

[For Immediate Release]



***Enhance Efficiency and Effectiveness of the Operations
By Digitalization of Physical Stores, Further Convergence and
Restructure of Hypermarkets***

To be the Leader in Digital Transformation in New Retail

Financial Highlights

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

For the year ended 31 December

	2018	2017	Growth rate
Gross Sales Proceeds	101,315	102,320	-1.0%
Revenue	99,359	102,320	-2.9%
Gross Profit	25,119	24,674	+1.8%
Profit from Operations	4,196	4,487	-6.5%
Profit for the Period	2,818	3,020	-6.7%
Profit Attributable to Equity Shareholders of the Company	2,588	2,793	-7.3%
Earnings per Share - Basic and Diluted	RMB0.27	RMB 0.29	

Business Highlights

- Mr. HUANG Ming-tuan has been appointed to be the new CEO of Sun Art, with his appointment to be effective from the amendments to the articles of association of Sun Art having been approved by the shareholders at the annual general meeting to be held in May 2019.
- In December 2018, the Group decided to converge the headquarters of RT-mart and Auchan and establish a joint operation headquarters with the purpose of enhancing the efficiency of the Group and benefiting our shareholders and employees.
- Opened 24 new hypermarket complexes in 2018 and secured 55 sites to open hypermarket complexes, of which 37 were under construction.
- As of 31 December 2018, the Group had 484 hypermarket complexes across China. In addition, nine He Xiao Ma and one He Ma store were opened in 2018.
- Tao Xian Da was rolled out apace to all stores since March 2018.
- For the period under review, all stores under the Auchan banner have launched the B2B business. The revenue generated from B2B business has doubled in 2018 compared to that of last year.
- Suning began to renovate the stores in June 2018. Prior to the “Double 11” event, all stores of Sun Art have deployed the Suning model.
- The Group is restructuring the hypermarket model. Three pilot stores have been remodelled.

(3 March 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 2018 annual results. During the period, gross sales proceeds were RMB101,315 million, decreasing by 1%, due to a sales decrease in electronic appliances, and the weak performance in the fourth quarter. Revenue was RMB99,359 million, decreasing by 2.9%, partially impacted by the arrangement

entered into with Suning.com Group Co., Ltd. (“Suning”) for the sale of electronic appliances. Gross profit grew 1.8% YoY to RMB25,119 million. The Group has been working continuously to improve the gross profit margin by optimizing our product mix and utilizing common negotiation approach with suppliers.

For the year ended 31 December 2018, profit for the operations decreased by RMB291 million to RMB4,196 million, due to less income released from aged unutilized prepaid cards and additional impairment losses were recognized in 2018 compared to that in 2017. In addition, the change in electronic appliances offering in the hypermarkets resulted in a two-month suspension of business in this case, also brought an impacted the profit for the period.

Basic earnings per share amounted to RMB0.27. The Board has recommended the payment of a final dividend of HK\$0.14 per ordinary share, 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 2018, the net financial position increased by 28.5% to RMB13.48 billion, reflecting that the Group has reserved sufficient capital for further development and business opportunities.

Further convergence between Two banners under Sun Art

RT-mart and Auchan, as brother companies under Sun Art, have already cooperated in many areas. In order to improve the effectiveness and efficiency of the operations, respond to the difficult competitive environment and better serve our customers, after a discussion by the board of directors of the Group, in December 2018, the Group has decided to converge the headquarters for both banners and establish a single joint operation headquarter. In addition, RT-mart will assist Auchan in upgrading stores' IT system and the RT-Mart supply chain for the two banners will be integrated.

This convergence is focused on resource and business integration within the Group, the nature of the convergence is not the merger of corporate entities. Therefore, the brand and corporate identities under the RT-mart and Auchan banner remain unchanged.

The integration will improve the use of technology and management, together with a more efficient utilization of our overall resources, with the purpose of enhancing efficiency of the Group and ultimately benefiting its shareholders and employees.

With approval from Sun Art's Board of Directors, Mr. Huang Ming-tuan has been appointed to be the new CEO of Sun Art, with his appointment to be effective from the amendments to the articles of association of Sun Art having been approved by the shareholders at the annual general meeting to be held in May 2019. As the founder of RT-Mart China, Mr. HUANG is also among the leaders of retail industry. As a partner and pioneer who is pushing the boundaries of “New Retail,” Mr. HUANG has not only transformed the Company into one of China's leading retail enterprises, but has also spearheaded the Company's digital transformation. To nominate Mr. HUANG as new CEO of the Group, clearly displays determination and confidence of the Group to rejuvenate hypermarket and popularize New Retail.

Mr Daniel Zhang, Chairman of the Group said, *“Over the past year, the Group has successfully embarked on its digital transformation and upgrade of its commerce infrastructure, a result of the closely aligned business philosophies, strong determination and execution that Sun Art Retail and Alibaba Group share. With approval from Sun Art Retail’s Board of Directors, Mr. Huang is the newly appointed CEO of Sun Art and will lead both Auchan and RT-Mart to drive the businesses forward. Looking ahead into 2019, I am confident that we will provide consumers with unique experiences and services while delivering solid business results.”*

Mr. HUANG Ming-tuan, future Chief Executive Officer of the Group commented, *“In front of fierce competition in China’s retail market, Sun Art will continue to deeply develop three key strategies of the Group and focus on integration of two headquarters. Leveraging technology and data-driven, we will make efforts to develop online business and renovate and upgrade the existing stores.”*

Mr. Ludovic HOLINIER, current Chief Executive Officer and Executive Director of the Group commented, *“Retail in China is transforming, and the magnitude of change and influence on our industry is stronger than ever. Almost every day, new technologies appear or new competitors are entering into the market. At the same time, customers’ expectations evolved faster and faster, paying more attention to the shopping experience, expecting convenience, customization, and interactivity. They are more health and brand conscious, demanding not only low prices on merchandise but also transparency, quality, and safety.”*

Digitalization of Physical Stores

After the success of the two pilot stores of the Taoxianda project, a fresh food service that offers an integrated online and offline solution to retailers to digitize their operations and raise efficiency, in March 2018, Taoxianda was rolled out apace to all stores under the RT-Mart banner and Auchan banner in nine months. Currently, each store offers 13,000 to 15,000 SKUs respectively through the Taoxianda platform. Product offering mainly covers fresh products and fast-moving consumer goods (“FMCG”).

While accelerating the expansion of Taoxianda, the Group still pays great attention to the quality of service to our customers. The three key indicators related to customers’ shopping experience and satisfaction were as follows: the ratio of on-time delivery within one hour remains over 99%, the ratio of mobile application (“APP”) out-of-stock (“OOS”) remains less than 3%, and the ratio of delivery OOS remains less than 0.1%.

Through the digitalization of the physical stores, the Taoxianda initiative powers the physical stores by integrating the membership system, payment, inventory, marketing, logistic and supply chain. Driven by technology and data, we are able to 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.

Restructure the hypermarket

Restructure our functions: From now on, physical stores no longer satisfy offline customers only, but will meet the requirement of online customers and B2B Clients. In addition, hypermarkets can be recognized as hubs. As a result, this can improve the productivity per square meter by fully leveraging the sales space, in order to enhance the efficiency of hypermarkets.

Restructure our categories: Our target is to become an expert in each category. Specialized categories are supposed to be managed by professionals, such as the collaboration with Suning. Regarding apparel and daily necessities, the offering we provide is going to possess high value for money. As a result, we have introduced white labels such as Taobao Xinxuan (“淘寶心選”) and LÄTT LIV (“生活無憂”). We are going to spend more time on fresh products and FMCG, and expect to become a specialist in food retailing.

Restructure mindset: The new positioning of hypermarket features professionalism, quality, value for money and the New Retail concept.

Three pilot stores have accomplished the initiative, of which two existing stores named Yangpu store (楊浦店) under the RT-Mart banner and Jiaying store under the Auchan banner and one new store named Lucheng store (鹿城店) under the RT-mart banner.

Development of Multi-formats and Omni-channels

- About He Xiao Ma

The first He Xiao Ma store was opened in early June 2018. By the end of 2018, the Group has rolled out nine He Xiao Ma stores, of which three are operated by Sun Art and six are cooperative stores. Geographically speaking, seven were located in Eastern China, and one was located in North-eastern China and one in Southern China.

He Xiao Ma combines and leverages Alibaba's technology and traffic and Sun Art's supply chain and store operation expertise. Furthermore, by integrating the online and offline platform, this new prototype is also capable of acquiring online orders and providing home-delivery locating within three-kilometer radius to customers. This enhances their operational efficiency and competitiveness with local competitors.

Next year, the Group will be making efforts to enhance the He Xiao Ma model to establish a solid ground for future accelerated development.

- About Frehippo (formerly known as He Ma)

The first Frehippo store operated by the Group was opened on 28 September 2018 with a sales area of approximately 4,000 square meters. As of 31 December 2018, online orders was approaching to 50%.

Reform of home Appliances

In August 2018, Suning commenced trading the appliance section of the RT-Mart stores, and approximately 400 RT-Mart stores were transformed within two months. Prior to the “Double 11” event, more than 70 Auchan stores have deployed the Suning model. This covers all home appliances such as black appliances, white appliances, small appliances, 3C products and kitchen and bathroom appliances.

From June 2018, Suning began to rejuvenate the stores. By the end of 2018, the stores have been showing positive growth in home appliances sales after the renovation.

Relying on Suning's expertise and scale in home appliances, both parties are going to deepen this collaboration. They will further enhance the supply chain, providing diversified and precise product offering and services to different customers. This will improve productivity and sales growth are expected.

About the B2B business

At the end of August 2018, all stores under the Auchan banner have launched the B2B business. As of 31 December 2018, the revenue generated from B2B has doubled compared to that of last year.

For the year ended 31 December 2018, B2B registered users have exceeded 480,000. By leveraging supply chain and procurement scale, the B2B business earned a profit while protecting its price advantage.

Mr. HUANG commented, *“With the support and trust of our shareholders and the resources sharing of Alibaba's greater ecosystem, Sun Art is confident to become the leader in digital transformation in China's New Retail industry.”*

Mr. HOLINIER concluded, *“As a leading New Retail company, Sun Art is investing in innovation and technology to connect customers with convenience and efficiency and offer seamless and digital experience. We have been preparing ourselves to take advantage of the opportunities presented. 2018 was a major step forward on our journey to redefine our business model. In 2019, we have a plan, we have assets and all above, we have people who are eager to embrace changes and fully engaged, which all makes me very confident that Sun Art is creating the Retail of Tomorrow.”*

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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 2018, Sun Art Retail had a total of 484 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 the 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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