

[For Immediate Release]



All Initiatives on the Right Trajectory in First Half of 2019

The Group saw Growth in both Gross Sales Proceeds and Profit

Financial Highlights

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

For the year ended 30 June

	2019	2018	Growth rate
Gross Sales Proceeds	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 - Basic and Diluted	RMB0.19	RMB 0.18	

Business Highlights

- Mr. HUANG Ming-tuan has been appointed as the new CEO of Sun Art on 17 May 2019.
- As of 30 June 2019, the Group opened two new hypermarket complexes and closed one store under the Auchan banner in Nanchang, secured 49 sites to open hypermarket complexes, of which 40 were under construction.
- As of 30 June 2019, the Group had 485 hypermarket complexes across China. In addition, nine He Xiao Ma and one Frehippo store were opened during the period under review.
- Our B2C daily order per day per store has been climbing steadily. Our B2C business is on the right trajectory, "one-hour-delivery-to-home" pattern becomes feasible.
- Our B2B business continues to grow. This year, the revenue of our B2B business will increase 50% from last year.
- Practice smooth integration and further deepen the convergence of our operations and supply chains.
- Restructuring the hypermarket proved successful.

(7 August 2019 – Hong Kong) **Sun Art Retail Group Limited** ("Sun Art" or the "Group", HKEX stock code: 6808), a leading hypermarket operator in China, today announced its 2019 interim results for the six months ended 30 June 2019 (1H 2019). During the period, gross sales proceeds were RMB54,396 million, increasing by 0.6%. The Same Store Sales Growth ("**SSSG**"), calculated based on sales of goods excluding electronic appliances, was -1.76%. From the beginning of 2019, our stores under both banners started to integrate operating systems and supply chains. During the convergence process, Auchan stores had changes in product mix, supplier structure and operating process. The convergence has been substantially completed, and we expect store performance to be back on track in the second half of 2019. Excluding the short-term impact brought by convergence process, the RT-Mart banner performed a positive SSSG in first half of 2019 if the gross sales from electronic appliance department were included.

For the six months ended 30 June 2019, gross profit grew 2.1% to RMB13,188 million. Profit from operations increased by RMB93 million to RMB3,014 million, increasing by 3.2%. Had the impact of HKFRS16 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. It reflects that the Group endeavored to facilitate online business. At the same time, the Group has effectively improved efficiency and reduced costs through professional operations management, contributing to the increase of both Group revenue and profit.

Mr Daniel Zhang, Chairman of the Group said, *“Taoxianda, a New Retail solution for online-offline integration, is a key achievement resulting from the collaboration between Alibaba Group and Sun Art. We are delighted to see steady growth in online order volume driven by this initiative in the span of only one year. The New Retail transformation of physical stores are on the path to bearing fruit, proving the commercial viability of this model. Moving forward, I believe the two companies will have more joint innovation initiatives. Under new CEO Peter Huang’s leadership, I am confident that Sun Art will prevail in the face of challenges and make solid progress in the market.”*

Mr. HUANG Ming-tuan, our new Chief Executive Officer of the Group commented, *“Our competitors are diversified over multi-formats and omni-channels. We are very fortunate that we began to deploy our online and offline strategy in 2013 and persevere despite difficulties. In 2017, the alliance with Alibaba solidified our online business and facilitated the combination of online and offline. It also has improved the productivity of our physical stores and enhances our competitiveness.”*

B2C Business is on the Right Trajectory, “One-hour-Delivery-to-Home” Pattern becomes Feasible

By the end of March 2018, our 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 initiative. By March 2019, the distribution area of all our stores was expanded from three kilometers to five kilometers.

Since January 2019, B2C daily orders per store (“**DOPS**”), has been climbing steadily. In June, 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 are continuously strengthening the R&D 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 were less than 0.3%, respectively. 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 (including frozen foods) made up more than 27% of our B2B revenue.

“RT-Mart e Lu Fa” has more than 500,000 registered clients, including retailers, wholesalers, corporate clients, 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 our B2B business. The development of business clients is mostly concentrated within a 20-kilometer radius of our stores. The farthest distance is 100 kilometers.

After two years running of the business, “RT-Mart e Lu Fa” has moved into the first-tier of the sector. 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. The sales of B2B business is expected to increase 50% in 2019. In the near future, RT-Mart e Lu Fa will become one of the 10 billion turnover club members.

Restructuring the Hypermarket Proved Successful

Restructuring our hypermarkets meant 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. We also strengthened offerings suitable for the consumption of middle-to-upper-tier customers and online requirements.

Stores have adopted completely new displays. In daily necessities, 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 customers.

Our first restructured store is in Shanghai. Facing the fierce market competition, this 20-year-old store was rejuvenated and had positive SSSG, 10% better than Shanghai stores not yet refurbished. 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 experience, as well as reinventing customers of reasons for visiting physical stores.

Practice Smooth Integration and Further Deepen the Convergence

By the end of December 2018, the Group decided to accelerate the convergence of its two banners. During the six months under review, the initial convergence between our two banners under Sun Art was completed. A joint-operations headquarters 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.

In the future, 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 to both increase revenue and profit next year.

Mr. HUANG said, *"2018 was a year of infrastructure for New Retail, 2019 is our acceleration year scaling up New Retail and we expect that 2020 will be the harvest year for New Retail. Going forward, combined the online and offline resources of Alibaba and Sun Art 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."*

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About Sun Art Retail Group Limited

Sun Art Retail is a leading retailer 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 30 June 2019, Sun Art Retail had a total of 485 outlets in China with a total gross floor area ("GFA") of approximately 13 million square meters, covering 233 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 the hypermarket complexes, to explore and deploy multi-formats and omni-channels, and to become a leading “phygital” innovator and a model of New Retail.

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