

SUN ART

Retail Group Limited

Stock code: 6808

*Advance Phygital Development
across China*

**2018 Annual Results
Announcement**





Speakers



Business Review



Operating Environment



Financial Review



Business Strategy



Q&A

Speakers



Ludovic Holinier

**Executive Director and
Chief Executive Officer**



Peter Huang

**Chairman of
RT-Mart China**



Jean Chausse

Chief Financial Officer



Nelson Hsu

**Chief Financial Officer
of RT-Mart China**

Business Review







Business Review – Mortar Stores

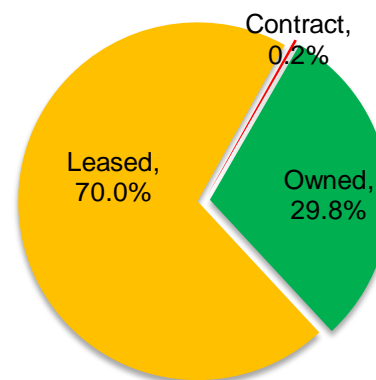
In 2018, the Group has opened 24 new stores
As of 31 December 2018, 484 hypermarkets and supermarket



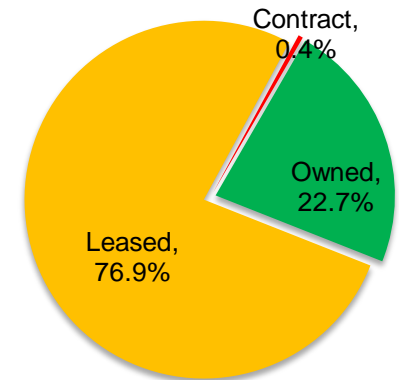
- Covering **233** cities cross **29** provinces, autonomous regions and municipalities
- Secured **55** sites to open hypermarket complexes, of which **37** were under construction

Region	No. of stores (as of 31 December 2018)			GFA (sqm) (as of 31 December 2018)		
			Total			Total
Eastern China	51	139	190	2,067,785	3,357,185	5,424,970
Northern China	5	46	51	151,064	1,137,050	1,288,114
N-Eastern China	1	51	52	32,033	1,413,972	1,446,005
Southern China	5	84	89	124,523	2,047,350	2,171,873
Central China	10	66	76	293,766	1,642,455	1,936,221
Western China	5	21	26	223,839	495,920	719,759
<u>Total</u>	77	407	484	2,893,010	10,093,932	12,986,942

GFA breakdown



Store no. breakdown



Business Review

Digitalization of Physical Stores

- Two pilot stores began the Tao Xiao Da project in March 2018. By the end of 2018, all stores under Sun Art have rolled out the Tao Xian Da project.
- Offering about 13,000 SKUs, covering fresh products, FMCG and daily necessities.
- By the end of December 2018, daily order per store of the B2C business was 500 order.
- Through the digitalization of physical stores, the Taoxianda initiative powers the physical stores by integrating membership system, payment, inventory, marketing, logistic and supply chain.
- Driven by technology and data, enhance the efficiency of our physical stores while acquiring a clearer customer portrait, and build a solid foundation for personalized and accurate marketing in the future.

Business Review

Restructure the Hypermarket

- Restructure our functions
 - Physical stores no longer satisfy offline customers only, but will meet the requirement of online customers and B2B clients.
 - Hypermarkets can be recognized as hubs.
 - Improve the productivity per square meter by fully leveraging the sales space, in order to enhance the productivity of hypermarkets.
- Restructure our categories
 - Our target: to become the expert in each category
 - Specialized categories are supposed to be managed by professionals, such as the collaboration with Suning.
 - Apparels and daily necessities: are expected to provide high value for money.
 - Focus on fresh products and FMCG, and expect to become the specialist in food retailing
- We hope that after the restructure, we can enhance the attractiveness of hypermarket and let the customer come back to the hypermarkets.

Business Review

Development of Multi-formats and Omni-channels

- He Xiao Ma
 - The first He Xiao Ma store was opened in June 2018. By the end of 2018, there were totally nine He Xiao Ma stores.
 - He Xiao Ma combines and leverages Alibaba's technology and traffic and Sun Art's supply chain and store operation expertise.
 - By the integrating online and offline platform, this new prototype is also capable of acquiring online orders and providing home-delivery to customers. This enhances their operational efficiency and competitiveness with local competitors.
- Frehippo (formerly known as He Ma)
 - Alibaba and RT-Mart established a joint venture company, first Frehippo store was opened in Haikou, Hainan Province on 28 September 2018.
 - Sale area is approximately 4000m².
 - Online orders was approaching to 50%.
 - Second Frehippo store was opened in Dalian on 8 January 2019.

Business Review

Reform of Home Appliances

- From June 2018 to August 2018, Suning renovated and upgraded approximately 400 RT-Mart stores. Prior to the “Double 11” event, more than 70 Auchan stores have deployed the Suning model.
- From June 2018, Suning began to renovate the stores progressively. By the end of 2018, the stores have been performing a positive growth in home appliances section after the renovation.
- Going forward, both parties are going to deepen the collaboration and the sales growth is expected.

B2B Business

- At the end of August 2018, all stores under the Auchan banner have the launched B2B business.
- The revenue generated from B2B has doubled in 2018 compared to that in 2017, and has achieved small profit in 2018.
- At present, B2B registered users have exceeded 480,000, ticket size was more than RMB1,100.

Business Review

Further Convergence between Two Banners under Sun Art

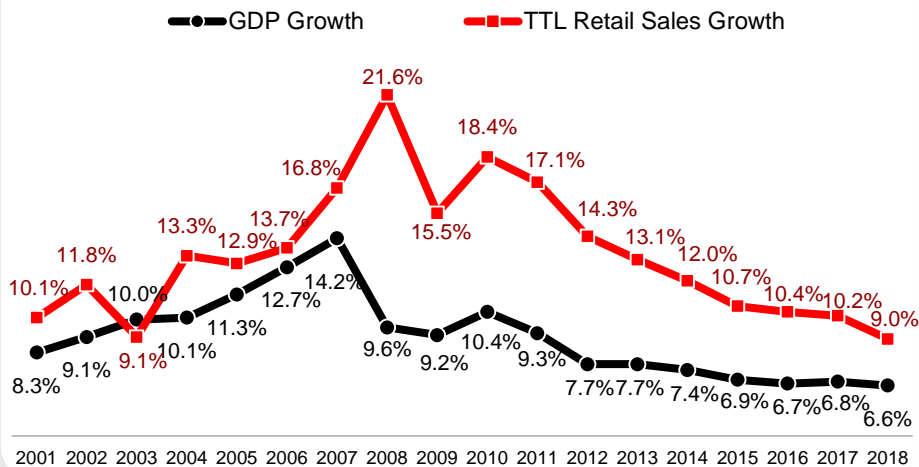
- In December 2018, a joint operation headquarter was established between RT-Mart and Auchan, in order to save overlapping costs, improve communication and efficiency.
- Headquarter costs are expected to be reduced year on year.
- Upgrading IT system under the Auchan banner and sharing the supply chain for the two banners.
- Gross profit margin under the Auchan banner is expected to be the same as that under RT-Mart banner gradually.
- In December, nine renovation projects have been planned, covering shopping malls and galleries, which are expected to provide a brand new and upgraded shopping experience to our customers.

Operating Environment

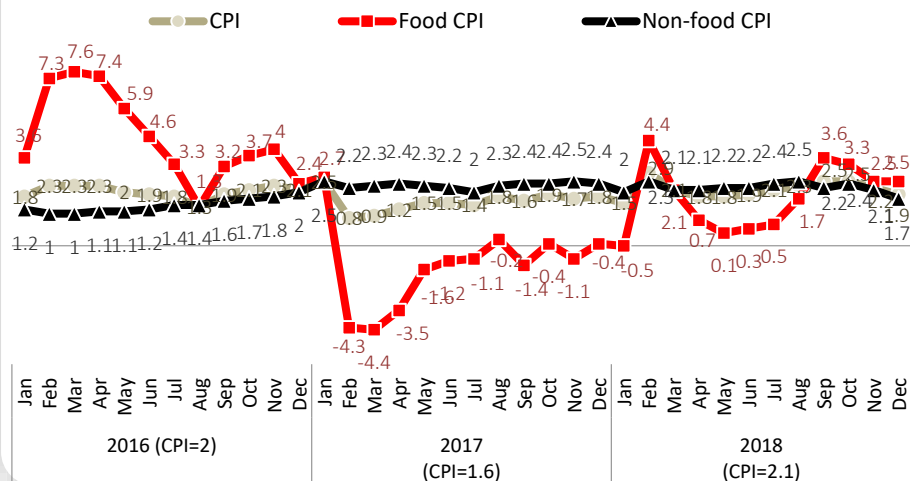


Operating Environment

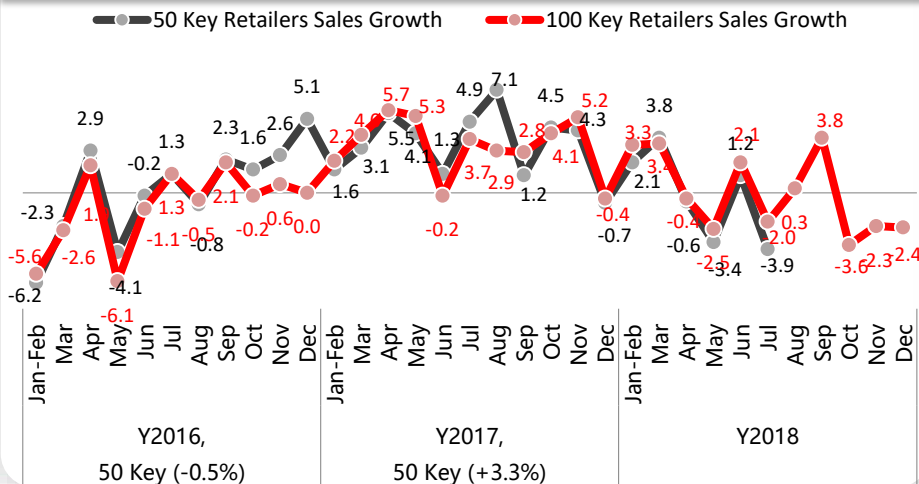
(1) Growth of GDP
& Total Retail Sales of Consumer Goods



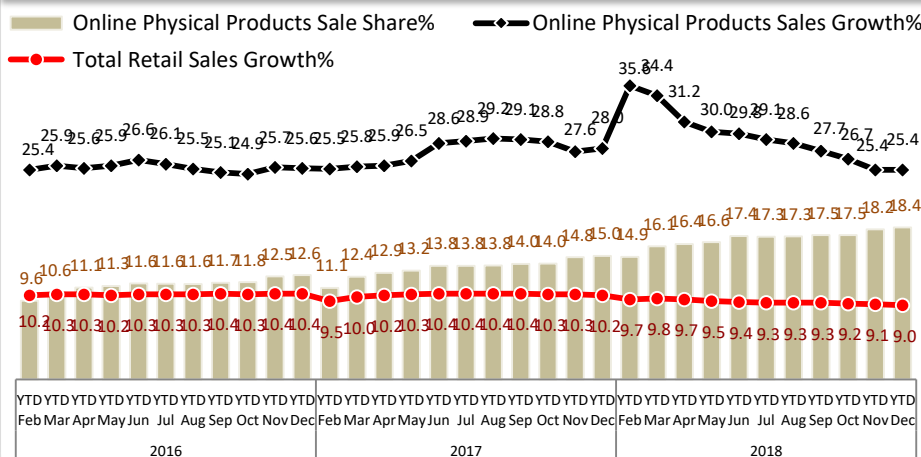
(2) 2018: CPI was up by 2.1% yoy
(Food CPI up 1.8%, Non Food CPI up 2.2%)



(3) Downtrend of 100 Key Retailers Sales Growth

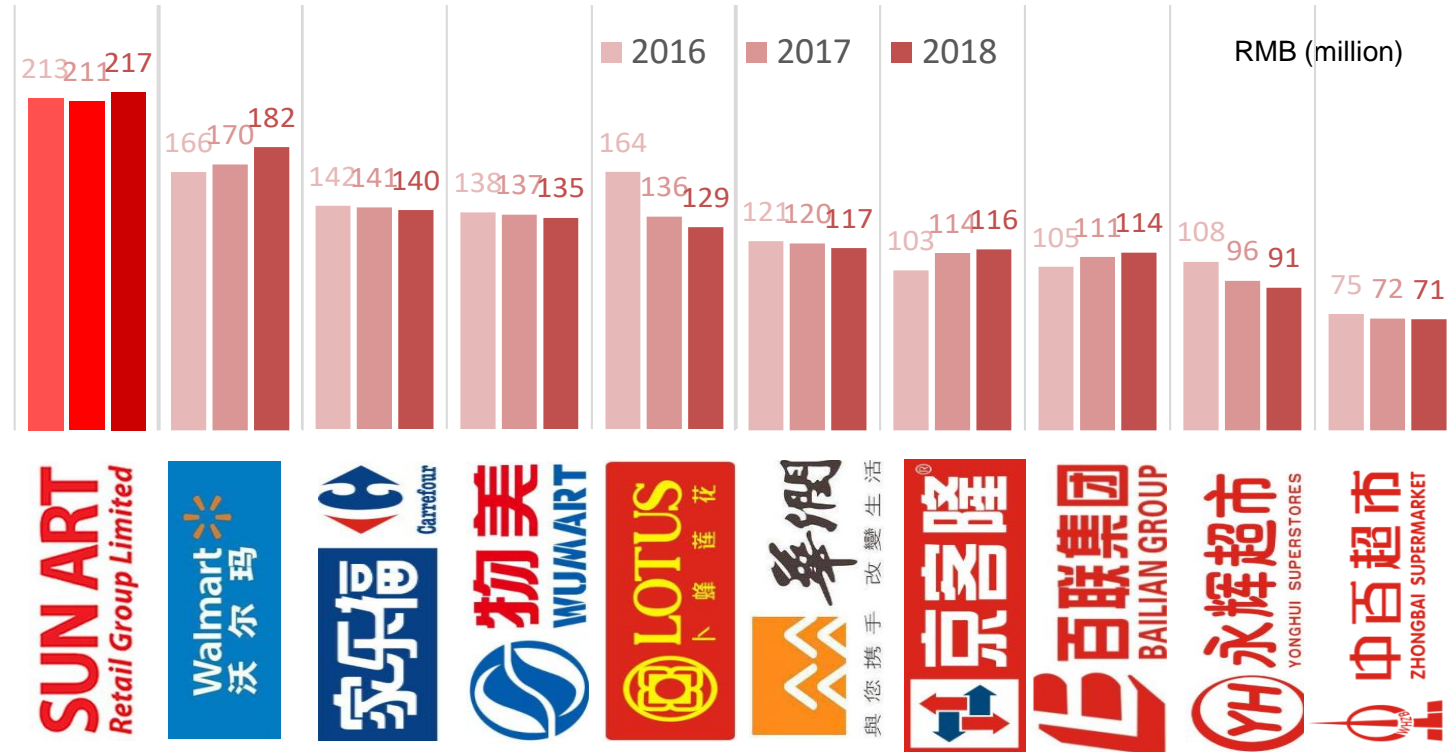


(4) Online physical products sales accounted for 18.4% of total retail sales in 2018, up by 25.4%



Operating Environment

Average Sales (Excluding Sales Tax) Per Store
in 2016-2018 in the Hypermarkets Industry

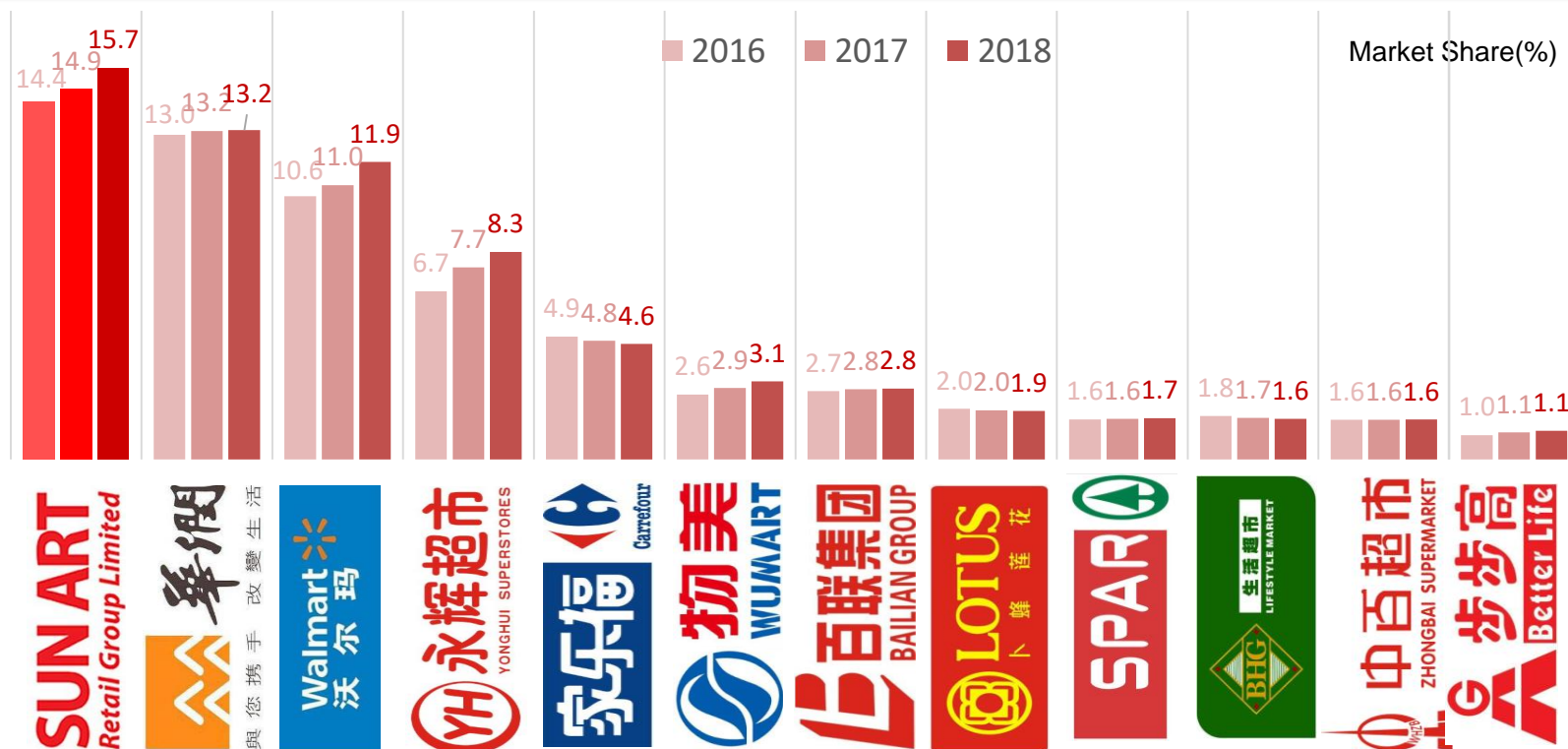


Source: Euromonitor

- (1) All 2016-2017 numbers are the historical actual performance data and 2018 numbers are estimated based on the first half year actual performance of 2018.
- (2) The definition of Hypermarkets from Euromonitor is chained or independent retail outlets with a selling space of over 2,500 square metres and with a focus on selling both grocery and non-grocery merchandise.
- (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".
- (4) Notes: This chart only counts top 13 players in hypermarkets by retail Value.

Operating Environment

Market Share % in the Hypermarkets Industry 2016-2018



Source: Euromonitor

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Financial Review



Financial Highlights

(RMB in million)	2018	2017	Change
Gross Sales Proceeds ⁽¹⁾	101,315	102,320	-1.0%
Revenue	99,359	102,320	-2.9%
Same Store Sales Growth ^{(2) (3)}	-1.72%	-0.26%	
Gross Profit	25,119	24,674	1.8%
Gross Profit Margin	25.3%	24.1%	+ 120 bps
EBIT	4,196	4,487	-6.5%
EBIT Margin	4.2%	4.4%	- 20 bps
Profit for the year	2,818	3,020	-6.7%
Net profit margin	2.8%	3.0%	- 20 bps
Profit attributable to equity shareholders	2,588	2,793	-7.3%
Earnings per share -Basic and diluted (RMB) ⁽⁴⁾	0.27	0.29	

(1) Gross Sales Proceeds consist of gross proceeds from product sales, consignment sales and rental income, excluding value-added tax.

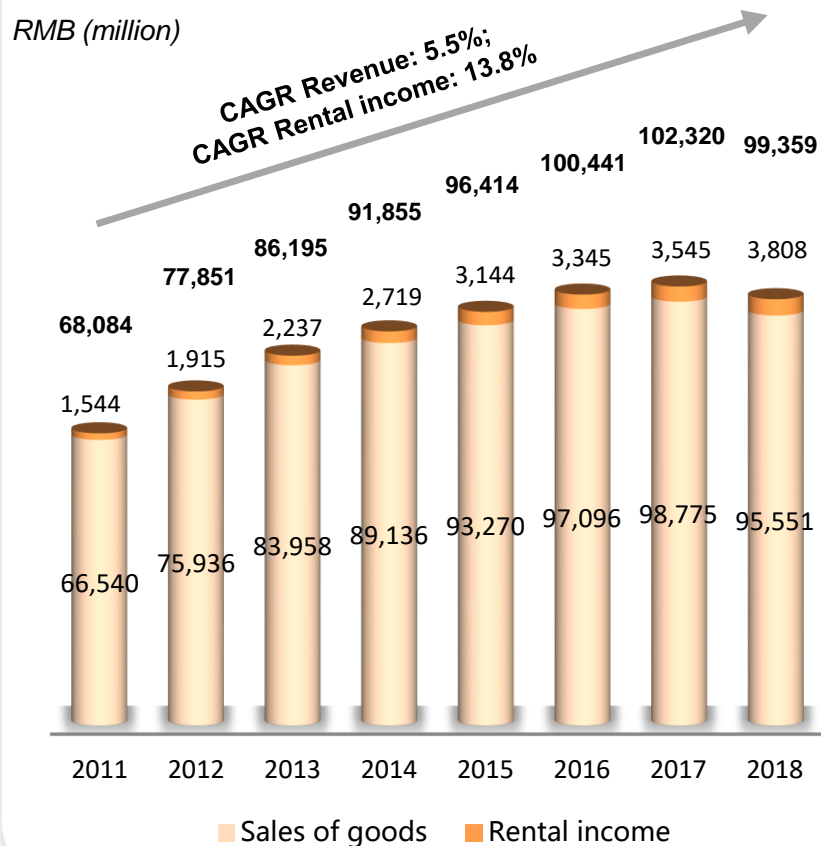
(2) SSSG: For stores opened over 12 full months as of 31 December 2018, we calculated and compared the sales derived in those stores from their opening month to the end of year 2017 with the same period in year 2018.

(3) For the year ended 31 December 2018, the Same Store Sales Growth, calculated based on sales of goods excluding electronic appliance

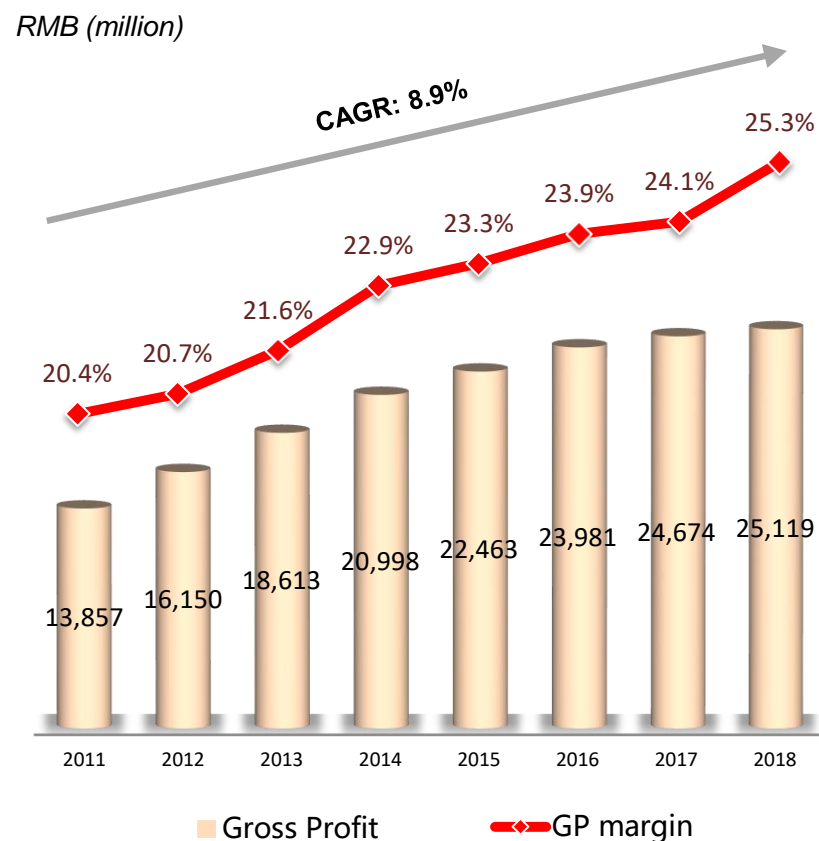
(4) The calculation of basic and diluted EPS for the year ended 31 December 2018 and 2017 is based on the weighted average number of 9,539,704,700 ordinary shares in issue during the year.

Financial Highlights

Revenue

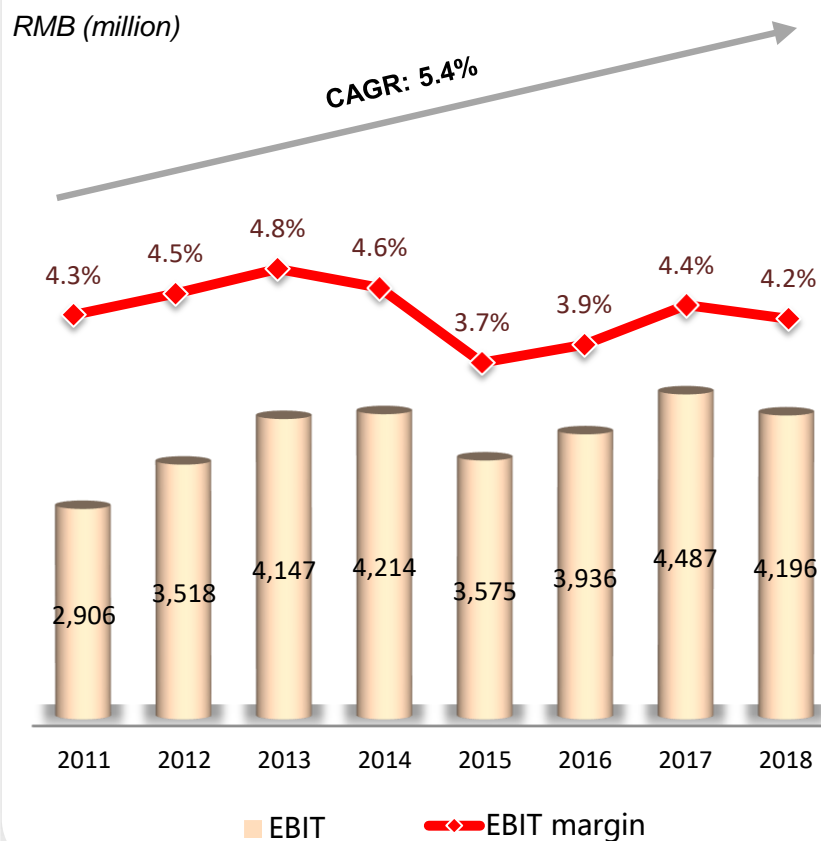


Gross Profit & Margin

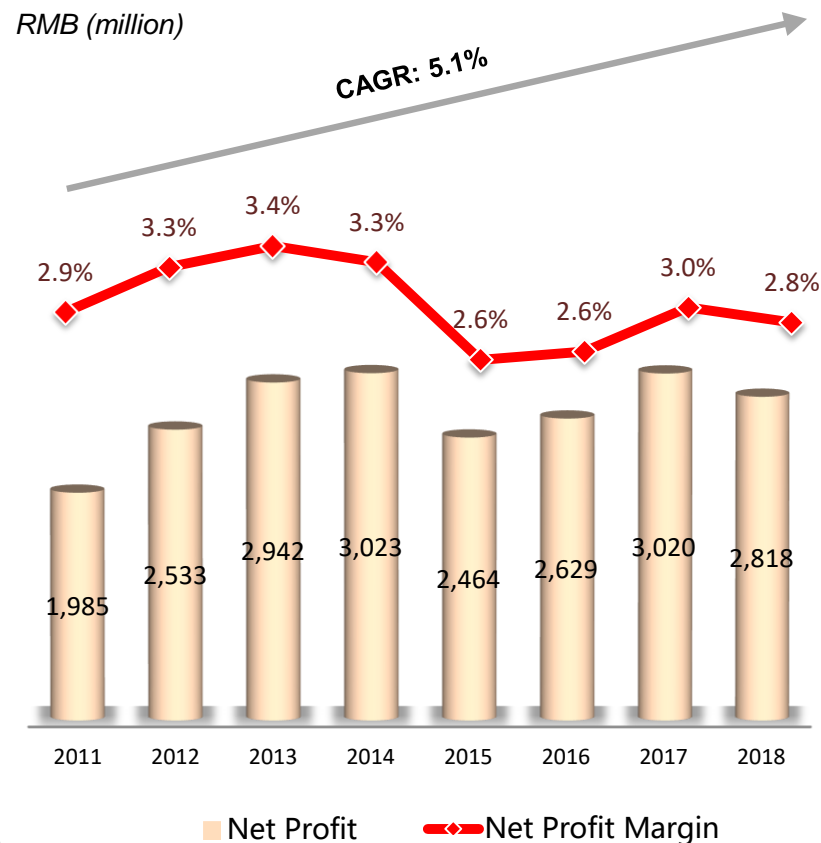


Financial Highlights

Operating Margin



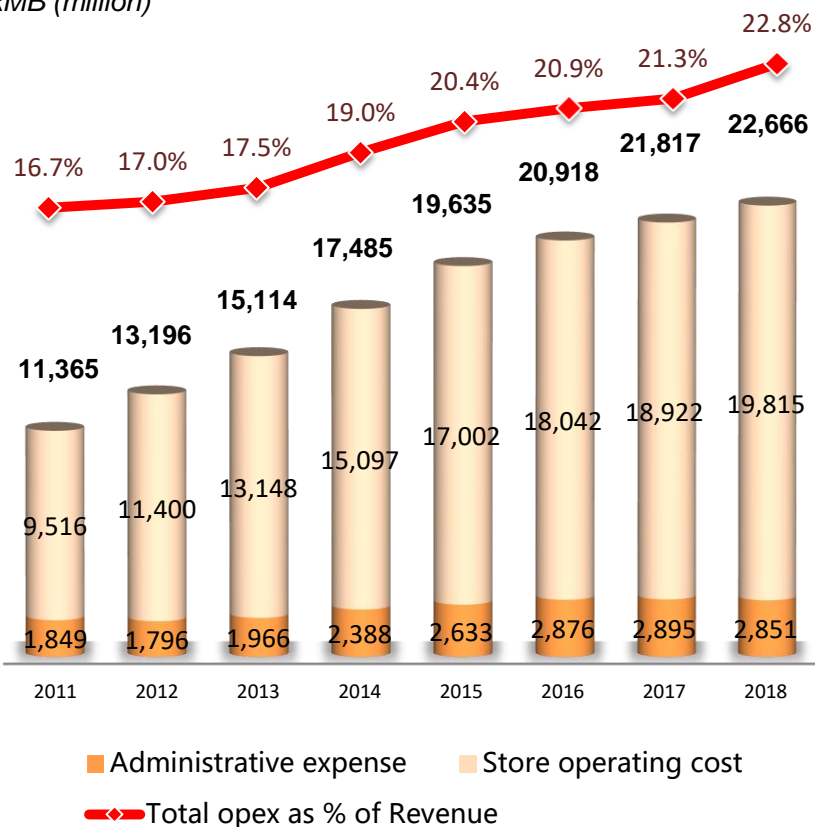
Net Profit⁽¹⁾ and Margin



Financial Highlights

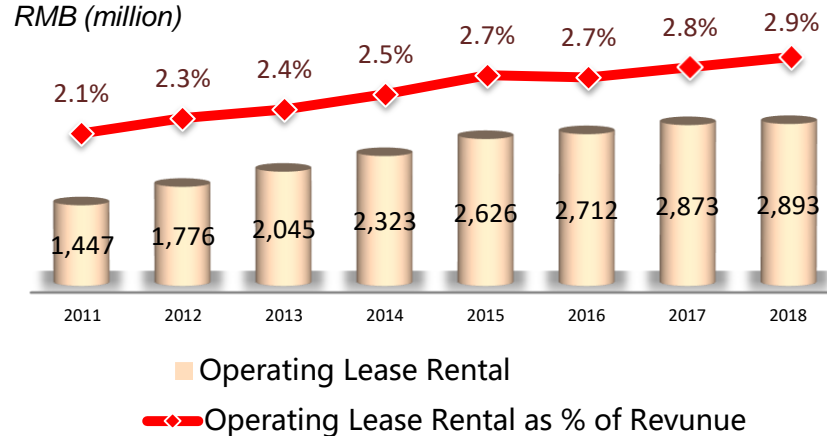
Expenses

RMB (million)



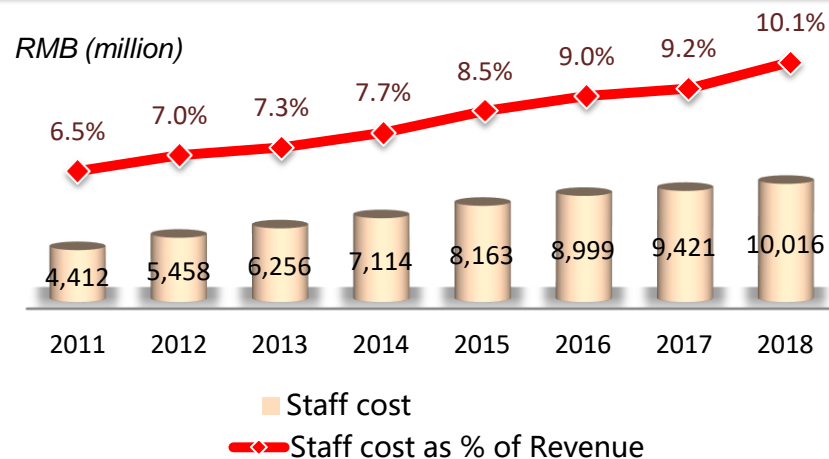
Operating Lease Charges

RMB (million)



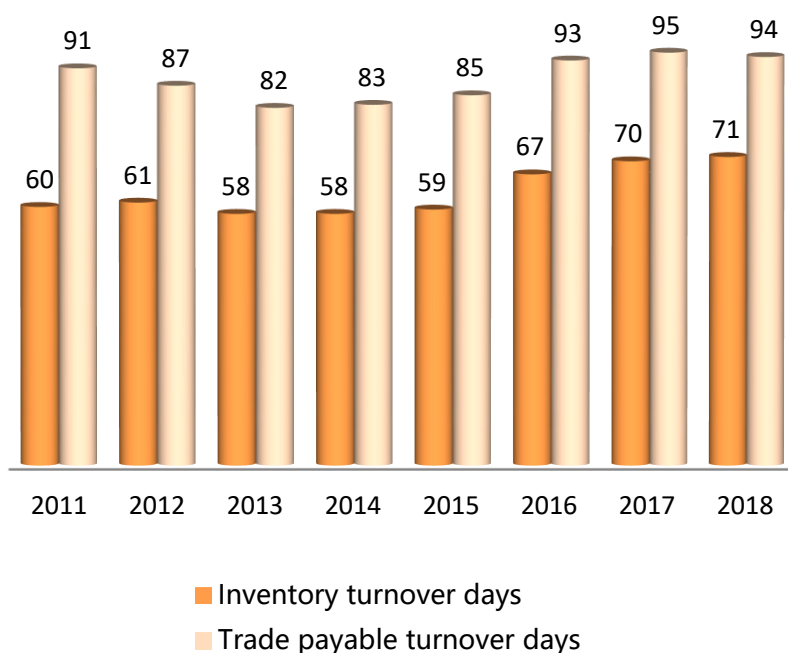
Staff Cost

RMB (million)



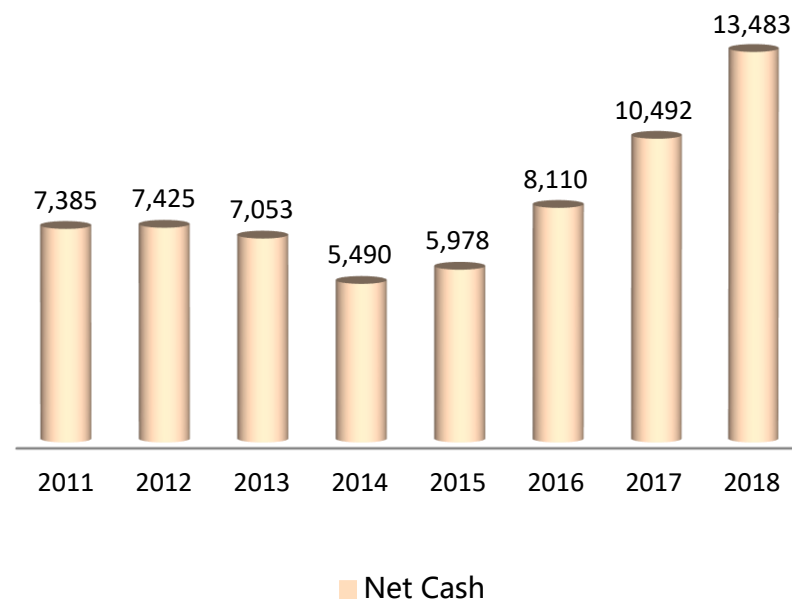
Balance Sheet

Working Capital Days



Net Financial Position

RMB (million)



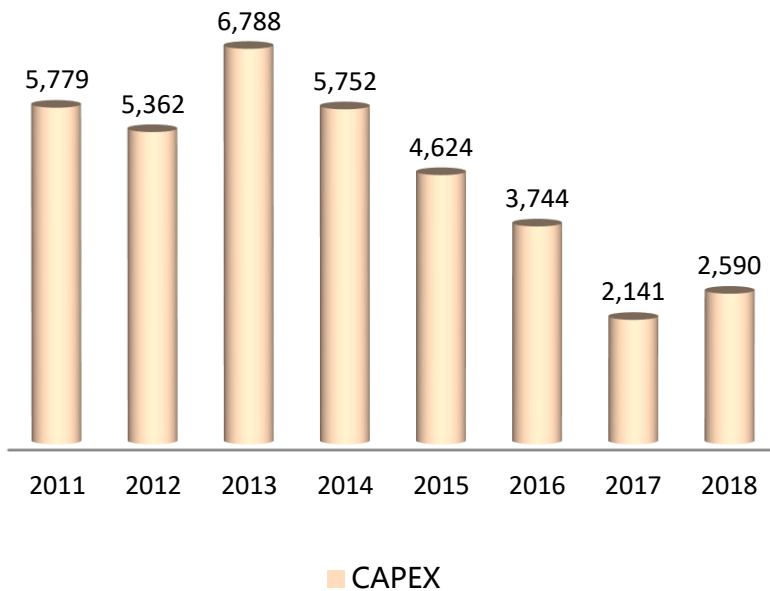
Note:

- (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, 2016, 2017 and 2018.
- (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, 2016, 2017 and 2018.
- (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, 2016, 2017 and 2018.
- (4) The balance of net financial position is calculated as the sum of cash and cash equivalents and investment and time deposits minus bank loans.

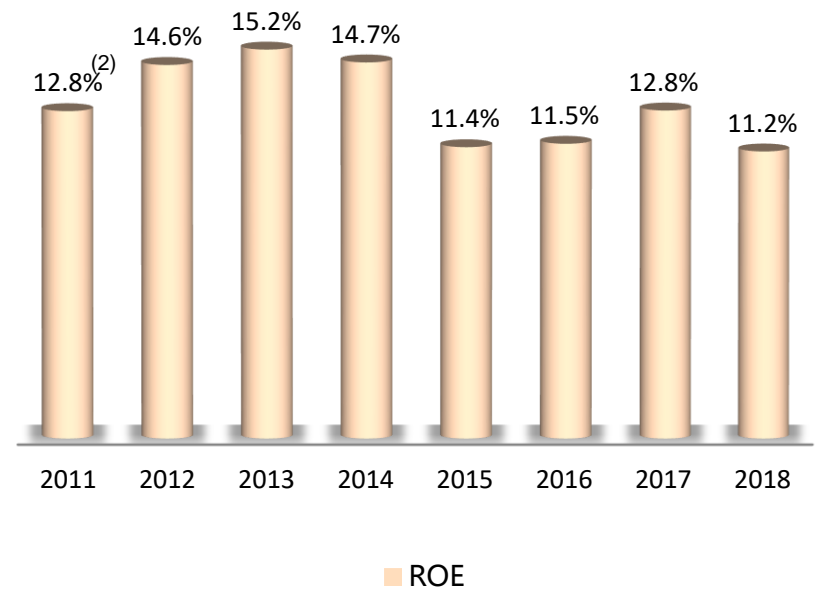
Investment Return

CAPEX

RMB (million)



ROE⁽¹⁾



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%

Business Strategy



3 Priorities & 2 Necessities

Develop new format



Restructure hypermarket



O2O



Common back office



Get the best team





Restructure Hypermarket



Customer Experience



Freshness



Hubs



Restaurant



cosmia Qilive
in extenso® 怡客

Exclusive Brands



Data Driven



Develop New Format

He Xiao Ma



B2B

Frehippo (formerly known as He Ma)



O2O





Common Back Office

Negotiation



Global Sourcing



Finance



IT



Private Label

**PRIVATE
LABEL**

Supply Chain





Get the Best Team



Alignment of the
leaders
competencies with
business challenges



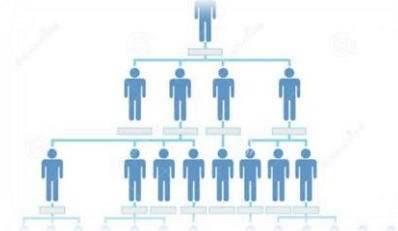
Professionalization



Talents Spotting



Supplementary teams



Complete and
effective replacement
organization



Acceleration of the
international growth



Acceleration of
developing
omni-channels



Results

Q & A

