



Strategic Alliance Accelerates Online and Offline Integration

Pursues Multi-Format and Omni-Channel to Become the Leading Phygital Innovator and New Retail Showcase

Financial Highlights

(In RMB million, unless stated otherwise)	Year ended 31 December		
	2017	2016	Growth rate
Revenue	102,320	100,441	+ 1.9%
Gross profit	24,674	23,981	+ 2.9%
Profit from operations	4,487	3,936	+ 14.0%
Profit for the year	3,020	2,629	+ 14.9%
Profit attributable to equity shareholders of the Company	2,793	2,571	+ 8.6%
Earnings per share - Basic and diluted	RMB 0.29	RMB 0.27	

Business Highlights

- Revenue increased 1.9% YoY to RMB102,320 million. Profit for the year grew 14.9% YoY to RMB3,020 million, and net profit margin increased 0.4 ppt to 3.0%.
- Opened 18 new hypermarket complexes and successfully secured 78 sites to open hypermarket complexes, of which 67 were under construction to prepare for expansion over the next three years.
- As of 31 December 2017, the Group had 461 hypermarket complexes across China.
- On 20 November 2017, Alibaba Group Holding Limited (“Alibaba Group”), Auchan Retail International S.A. (“Auchan Retail”) and Ruentex Group (“Ruentex”) announced a strategic alliance to pursue new opportunities in China’s food retail sector. Alibaba Group completed the acquisition of an effective interest of 36.17% in Sun Art Retail.
- The Group commenced a new venture named “Auchan Minute”, an unmanned convenience box with 18 square meters and 500 stock keeping units (“SKUs”). The Group has rolled out 67 boxes as of 31 December 2017 and will accelerate the deployment of these unmanned convenience boxes in the coming future.
- Feiniu moved its focus to B2B business. In 2017, B2B business contributed 60% of total gross merchandise volume (“GMV”) of Feiniu.
- A standalone “RT-Mart Fresh” APP has rolled out to all RT-Mart stores. Consumers can order commodities via this APP and the nearest stores can provide one-hour delivery service from the relevant store to home for the consumers.
- In 2017, Feiniu’s GMV achieved a two-fold increase to RMB4.1 billion and narrowed its loss for the year.

(4 March 2018 – Hong Kong) **Sun Art Retail Group Limited** (“Sun Art Retail” or the “Group;” HKEX stock code: 6808), a leading hypermarket operator in China, announced its 2017 annual results. Revenue rose to RMB102,320 million, while EBIT and net income improved.

For the year ended 31 December 2017, profit from the operations rose 14.0% to RMB4,487 million. Feiniu narrowed its loss and enhanced operation cost management. Profit for the year rose 14.9% to RMB3,020 million.

Basic earnings per share amounted to RMB0.29. The Board has recommended the payment of a final dividend of HK\$0.16 per ordinary share, amounting approximately to HK\$1,526 million, subject to the approval by the

shareholders at the annual general meeting. The dividend policy of the Group is to distribute no less than 30% of its distributable profit.

As at 31 December 2017, the net financial position was RMB10,492 million, reflecting that the Group has reserved sufficient capital for further development and the deployment of future projects. Inventory turnover days and trade payable turnover days were 70 days and 95 days, respectively.

Mr. Zhang Yong, Chairman of the Group said, *“2017 was a monumental year for both the retail industry in China as well as Sun Art. Alibaba Group and Sun Art Retail have a common understanding and belief in New Retail, and we truly believed in. The opportunity to participate in the future evolution of Sun Art Retail is an important milestone in Alibaba's advancement of New Retail. I sincerely believe that the combination of Alibaba's internet DNA, big data and data-driven technology together with Sun Art Retail's retail DNA, store management capabilities and high efficiency will lead to a positive chemical reaction that produces a new model of New Retail.”*

Mr. Ludovic HOLINIER, the Chief Executive Officer and Executive Director of the Group commented *“The retail industry in China has continued its growth momentum driven by the rise of the “New Retail” era. During the year, total retail sales of consumer goods reached RMB36,626 billion, climbing 10.2% year on year. While online physical sales reached RMB5,481 billion, increasing by 28% and accounting for 15% of total retail sales. On 20 November 2017, we announced a new strategic alliance with Alibaba Group. This alliance enables us to overcome technological and channel barriers. Using Alibaba's technology will in fact be paramount for integrating online and offline, realizing digital transformation of physical stores and upgrading the shopping experience of our consumers.”*

Strategic Alliance

In expediting the development in both online and offline, a significant milestone was reached. Auchan Retail International S.A., together with Ruentex Group, a stakeholder of Sun Art Retail, and Alibaba Group established a strategic alliance. As a result of the alliance, Auchan Retail, Alibaba Group and Ruentex now have approximately 36.18%, 36.17% and 4.67% interest in Sun Art Retail, respectively.

The strategic alliance with Alibaba Group brings a win-win opportunity to the long-term development of the Group, the stakeholders, the employees and the consumers. The Group can leverage Alibaba Group's data driven technology to complete digital transformation of the mortar stores and as a result, to integrate the membership, inventory and payment systems. In addition, through the Taobao APP, orders and sales will be brought to stores with enhanced online and offline integration in the New Retail Era.

With Alibaba's Technology and Traffic Import, Accelerating the Integration of Online and Offline

A standalone mobile application (“APP”) named “RT-Mart Fresh” has been rolled out in all RT-Mart stores. Through this APP, the stores can provide one-hour delivery service to these consumers within a three-kilometer radius. The “RT-Mart Fresh” APP now has approximately 6,000 to 7,500 SKUs including fresh, FMCG and general goods, of which 1,300 to 1,500 SKUs are fresh products. In addition to traditional fresh products such as vegetables and fruits, seafood, dairy, butchery and eggs, the APP can also provide bakery, dim sum and delicatessen products. The fresh product range of “RT-Mart Fresh” APP not only focuses on premium fresh products but also ordinary fresh products, which provides all types of consumers with a purchase solution for online fresh products.

To handle order density, the Group has revamped one store to set up a conveyor belt system in early July 2017. In December 2017, daily order numbers of this pilot store reached over 1,000 orders, of which the sales of fresh products accounted for more than 50%.

Going forward, “RT-Mart Fresh” will also benefit from the traffic generated from “Taobao Dao Jia” via Taobao APP. From March 2018, the digital transformation of the Group's existing stores will be rolled out. All the transformation will be completed by the end of 2018.

Deployment of Multi-format and Omni-channel

On 28 September 2017, the first unmanned convenience box named “Auchan Minute” was launched in Shanghai. As of 31 December 2017, the Group has rolled out 67 “Auchan Minute” convenience boxes located in Shanghai and Chinese provinces including Jiangsu, Zhejiang, Anhui, Sichuan and Guangdong. The unmanned convenience boxes are all deployed within a radius of three kilometers of each participating hypermarket, and leverages the advantages of supply chains scale, flexible category mix, seasonal products, timely replenishment and zero inventory pressure. “Auchan Minute” is an 18-square-meter box with 500 SKUs, which offers various combinations of products based on its location at competitive prices compared to nearby convenience stores. During the year under review, 43 stores under the Auchan banner have participated in this project.

In 2017, the Group accelerated the development of B2B business. “RT-Mart e Lu Fa” (大潤發e路發), as an independent B2B APP of Feiniu. It offers 12,000 SKUs to about 200,000 B2B clients. The B2B clients include retail, mother and baby, wholesale, mom-and-pop grocery stores, entertainment and catering companies.

The B2B business is relying on nearly 400 mortar stores, located in 200 cities nationwide. Using the stores as B2B warehouses and leveraging the advantage of a strong supplier chain. These enable the mortar stores to deliver the products with high quality and low price to tier three and tier four cities, to carry out accurate product range and provide efficient delivery to the small mom-and-pop grocery stores. This helps them to transform and upgrade.

Mr. HOLINIER concluded, “Looking ahead, we will continue to improve our physical stores by developing multi-formats, as well as closely working with Alibaba Group. The outlets of the Group will continue in their digital transformation and we will edge ever closer to our goal of becoming a top phygital food retailer. The 2017 year has been for Sun Art Retail a key year and in 2018, we will look forward to building on our achievements.”

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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 31 December 2017, Sun Art Retail had a total of 461 outlets in China with a total gross floor area (“GFA”) of approximately 12.46 million square meters, covering 226 cities cross 29 provinces, autonomous regions and municipalities. The Group reinforced the B2B business and O2O business by leveraging over 400 mortar stores which encompassed over 200 cities across the country.

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

The priorities of the Group are to reinvent the hypermarket complexes, to explore and deploy multi-formats, and to become a leading phygital innovator and a model of New Retail with not only omni-channel and multi-format but also O2O and B2B.

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