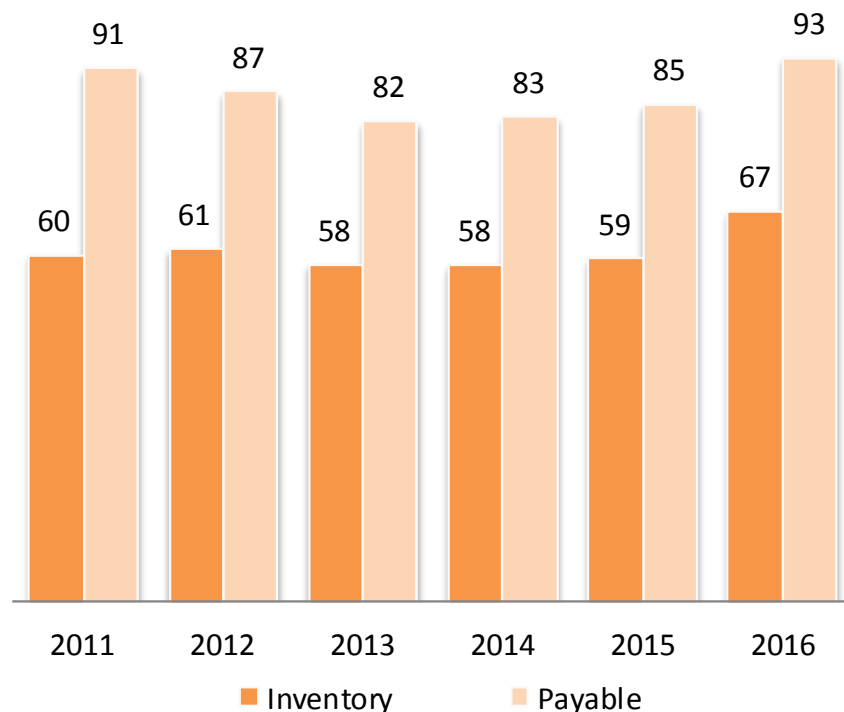
Net Cash Position

RMB (million)

Year	Net Cash
2011	7,385
2012	7,425
2013	7,053
2014	5,490
2015	5,978
2016	8,110

■ Net Cash
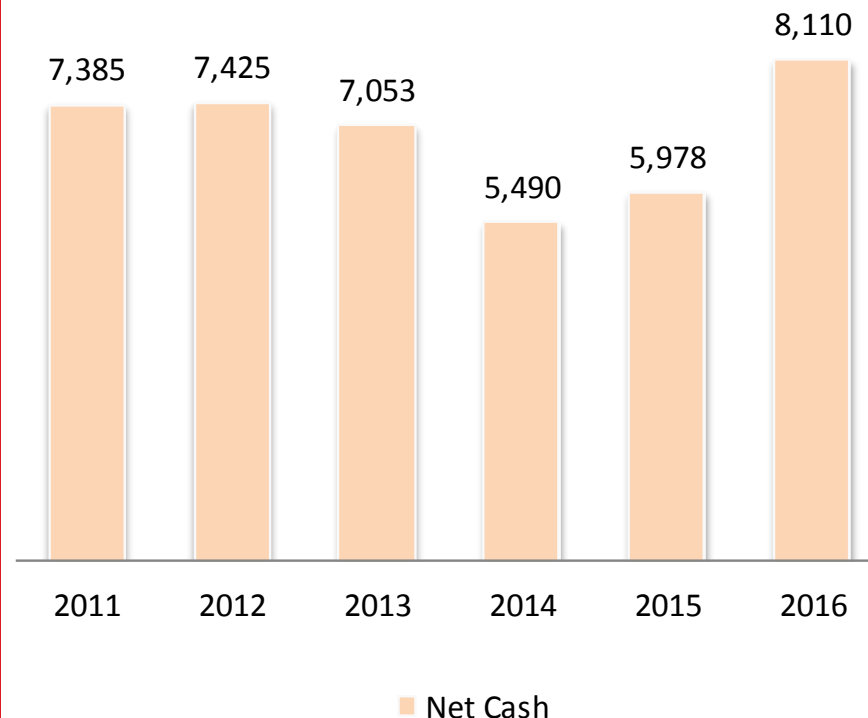
Note:
(1) Turnover days of inventory is calculated as the average inventory for the year, divided by cost of inventories charged to P/L for the year, and multiplied by 365 days for 2011, 2012, 2013, 2014, 2015 and 2016.
(2) Turnover days of accounts payable is derived by dividing the average of opening and closing balances of trade payables, for the relevant year by cost of inventories charged to P/L and multiplying by 365 days for 2011, 2012, 2013, 2014, 2015 and 2016.
(3) Turnover days of accounts receivable is insignificant for the Company. It is derived by dividing the arithmetic mean of opening and closing balances of trade receivables, for the relevant period by turnover and multiplying by 365 days for 2011, 2012, 2013, 2014, 2015 and 2016.
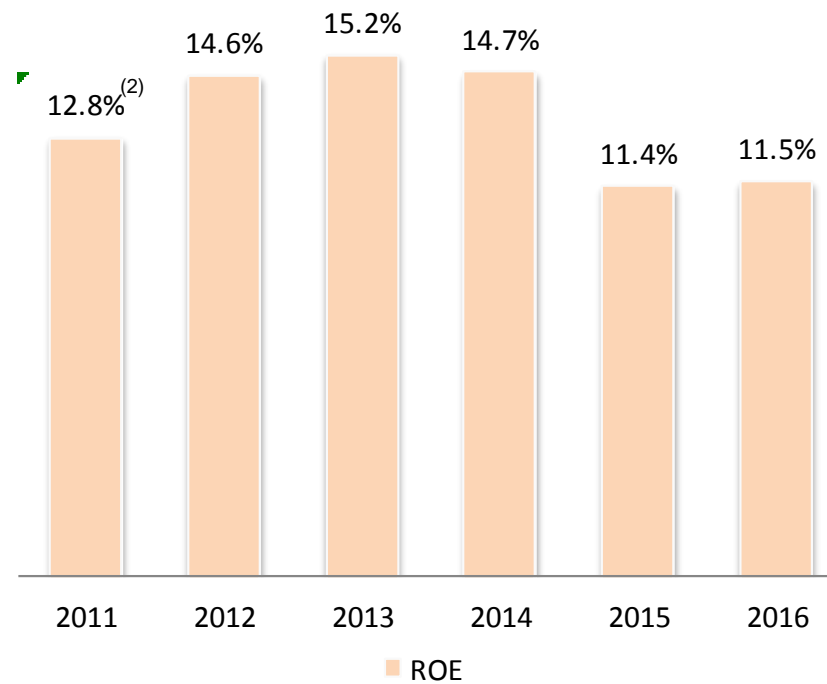(4) Calculated as the sum of cash & cash equivalents, investments and time deposits, minus bank loans and overdrafts

Investment Return

CAPEX

RMB (million)

Year	CAPEX
2011	5,779
2012	5,362
2013	6,788
2014	5,752
2015	4,624
2016	3,744

CAPEX

ROE[1]

Year	ROE
2011	12.8%[2]
2012	14.6%
2013	15.2%
2014	14.7%
2015	11.4%
2016	11.5%

ROE
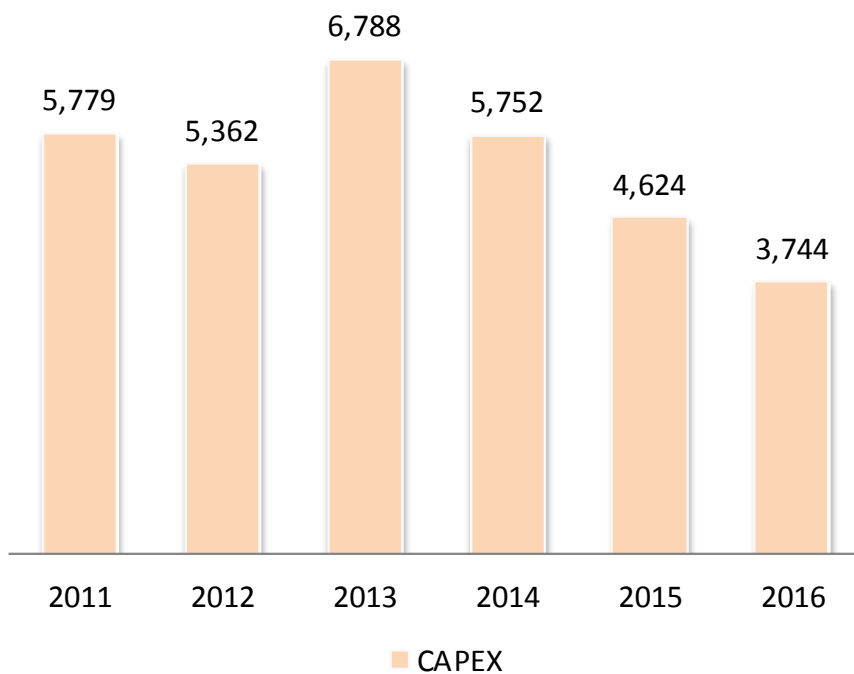
Note:
(1) ROE is calculated by dividing net profit for the year by total equity amounts as at the end of the year
(2) Excluding effect of initial public offering of equity, ROE for 2011 is 25.2%

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Business Review – Mortar Stores

Hypermarket Complexes

Supermarkets

- A total of **446** hypermarkets and supermarkets across China as at 31 December 2016, covering **224** cities cross **29** Provinces, autonomous regions and municipalities.

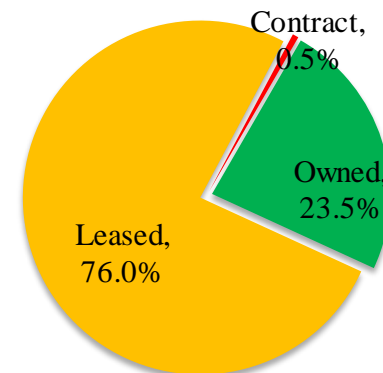- Secured **79** sites to open hypermarket complexes in next 3 years, of which 69 were under construction.

Region	No. of stores (31 December 2016)			GFA (sqm) (31 December 2016)		
	🐦	🔴	Total	🐦	🔴	Total
Eastern China	50	131	181	2,049,520	3,172,257	5,221,777
Northern China	6	42	48	177,594	1,028,881	1,206,475
N-Eastern China	2	44	46	55,660	1,215,729	1,271,389
Southern China	5	75	80	124,523	1,837,678	1,962,201
Central China	10	61	71	303,766	1,490,418	1,794,184
Western China	5	15	20	223,839	352,678	576,517
Total	78	368	446	2,934,902	9,097,641	12,032,543

GFA breakdown

Contract, 0.2%
Leased, 68.8%
Owned, 31.0%

Store no. breakdown

Contract, 0.5%
Leased, 76.0%
Owned, 23.5%

Business Review
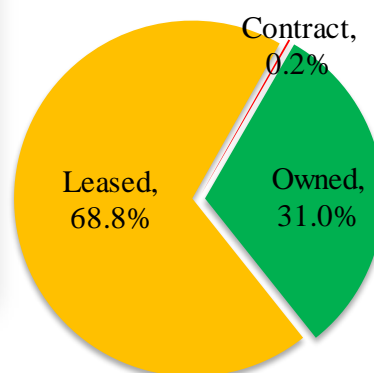
Expanding O2O and E-commerce Business by Internetizing Our Mortar Stores

- Combining online and offline business by leveraging the advantage of mortar stores, using feiniu.com as a carrier: 36 stores have participated in O2O project in 2016, there will be more than 300 stores involving this project in 2017, in order to effectively shorten the distance and time for delivering goods to customers;

- Cooperating with "Baidu Waimai", "Meituan" and "Eleme". As end of January 2017, more than 250 stores have participated in this project;

- GMV of Feiniu for the year 2016 achieved RMB2.1 billion, which has doubled compared to 2015, 29.1% of revenue was from O2O project; The loss of Feiniu is expected to decrease in year 2017 by the increasing efficiency and lowering of cost;

- Fields presented as a high-end fresh E-commerce site, now runs nearly 4,000 SKUs, its GMV for the year 2016 was up by more than 50% compared to 2015, sales share of fresh products accounted for 70% with an outstanding retention and conversion rate as well as high ticket size.

Resource Integration, Exploration of New Formats

- Since July 2016, the former Yantai store under the Auchan banner was transferred and operated by the RT-mart banner. The procurement scale and logistic system of the RT-mart banner have effectively improved the supplier chain of the transferred store, with its sales and traffic increasing significantly with double-digit growth respectively.

- Another two more stores located in Shenyang and Dalian under the Auchan banner were managed by the RT-Mart banner since November and December 2016;

- Two small format stores "HiAuchan!" and "Lavia" progressed strongly. If this kind of business model succeeds, it is also an opportunity for the Group to return to open more stores in first-tier cities. The Group has planned to open additional units of this smaller format in year 2017;

- The Group will open a new fresh "**O2O**" concept community store together with catering service. The Group will also explore other new formats such as beauty shops and CVS.

Business Review

Actively Promoting Fresh Products, Developing Our Own Brand and Exclusive Brand Products, Enhancing Differentiation of Business

- As end of 2016, the Group had a total of 120 stores participating in the vegetable direct souring project involving full range of vegetable products, another 220 stores also had part of their vegetable products involved in this project;

  The comparable sales growth in the vegetable sector increased by over 8% compared to last year, and the comparable traffic growth in the vegetable sector had a negative to positive growth compared to last year;

  A fruit direct sourcing project has been launched in the second half of 2016, of which 10 stores in Eastern China have participated in this project;

- The Group has also launched central kitchen project to produce and provide semi-finished products for stores such as delicatessen, dim sum and bakeries in collaboration with selected high-standard factories; The establishment of the central kitchen project is expected to improve the quality and stability of fresh products, and to accelerate the product replacement more quickly and more effectively;

- The Group is striving to build its own exclusive brands, and the performance of some exclusive brands has been very good. Especially brand "Actuel", specializing in general goods, home textile and tableware, achieved a growth of sales by 88%;

  Some new brands, such as our traditional Chinese cuisine brand "Hui Shang", imported mineral water brand "ALLEGRA" and a gardening brand "Garden star" will also be our growth drivers in the future.

Joint Purchase of Merchandizing and Equipment, Reducing cost

- Joint-purchasing and tailor-made products obtain lower purchase prices to ensure price advantage but also "profitability", and better profit through differentiated sales; As end of 2016, 24 co-sourcing initiatives were identified, 8 projects involving shelves, bakery equipment, wood pallets, tiles etc have already brought extra savings of over 8%;

- The Group has effectively reduced the energy and maintenance cost through energy saving equipment and managing energy efficiency, such as the replacement of LED lights, automated remote control of equipment power switches and temperature adjustment, together with 3-level of maintenance management procedures;

- The Group successfully improve its operating productivity by giving employees multi-posts with multiple skills, upgrading technology, introducing equipment, simplifying processes and optimizing the use of system, thereby effectively controlling cost increases and improving employee efficiency: 2015 staff number per store was 320 and 298 of 2016, staff efficiency has been improved.

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Business Strategy

Develop into an omni-channel retailer

Higher standard for new stores, Gradually Slow Down Offline Store Expansion

Push Forward E-Commerce & O2O Development

Enhance Procurement Methods, Constantly Strive to Optimize Product Mix

Further Improve Operational Efficiency and Supply Chain Management

Continue to Provide Staff with Training and Maintain a Good Corporate Culture

Thank You!