

[For Immediate Release]

# SUN ART

Retail Group Limited

**Adhere to the multi-format and omni-channel development strategy**  
**Become online logistics fulfillment centers and offline experience centers**

## Financial Highlights

For the six months ended 30 September 2021

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

	2021	2020	Growth Rate
Revenue	41,534	43,706	-5.0%
Gross Profit	10,933	11,748	-6.9%
Profit from Operations	560	1,631	-65.7%
Profit for the Period	112	905	-87.6%
Profit Attributable to Equity Shareholders of the Company	117	833	-86.0%

## Business Highlights

- The total number of traffic has achieved positive growth. The online order has increased rapidly.
- Continue the remodeling of hypermarket to create incentives for customers to shop offline. Enhance product power by establishing direct sourcing from farms and processing capability of fresh products.
- Accelerate transformation of gallery business and achieve year-on-year growth in rental income.
- Speed up the expansion of RT-Mini. As of the reporting date, the Group has 68 RT-Mini stores and the stores' performance continue to improve. In addition, there are three fresh product processing centers located in Nantong, Huai'an and Ma'anshan respectively.

(1 November 2021 - Hong Kong) **Sun Art Retail Group Limited** ("Sun Art" or the "Group", HKEX stock code: 6808), today announced its interim results for the six months ended 30 September 2021.

## Revenue

In the first three quarters of 2021, the growth of China's total retail sales of consumer goods continued to slow down. Especially in August, affected by the pandemic, the total retail sales only increased by 2.5%. In particular, consumption slowed down, the food CPI continued to decline due to the weak pork price, and the recurrence of the pandemic affected offline consumption. All these factors exerted continuous pressure on the retail industry. In addition, community group buying ("**CGB**") has intensified the competition in the retail industry.

During the reporting period, the revenue of the Group amounted to RMB41,534 million, with a decrease of 5.0%. In the second quarter of the fiscal year, the revenue was affected by the recurrence of the pandemic in August. Despite of that, it still had a strong recovery compared with that in the first quarter of the fiscal year and recorded a small revenue growth compared with the same period last year. The rental income achieved a year-on-year increase of RMB62 million.

During the reporting period, the total traffic of the Group achieved positive growth. The online order increased by more than 25%. The same store sales growth rate (“SSSG”), which is calculated by sales of goods excluding household appliances, was -7.4% due to the high base impact of the ticket size from April to June last year. In the second quarter of the fiscal year, the SSSG narrowed to a low-single-digit decrease. The SSSG achieved a low-single-digit increase in July and was approximately flat in September compared with the same period last year.

### Gross Margin

The gross profit and gross margin changed due to the fact that the revenue was lower than expectations and the impact from the channel mix. As of 30 September 2021, the gross profit recorded RMB10,933 million, a decrease of RMB815 million over the same period.

### Profit

Due to diversification of consumption, the brick-and-mortar retailers encounter intensified omni-channel competition. In the first half of the fiscal year, the Group expanded its marketing and customer investments. As of 30 September 2021, the Group's operating profit recorded RMB560 million, down by RMB1,071 million over the same period last year. The profit for the period recorded RMB112 million, down by RMB793 million over the same period last year. The profit during the period calculated excluding the one-off impact from litigation provisions, net losses on disposal of assets as well as the incremental impairment losses, was substantially narrowed compared with the profit after excluding reductions and exemptions during the pandemic for the same period last year.

The Group expects that the change in channel mix will continue to affect the profit in the second half of the fiscal year. At the same time, the Group believes that the profit of the second half of the fiscal year will be much higher than that of the first half due to the peak season with important festivals such as the Spring Festival. In addition, facing the peer competition and the uncertainty of the pandemic, the Group may increase the impairment losses and various provisions.

### Net Cash

The Group's net cash recorded RMB20,144 million, which implies that the Group has abundant net cash to provide sufficient capital reserves for future business development and solid support to cope with fierce competition.

**Mr. Peter HUANG, Chairman of the Group commented,** *“This year, the brick-and-mortar retail industry has been impacted by many unfavorable factors, such as community group buying, CPI and recurrence of the pandemic. As a result, the Group's revenue and net profit were not as good as expected. However, the SSSG and traffic number in the second quarter of the fiscal year increased significantly compared with that in the first quarter, which were less affected than peers. The peak season of Group revenue and profit is in the fourth quarter, so we believe that the Group will achieve better performance in the second half of the fiscal year. Sun Art will continue to unswervingly facilitate our three key strategies, accumulate our own capabilities, and strive to achieve better results.”*

**Mr. Kevin LIN, Chief Executive Officer of the Group commented,** *“Sun Art keeps focusing on in-store value and creating incentives for customers' shop-in-store to become offline experience centers. We also continue to optimize store warehouses to become online logistics fulfillment centers. At the same time, we are also promoting the multi-format and omni-channel development strategy as planned.”*

### Customers' offline experience centers and logistics fulfillment centers of online business

The Group will focus on the categories of goods that cannot be replaced by online sales. The display area of the core categories of goods has been increased in our stores. The Group always strives to provide quality goods and pleasant shopping experience to create incentives for customers to shop offline.

The Group will create irreplaceable offline experience. The good-neighbourliness shopping scenario and services will be provided from the perspective of customers with the purpose of creating a pleasant shopping atmosphere by bringing visible, touchable and flavourful experience to customers.

The gallery remodeling will be included into the hypermarket remodeling version 2.0, aiming to attract customers rather than acquire traffic fed by hypermarkets as was the case previously. As of 30 September 2021, the gallery vacancy rate was controlled below 2%. The Group will adjust and optimize the tenant structure actively, empower the gallery with self-contained traffic, and ensure the continuous and stable rental income.

B2C business has steadily improved, representing an increase of more than 25% in the order volume. The average daily order per store (“**DOPS**”) is close to 1,400 and the ticket size continues to rise month by month.

The one-hour delivery business shares the same conveyor-belt system with Tmall half-day-delivery, aiming to improve picking efficiency and reduce the risk of stock running out. At present, the initiative of sharing the quick-picking warehouses has been implemented in nearly 100 stores.

B2B business is impacted by community group buying. The Group actively adjusts B2B customer structure. It is expected that the B2B business will return to the growth trajectory in the next fiscal year.

## Feasibility and development of superstores and mini stores

During the reporting period, the Group has a total of six superstores without increase. The Group plans to open four new superstores this fiscal year. There are 16 superstores which have signed contracts and nine are under construction. Superstores are allowed to share hypermarkets' supply chain system to source selected products and improve product efficiency. The superstore model will focus on upgrading and innovating products from the perspective of customers to form a respective supply chain system and then support the business of hypermarkets. The Group expects that the operation model of superstore will be matured in this fiscal year.

The Group has 68 mini stores, a net increase of 36 stores during the reporting period. The mini stores are mainly located in Nantong, Huai'an and Ma'anshan. At present, the mini stores' revenue gradually steps up on a monthly basis while the loss continues to decrease and the gross profit margin continues to be improved. At present, most of the non-standard fresh products of RT-Mini have adopted the model combined with "direct sourcing from farms and fresh products processing centers". Three processing centers of fresh products have been built and the operation has been gradually on track. At the same time, by leveraging the scale advantage of hypermarkets' fresh product processing demand, the Group can maximize the production capacity, quickly improving processing centers' efficiency and facilitating the fresh processing capability. Moreover, the product costs can be optimized and labor costs can be saved. In addition, the Group can also effectively control the loss and improve the standardization of fresh products.

## Cooperation with Alibaba Group on community group buying ("CGB")

The Group has become one of the core suppliers of this initiative since its launching in March this year. As of the date of this report, the new business cooperation between the two large systems has been running for more than six months. During this period, the two parties mainly focused on the integration of supply chains and channels, establishment of buying and selling systems, and sharing the resources of warehouse networks. The Group also quickly established the logistics capability of Distribution Center ("DC"), shared warehouses and fresh product processing centers for the business in the short run, which provides strong supports to the high revenue growth for Alibaba Group's CGB business.

**Mr. Kevin LIN concluded,** *"In the past six months, Sun Art and the offline retail industry have faced great challenges. In this crisis, we try to survive through revenue expansion, gross profit improvement and cost control. At the same time, we enhance our professionalism and skills, continuously expand our talent pool, facilitate team building and create the future. We expect to develop the supply chain capability of fresh products, strengthen marketing capability and explore multi-format business model capability. Sun Art adheres to the culture of attention to details, even the little things. We will continuously understand and meet customers' needs to achieve healthy long-term revenue growth."*

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

Sun Art is a leading retailer with hypermarket and fast-growing e-commerce businesses in China. Sun Art operates its business with hypermarkets, superstores and mini stores under RT-Mart, RT-Super and RT-Mini. As of 30 September 2021, Sun Art had a total of 491 hypermarkets, six superstores and 68 mini stores in China with a total gross floor area (“GFA”) of approximately 13.68 million square meters, covering 236 cities across 29 provinces, autonomous regions and municipalities. The Group has always been committed to providing high-quality shopping experience for customers with fresh and inexpensive commodities, comfortable and convenient environment, as well as lump-sum buying. The Group aims to become a good neighbor of communities and a trustworthy shopping representative of consumers.

As of 31 March 2021, Taobao China Holding Limited (“Taobao China”) directly or indirectly holds 78.70% of the issued share capital of Sun Art Retail Group Limited (the “Group”) and therefore has become the ultimate controlling shareholder of the Group. The two parties will integrate online and offline professional capabilities to jointly explore new retail development opportunities in China's retail industry.

Sun Art’s main development strategy is ‘to synchronize hypermarkets, superstores and mini stores, integrate online and offline business, develop multi-formats and omni-channels’, and to become a leader in digital transformation and a benchmarking enterprise for New Retail.

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