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SUN ART RETAIL GROUP LIMITED

高鑫零售有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 06808)

INTERIM RESULTS ANNOUNCEMENT FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2020

The board (the “**Board**”) of directors (the “**Directors**”) of Sun Art Retail Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited consolidated interim results of the Group for the twelve months ended 31 December 2020, together with the comparative figures for the corresponding period in 2019 as below.

HIGHLIGHTS OF INTERIM RESULTS

	For the twelve months ended 31 December		
	2020	2019	Change
	(Unaudited)	(Audited)	
	<i>RMB million</i>		
Revenue	95,486	95,357	0.1%
Gross Profit	24,343	25,731	(5.4)%
Profit from Operations	4,664	4,890	(4.6)%
Profit for the Period	3,046	3,045	0.0%
Profit Attributable to			
Equity Shareholders of the Company	2,872	2,834	1.3%
Earnings Per Share (“EPS”)			
– Basic and diluted ⁽¹⁾	RMB0.30	RMB0.30	

The financial information set out below in this announcement represents an extract from the interim financial statements, which are unaudited but have been reviewed by the Group’s independent auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 and by the Company’s audit committee (the “**Audit Committee**”). KPMG’s unmodified review report is included in the interim report (the “**Interim Report**”) to be sent to shareholders.

Notes:

- (1) The calculation of basic and diluted EPS for the twelve months ended 31 December 2020 and 2019 is based on the weighted average number of 9,539,704,700 ordinary shares in issue during the periods.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the twelve months ended 31 December 2020 – Unaudited

		Twelve months ended 31 December	
		2020	2019
		(Unaudited)	(Audited)
	<i>Notes</i>	<i>RMB million</i>	<i>RMB million</i>
Revenue	3	95,486	95,357
Cost of sales		<u>(71,143)</u>	<u>(69,626)</u>
Gross profit		24,343	25,731
Other income	4	1,919	1,489
Operating Costs		(19,118)	(19,523)
Administrative expenses		<u>(2,480)</u>	<u>(2,807)</u>
Profit from operations		4,664	4,890
Finance costs	5(a)	(547)	(623)
Share of results of associates and joint ventures		<u>(3)</u>	<u>(15)</u>
Profit before taxation		4,114	4,252
Income tax	6	<u>(1,068)</u>	<u>(1,207)</u>
Profit for the period		3,046	3,045
Other comprehensive income for the period		<u>–</u>	<u>–</u>
Total comprehensive income for the period		<u>3,046</u>	<u>3,045</u>
Profit attributable to:			
Equity shareholders of the Company		2,872	2,834
Non-controlling interests		<u>174</u>	<u>211</u>
Profit for the period		<u>3,046</u>	<u>3,045</u>
Total comprehensive income attributable to:			
Equity shareholders of the Company		2,872	2,834
Non-controlling interests		<u>174</u>	<u>211</u>
Total comprehensive income for the period		<u>3,046</u>	<u>3,045</u>
Earnings per share			
Basic and diluted	7	<u>RMB0.30</u>	<u>RMB0.30</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020 – Unaudited

		At 31 December 2020 (Unaudited) <i>RMB million</i>	At 31 December 2019 (Audited) <i>RMB million</i>
	<i>Notes</i>		
Non-current assets			
Investment properties	8	6,132	6,699
Other property, plant and equipment	8	26,922	28,572
		33,054	35,271
Intangible assets	8	29	25
Goodwill		99	99
Equity-accounted investees		9	17
Deferred tax assets	6	1,172	1,052
		34,363	36,464
Current assets			
Inventories		14,928	17,724
Trade and other receivables	9	2,835	2,962
Time deposits		15	16
Restricted deposits		1,025	769
Financial assets measured at FVPL	10	9,930	–
Cash and cash equivalents	11	7,531	13,251
		36,264	34,722
Current liabilities			
Trade and other payables	12	23,819	25,827
Lease liabilities	13	1,107	1,057
Contract liabilities	14	11,021	10,669
Income tax payables		406	459
		36,353	38,012
Net current liabilities		(89)	(3,290)
Total assets less current liabilities		34,274	33,174

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020 – Unaudited

		At 31 December 2020 (Unaudited) <i>RMB million</i>	At 31 December 2019 (Audited) <i>RMB million</i>
	<i>Notes</i>		
Non-current liabilities			
Lease liabilities	13	6,701	7,511
Other financial liabilities		50	50
Deferred tax liabilities	6	365	255
		<u>7,116</u>	<u>7,816</u>
Net assets		<u>27,158</u>	<u>25,358</u>
Capital and reserves			
Share capital		10,020	10,020
Reserves		15,467	13,905
Total equity attributable to equity shareholders of the Company		<u>25,487</u>	<u>23,925</u>
Non-controlling interests		<u>1,671</u>	<u>1,433</u>
Total equity		<u>27,158</u>	<u>25,358</u>

NOTES:

(Expressed in Renminbi (“**RMB**”) unless otherwise stated)

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Sun Art Retail Group Limited is a company incorporated in Hong Kong on 13 December 2000 with limited liability. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 27 July 2011. The interim financial statements comprise the Company and its subsidiaries. The interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange (the “**Listing Rules**”) including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

On 22 December 2020, the Company announced to change its financial year end date from 31 December to 31 March to enable better operational alignment between the Company and Alibaba Group, the ultimate holding company, and to facilitate the synergy across all functions within the Alibaba Group. Accordingly, the second interim financial period covers a twelve-month period from 1 January 2020 to 31 December 2020 with the comparative financial period from 1 January 2019 to 31 December 2019.

The second interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the annual financial statements for the fifteen months ending 31 March 2021. Details of these changes in accounting policies are set out in note 2.

The preparation of the interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense on a year to date basis. Actual results may differ from these estimates.

The second interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

The second interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company and approved for issue by the Board of Directors on 31 January 2021. The interim financial statements have also been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

2. CHANGE IN ACCOUNTING POLICIES

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

Amendments to HKFRS 3, *Definition of a business*

Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

Other than the above amendments, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKFRS 3, *Definition of a business*

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The amendments to HKFRS 3 do not have a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim announcement.

Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“**COVID-19-related rent concessions**”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred (see Note 8(a)). There is no impact on the opening balance of equity at 1 January 2020.

3. REVENUE AND SEGMENT REPORTING

The principal activity of the Group is the operation of brick-and-mortar stores and online sales channels in the People's Republic of China ("PRC").

The Group is organised, for management purposes, into business units based on the banner under which the brick-and-mortar stores and online sales channels are operated. As all of the Group's brick-and-mortar stores and online sales channels are located in the PRC, have similar economic characteristics, and are similar in respect of products and services provided and customer type, the Group has one reportable operating segment which is the operation of brick-and-mortar stores and online sales channels in the PRC.

Revenue mainly represents the revenue from customers and revenue from leasing areas in the buildings of brick-and-mortar stores. Disaggregation of revenue from contracts with customers by major products or services is as follows:

	Twelve months ended 31 December	
	2020	2019
	(Unaudited)	(Audited)
	RMB million	RMB million
Revenue from contracts with customers		
within the scope of HKFRS 15 – sales of goods	91,984	91,279
Revenue from other sources		
– rental income from tenants	3,502	4,078
	95,486	95,357

The Group's customer base is diversified and there is no customer with whom transactions have exceeded 10% of the Group's revenue.

4. OTHER INCOME

	Twelve months ended 31 December	
	2020	2019
	(Unaudited)	(Audited)
	RMB million	RMB million
Income from aged unutilised prepaid cards	221	192
Service income	684	486
Disposal of packaging materials	132	167
Interest income on financial assets measured at amortised cost	315	462
Gain on financial assets measured at FVPL	180	–
Net gain from sale of investment property	10	–
Government grants	377	182
	1,919	1,489

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Twelve months ended 31 December	
	2020	2019
	(Unaudited)	(Audited)
	<i>RMB million</i>	<i>RMB million</i>
Interest expense on other financial liabilities	9	8
Interest on lease liabilities	538	615
	<u>547</u>	<u>623</u>

(b) Staff costs

	Twelve months ended 31 December	
	2020	2019
	(Unaudited)	(Audited)
	<i>RMB million</i>	<i>RMB million</i>
Salaries, wages and other benefits	9,422	9,255
Contributions to defined contribution retirement plans	373	1,062
Contributions to Employee Trust Benefit Schemes (i)	379	372
Share-based payments	–	(20)
	<u>10,174</u>	<u>10,669</u>

(i) Contributions to Employee Trust Benefit Schemes

The Group has established an Employee Trust Benefit Scheme for employees of its subsidiary, Concord Investment (China) Co., Ltd. (“CIC”) and its subsidiaries (“the RT-Mart Scheme”) and an Employee Trust Benefit Scheme for employees of its subsidiary, Auchan (China) Hong Kong Limited (“ACHK”) and its subsidiaries (“the Auchan Scheme”). Under each scheme, an annual profit sharing contribution, calculated based on the consolidated results of CIC for the RT-Mart Scheme, and on the consolidated results of ACHK for the Auchan Scheme, and the number of eligible employees, is payable to a trust, the beneficial interests in which are allocated to participating eligible employees in accordance with the relevant Employee Trust Benefit Scheme rules. The trusts are administered by independent trustees and invest the amounts received in either cash and cash equivalents (“cash-like assets”) or equity of CIC in the case of the RT-Mart Scheme, or cash-like assets or equity of ACHK’s subsidiary, Auchan (China) Investment Co., Ltd. (“ACI”) in the case of the Auchan Scheme, respectively. The annual profit sharing contributions are accrued in the year in which the associated services are rendered by the eligible employees.

In addition to the annual profit sharing contributions made by the Group, subject to certain conditions, eligible employees are entitled to acquire additional beneficial interests in the relevant Employee Trust Benefit Scheme trust using their own funds.

Any excess of the capital injected by the trusts to CIC or ACI over the attributable share of their consolidated net assets acquired is credited to capital reserve within equity of the Group.

(c) **Other items**

	Twelve months ended 31 December	
	2020	2019
	(Unaudited)	(Audited)
	RMB million	RMB million
Cost of inventories	71,075	69,584
Depreciation		
– owned property, plant and equipment	2,819	2,944
– right-of-use assets	1,269	1,438
Amortisation	16	22
Impairment losses		
– other property, plant and equipment, including right-of-use assets	354	197
– intangible assets	–	1
– investment in an associate	–	12
Operating lease charges (<i>Note</i>)	1,289	1,201
Loss on disposal of property, plant and equipment and intangible assets including disposed of right-of-use assets and lease liabilities	10	30

Note: Operating lease charges are payments for variable leases, short-term leases and leases of low value assets which are not required to be capitalised under HKFRS 16.

6. INCOME TAX

Income tax in the consolidated statement of profit and loss and other comprehensive income represents:

	Twelve months ended 31 December	
	2020	2019
	(Unaudited)	(Audited)
	RMB million	RMB million
Current tax – Hong Kong Profits Tax		
Provision for the period (i)	4	2
Over-provision in respect of prior years	–	–
Current tax – PRC income tax		
Provision for the period	1,057	1,273
Under/(over)-provision in respect of prior years	17	(6)
	1,078	1,269
Deferred tax		
Origination of temporary differences, net	(10)	(62)
	1,068	1,207

- (i) The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the Company and its subsidiaries incorporated in Hong Kong (2019:16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.
- (ii) PRC subsidiaries are subject to income tax at 25% for the twelve months ended 31 December 2020 (twelve months ended 31 December 2019: 25%) under the Enterprise Income Tax law (“**EIT law**”).

Pursuant to the related regulations in respect of the Notice of Certain Tax Policies for Implementation of Exploration and Development of Western Region (Cai Shui [2011] No. 58) jointly issued by the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation, five PRC subsidiaries of the Group are entitled to a preferential income tax rate of 15% during the twelve months ended 31 December 2020 and 2019.

Pursuant to the relevant regulations in respect of the Notice on the Implementation of Inclusive Tax Concessions for Small and Micro Enterprises (Cai Shui [2019] No.13) jointly issued by the Ministry of Finance and the State Administration of Taxation in the PRC, for the portion of annual taxable income which does not exceed RMB1 million, income tax shall be calculated at 25% of the annual taxable income using the tax rate of 20%; for the portion of annual taxable income from RMB1 million to RMB3 million (inclusive), income tax shall be calculated at 50% of the annual taxable income using the tax rate of 20%. Approximately 5% of the PRC subsidiaries of the Group enjoyed this preferential income tax treatment during the twelve months ended 31 December 2020.

- (iii) The EIT law and its relevant regulations also impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, on dividend distributions made out of the PRC from earnings accumulated from 1 January 2008.

Under the Arrangement between the Mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, a qualified Hong Kong tax resident which is the “beneficial owner” and holds 25% or more of the equity interest in a PRC-resident enterprise is entitled to a reduced withholding tax rate of 5% on dividends received.

Since the Group can control the quantum and timing of distribution of profits of the Group’s PRC subsidiaries, deferred tax liabilities are only provided to the extent that such profits are expected to be distributed in the foreseeable future.

During the twelve months ended 31 December 2020, deferred tax expenses of RMB54 million have been recognised in respect of the withholding tax payable on the retained profits of the Group’s PRC subsidiaries generated subsequent to 1 January 2008 which the directors expect to distribute outside the Mainland China in the foreseeable future.

During the twelve months ended 31 December 2019, the Group has provided RMB62 million withholding tax in relation to the dividends declared by certain of its subsidiaries to outside of the Mainland of China.

- (iv) The deferred tax assets/(liabilities) recognised in the consolidated statements of financial position at the end of current and previous reporting period are arising from depreciation charges on investment properties and other property, plant and equipment including right-of-use assets, income recognised from aged unutilised prepaid cards, accruals and other timing differences from the respective tax bases.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB2,872 million (twelve months ended 31 December 2019: RMB2,834 million) and the weighted average of 9,539,704,700 ordinary shares (twelve months ended 31 December 2019: 9,539,704,700 ordinary shares) in issue during the second interim period.

There were no dilutive potential ordinary shares during the twelve months ended 31 December 2020 and 2019 and therefore diluted earnings per share is equivalent to basic earnings per share.

8. INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(a) Right-of-use assets

During the twelve months ended 31 December 2020, the Group recognised the additions to right-of-use assets of RMB292 million (twelve months ended 31 December 2019: RMB179 million).

As disclosed in note 2, the Group has early adopted the Amendment to HKFRS 16, *Leases, Covid-19-Related Rent Concessions*, and has applied the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the period. The Group received rent concessions of RMB56 million for the twelve months ended 31 December 2020, in the form of a discount on lease payments during the period of severe social distancing and travel restriction measures introduced to contain the spread of COVID-19.

(b) Acquisitions and disposals

During the twelve months ended 31 December 2020, the Group incurred capital expenditure of RMB2,044 million (twelve months ended 31 December 2019: RMB1,871 million), primarily in respect of new store developments, store remodeling and digitalization. Items of buildings, store and office equipment, motor vehicles, construction in progress and software with a net book value of RMB60 million were disposed of during the twelve months ended 31 December 2020 (twelve months ended 31 December 2019: RMB54 million), resulting in a loss on disposal of RMB10 million (twelve months ended 31 December 2019: RMB39 million).

(c) Impairment provision

For the twelve months period ended 31 December 2020, impairment losses were made against the carry amount of leasehold improvements, equipment, construction in progress and right-of-use assets in certain stores of the Group. The impairment loss of RMB354 million in total (twelve months ended 31 December 2019: RMB198 million) was recognised in “Operating costs” and “Administrative expenses” (note 5(c)).

9. TRADE AND OTHER RECEIVABLES

	At 31 December 2020 (Unaudited) RMB million	At 31 December 2019 (Audited) RMB million
Trade receivables	281	423
Amounts due from related parties	769	333
Value-added tax recoverable	784	1,049
Prepayments:		
– rentals	235	345
– property, plant and equipment and intangible assets	16	74
Other debtors	750	738
Trade and other receivables	<u>2,835</u>	<u>2,962</u>

The Group’s trade receivables relate to credit card sales and sales through online sales channels, the ageing of which is within one month, and credit sales to corporate customers, the ageing of which is within three months. The ageing of trade receivables is determined based on invoice date.

Rental prepayments mainly represent variable lease payments and deposits which may be offset against future rentals due to landlords of brick-and-mortar store premises leased by the Group in accordance with the relevant lease agreements.

Except for prepayments made for property, plant and equipment and intangible assets which will be transferred to the relevant asset category upon receipt of the assets, all of the trade and other receivables classified as current assets are expected to be recovered within one year.

10. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2020, the Group had principal-guaranteed structured deposits in place with commercial banks in the PRC. Certain structured deposits with aggregate principal amount of RMB9,902 million and a net unrealised gain of RMB28 million are designated as financial products measured at FVPL as their contractual cash flows are not solely payments for principal and interest.

11. CASH AND CASH EQUIVALENTS

	At 31 December 2020 (Unaudited) RMB million	At 31 December 2019 (Audited) RMB million
Deposits with banks within three months of maturity	2,598	875
Cash at bank and on hand	4,773	4,324
Other financial assets and cash equivalents	160	8,052
Cash and cash equivalents in the consolidated statement of financial position	7,531	13,251

Other financial assets represent investments in short-term financial products issued by banks, with principal guaranteed, fixed or determinable returns and having maturity periods less than three months from date of issue.

12. TRADE AND OTHER PAYABLES

	At 31 December 2020 (Unaudited) RMB million	At 31 December 2019 (Audited) RMB million
Trade payables	16,293	18,267
Amounts due to related parties	254	217
Construction costs payable	1,347	902
Dividends payable to non-controlling interests	14	202
Accruals and other payables	5,911	6,239
	23,819	25,827

All trade and other payables are expected to be settled within one year.

An ageing analysis of trade payables determined based on invoice date is as follows:

	At 31 December 2020 (Unaudited) RMB million	At 31 December 2019 (Audited) RMB million
Within six months	16,111	17,999
After six months but within 12 months	182	268
	16,293	18,267

13. LEASE LIABILITIES

The remaining maturities of the Group's lease liabilities at the end of the reporting periods are as follows:

	At 31 December 2020		At 31 December 2019	
	Present value of the minimum lease payments (Unaudited) <i>RMB million</i>	Total minimum lease payments (Unaudited) <i>RMB million</i>	Present value of the minimum lease payments (Audited) <i>RMB million</i>	Total minimum lease payments (Audited) <i>RMB million</i>
Within 1 year	1,107	1,655	1,057	1,634
After 1 year but within 2 years	1,064	1,520	1,099	1,563
After 2 years but within 5 years	2,408	3,270	2,442	3,504
After 5 years	3,229	4,052	3,970	5,290
	<u>6,701</u>	<u>8,842</u>	<u>7,511</u>	<u>10,357</u>
	<u>7,808</u>	<u>10,497</u>	<u>8,568</u>	<u>11,991</u>
Less: Total future interest expenses		<u>(2,689)</u>		<u>(3,423)</u>
Present value of lease liabilities		<u>7,808</u>		<u>8,568</u>

14. CONTRACT LIABILITIES

	At 31 December 2020 (Unaudited) <i>RMB million</i>	At 31 December 2019 (Audited) <i>RMB million</i>
Prepaid cards	10,348	9,944
Advance receipts from customers for sales of merchandise	648	705
Customer loyalty program points liability	25	20
Contract liabilities	<u>11,021</u>	<u>10,669</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Revenue is derived from sales of goods and rental income from tenants. Revenue from sales of goods is primarily derived from the brick-and-mortar stores and online sales channels where merchandise, mainly food, groceries, textile and general goods, are made available for sale. Revenue from sales of goods is net of value added tax and other applicable sales taxes after deducting any trade discounts. Rental income from tenants is derived from renting gallery space in brick-and-mortar stores complexes to operators of businesses that we believe are complementary to the stores.

The following table sets forth a breakdown of the revenue from sales of goods and rental income for the periods indicated:

	Twelve months ended 31 December		Change
	2020	2019	
	(Unaudited)	(Audited)	
	RMB million		
Revenue	95,486	95,357	0.1%
– Revenue from sales of goods	91,984	91,279	0.8%
– Rental income from tenants	3,502	4,078	(14.1)%

For the twelve months ended 31 December 2020, revenue from sales of goods was RMB91,984 million, representing an increase of RMB705 million, or 0.8%, from RMB91,279 million for the corresponding period in 2019.

For the twelve months ended 31 December 2020, the Same Store Sales Growth⁽¹⁾ (“SSSG”) calculated based on sales of goods excluding electronic appliances was 1.0%. Although the sales from our offline business mainly hypermarkets was quite challenging, our online Business to Customer (the “B2C”) business, primarily through Taoxianda and Tmall platform, achieved significant progress and contributed to our sales growth.

During the period from 1 January 2020 to 31 December 2020, the Group continued to expand in various areas of China and opened four new hypermarkets, three Superstores and 24 mini stores. The operation of those new stores contributed additional sales of goods in 2020.

Notes:

- (1) Same store sales growth: the growth rate of sales of the stores opened before 31 December 2019. It is calculated by comparing the sales derived from those stores during their operating periods in 2020 with sales during the corresponding periods in 2019.

For the twelve months ended 31 December 2020, revenue from rental income was RMB3,502 million, representing a decrease of RMB576 million, or 14.1%, from RMB4,078 million for the corresponding period in 2019. The rental income from certain tenants with suspended operation was waived during the pandemic. The recovery of our rental income in post-pandemic period also took time, which was mainly impacted by continuing vacancy rate in our gallery space and the rent concession granted to gallery tenants.

Gross Profit

For the twelve months ended 31 December 2020, gross profit was RMB24,343 million, representing a decrease of RMB1,388 million, or 5.4%, from RMB25,731 million for the corresponding period in 2019. The gross profit margin for the twelve months ended 31 December 2020 was 25.5%, representing a decrease of 1.5 percentage point from 27.0% for the corresponding period in 2019.

The decrease in gross profit resulted from (i) the reduction in the rental income collected; and (ii) change in product mix and channel mix in 2020 following the change in consumption habit of customers since the pandemic started.

Fast moving consumer goods (“**FMCG**”), including mainly fresh products and mass consumer products (“**MCP**”) with relatively lower margin rate, took more weight in total sales. While the sales of traditionally high margin products, such as textile and bazaar products, decreased.

Other Income

Other income consists of income from the release of aged unutilised balances on prepaid cards, service income, income from disposal of packaging materials, interest income, gain on financial assets measured at FVPL, government grants and other miscellaneous income.

For the twelve months ended 31 December 2020, other income was RMB1,919 million, representing an increase of RMB430 million, or 28.9%, from RMB1,489 million for the corresponding period in 2019. The increase was primarily attributable to (i) an increase of RMB195 million in government grants related to employment stabilization received during the pandemic; and (ii) an increase of RMB198 million in service income which was mainly related to the development of online business.

Operating Costs

Operating costs represent the costs attributable to the operations of the stores and online to offline (“**O2O**”) business. Operating costs primarily consist of personnel expenses, operating lease charges, expenses for utilities, maintenance, advertising, shuttle bus services and cleaning, together with the depreciation of property, plant and equipment.

For the twelve months ended 31 December 2020, operating costs were RMB19,118 million, representing a decrease of RMB405 million, or 2.1%, from RMB19,523 million for the corresponding period in 2019.

The continuous development of the business including the on-going expansion of the brick-and-mortar store network and the development of the O2O business required investment in personnel and other related projects. The Group also followed government guidance on the increase in the minimum wage for staff. These developments brought additional operating costs. At the same time, the Group received the reduction and exemption in the payment of certain social welfare items, which resulted in a decrease in social welfare costs.

Expressed as a percentage, the amount of operating costs for the twelve months ended 31 December 2020 as of the revenue of 2020 was 20.0%, representing a decrease of 0.5 percentage points, from 20.5% for the corresponding period in 2019.

Administrative Expenses

Administrative expenses primarily consist of personnel expenses, travelling expenses, depreciation of property, plant and equipment and other expenses for the administrative departments. For the twelve months ended 31 December 2020, administrative expenses were RMB2,480 million, representing a decrease of RMB327 million, or 11.6%, from RMB2,807 million for the corresponding period in 2019. The integration between the two banners improved the head office efficiency and helped reduce administrative expenses at the head offices.

Expressed as a percentage, the amount of administrative expenses for the twelve months ended 31 December 2020 as of the revenue of 2020 was 2.6%, representing a decrease of 0.3 percentage points, from 2.9% for the corresponding period in 2019.

Profit from Operations

For the twelve months ended 31 December 2020, the profit from operations was RMB4,664 million, representing a decrease of RMB226 million, or 4.6%, from RMB4,890 million for the corresponding period in 2019.

The operating margin during the twelve months ended 31 December 2020 was 4.9%, a decrease of 0.2 percentage points, from 5.1% for the corresponding period in 2019. The expansion in online business resulted in additional investments for future development.

Finance Costs

Finance costs primarily consist of the interest expenses on other financial liabilities and lease liabilities. For the twelve months ended 31 December 2020, the finance costs were RMB547 million, representing a decrease of RMB76 million, or 12.2%, from RMB623 million for the corresponding period in 2019. The decrease was related to the reduced balance of lease liabilities.

Income Tax

For the twelve months ended 31 December 2020, income tax expense was RMB1,068 million, representing a decrease of RMB139 million, or 11.5%, from RMB1,207 million for the corresponding period in 2019.

The related effective tax rate for the twelve months ended 31 December 2020 was 26.0%, a decrease of 2.4 percentage points from 28.4% for the corresponding period in 2019. The decrease in effective tax rate was attributable to the utilisation of previously unrecognised tax losses generated by certain legal entities, which were established in prior years since those legal entities commenced generating profits to recover those losses.

Profit for the Period

For the twelve months ended 31 December 2020, profit for the period was RMB3,046 million, representing an increase of RMB1 million, or 0.03%, from RMB3,045 million for the corresponding period in 2019.

The net profit margin for the twelve months ended 31 December 2020 was 3.2%, which was the same as the percentage of the corresponding period in 2019.

Profit Attributable to Equity Shareholders of the Company

For the twelve months ended 31 December 2020, the profit attributable to equity shareholders of the Company was RMB2,872 million, representing an increase of RMB38 million, or 1.3%, from RMB2,834 million for the corresponding period in 2019.

Profit Attributable to Non-Controlling Interests

For the twelve months ended 31 December 2020, the profit attributable to non-controlling interests was RMB174 million, representing a decrease of RMB37 million, or 17.5%, from RMB211 million for the corresponding period in 2019. The profit attributable to non-controlling interests represented (i) interests in ACI and CIC from the Auchan Scheme and RT-Mart Scheme; (ii) the interest held by independent third parties in two of the subsidiaries, People's RT-Mart Limited Jinan and Fields Hong Kong Limited ("**Fields HK**"); (iii) the interest held by Oney Bank S.A. ("**Oney Bank**") in Oney Accord Business Consulting (Shanghai) Co., Ltd. ("**Oney Accord**"); and (iv) the interest held by Hema (China) Co., Ltd. in Shanghai Run He Internet Technology Co., Ltd.

Liquidity and Financial Resources

For the twelve months ended 31 December 2020, cash flow generated from operating activities was RMB8,204 million, representing an increase of RMB3,599 million, or 78.2%, from RMB4,605 million for the corresponding period in 2019.

As of 31 December 2020, the net current liabilities decreased to RMB89 million from RMB3,290 million as of 31 December 2019. This decrease was primarily attributed to (i) an increase in the current assets of RMB1,542 million, which was mainly from the increase in the combined balance of financial assets measured at FVPL and cash and cash equivalents; and (ii) a decrease in current liabilities of RMB1,659 million mainly from the decreased balance of trade payables of RMB1,974 million.

For the twelve months ended 31 December 2020, the inventory turnover days and trade payable turnover days, calculated on average balances of inventories and trade payables, together with the cost of inventories during past 12 months, were 65 days and 78 days, respectively, compared to 65 days and 87 days restated for the corresponding period of 2019.

Investing activities

For the twelve months ended 31 December 2020, cash flow used in investing activities was RMB10,943 million, representing an increase of RMB9,135 million, or 505.3%, from RMB1,808 million for the twelve months ended 31 December 2019.

The cash flow used in investing activities mainly reflected (i) the capital expenditure of RMB1,561 million in respect of the development of new stores and the remodelling and digitalization of existing stores; and (ii) the net investment in financial instruments measured at FVPL of RMB9,750 million.

Financing activities

For the twelve months ended 31 December 2020, cash flow used in financing activities was RMB2,981 million, with a decrease of RMB34 million, or 1.1%, from RMB3,015 million for the twelve months ended 31 December 2019.

BUSINESS REVIEW

Operating Environment

During 2020, despite the impact of COVID-19, China's gross domestic product ("GDP") increased by 2.3% to approximately RMB101,598.6 billion, exceeding RMB100 trillion for the first time. In the first half year of 2020, the GDP decreased by 1.6% year on year. The GDP for the third quarter grew by 4.9%, and that for the fourth quarter increased by 6.5%. The overall consumer price index ("CPI") was up by 2.5% compared to 2019, of which the food CPI was up by 10.6%.

The pork CPI increased by 49.7% (with the recovery of pork production and the higher comparison base in the same period last year, the pork CPI grew negatively from October to December 2020), resulting in an increase of meat CPI by 38.4%, of which beef CPI increased by 14.4% and lamb CPI increased by 8.5%. The non-food CPI observed a minimal increase of 0.4%.

Total retail sales of consumer goods in China amounted to RMB39,198.1 billion, representing a year-on-year decline of 3.9%. But it has achieved positive growth month by month since August 2020. The social economy and consumer market resumed steadily.

Sales of catering services amounted to RMB3,952.7 billion, representing a decrease of 16.6%. National online retail sales reached RMB11,760.1 billion, increasing by 10.9%. Online physical goods retail sales for the year of 2020 amounted to RMB9,759 billion, representing an increase of 14.8%, contributing 24.9% of total retail sales.

B2C business grows rapidly due to the pandemic

The outbreak of COVID-19 accelerated the formation of consumers' online shopping mindset, represented by the continued increase in the Group's B2C Daily Order per Store ("**DOPS**"). Since May 2020, the Group's online DOPS exceeded 1,000. In the second half of 2020, the Group's average DOPS in first-tier cities was more than 2,000 and for lower-tier cities, it was close to 1,000. The Group set a new DOPS record exceeding 2,900 for the first time on "double 11" day. For the full year of 2020, the Group's B2C performance increased by more than 80% and the total B2C order density increased by more than 60% compared with the same period last year.

For the B2C ticket size in the second half of 2020, despite the significant decrease compared with that in the first half, it still increased by 5.7% over the same period last year, reaching net amount after tax RMB66. The fresh products and dairy products contributed more than 53% of the revenue, the FMCG accounted for more than 45% and non-food products was about 2%.

As of the date of this announcement, the number of registered B2C users was over 69 million, among which the active users exceeded 16.5 million.

Incubate new business

– The superstore model is basically matured –

As of 31 December 2020, the Group opened six RT-Supers. The current store operating area of RT-Supers is approximately 3,000 to 5,000 square meters, providing around 15,000 stock keeping units (“SKU”). The fresh products and dairy products contributed about 57% of the Group’s revenue, the FMCG accounted for around 38% and non-food products was about 5%.

According to the differentiation of catchment areas and customer positioning, each RT-Super can feature different offerings suitable for customers in the catchment areas. By leveraging the Group’s strong supply chain, sufficient products, as well as more streamlined store teams, RT-Super can achieve a relatively reasonable gross profit margin and cost ratio. The business model of RT-Super is not far from matured.

In 2021, RT-Super will enhance the scale expansion by focusing on the second and third-tier cities, and build fresh superstores which are closer to young consumers through the construction of core categories.

– Continue to optimize and improve the mini store model –

As of 31 December 2020, the Group opened 24 mini stores, of which 20 were located in Nantong City, Jiangsu Province and four in Taizhou City, Jiangsu Province. The operating area of each mini store was about 200 to 500 square meters. Fresh food and dairy products accounted for about 75% of the Group’s revenue, representing a rather high proportion. 60% of the store’s revenue derived from fruits and vegetables, seafood products, and meat.

In view of the high proportion of fresh products, mini store continues to improve direct sourcing from original production areas to offer booming items by season and local specialties, which aims to create offerings with a full range of categories and affordable prices. In addition, mini store shares the FMCG product pool with hypermarket, and designs different display models and offerings according to store operating area and customer positioning for the purpose of building a good foundation for accelerating expansion in the future.

– Good start and bright future for community group buying –

Community group buying made a good start in 2020.

As of 31 December 2020, the Group’s community group buying business strengthened its business synergy with Cainiao pick-up station with more than 100 stores located in over 36 cities. The number of active stations reached nearly 8,000. The stations developed by the Group were also launched in 125 cities, and more than 220 stores started the community group buying business. At the same time, the Group also actively calls on employees to become community group buying initiators. They are the Group’s unique buying initiator resource and features with high stickiness in their nature.

Community group buying not only has its own exclusive booming items but also shares the supply chain and product pool with hypermarket. The sales of non-standard fresh products accounted for around 33.5% of the revenue, and FMCG contributed about 64.7%.

Pilot “warehouse-based” store model, give support to omni-channel through “one warehouse for one city”

Considering the online impact on sales of non-food products in physical stores, the Group initiated a renovation project to transform some stores into the “warehouse-based” model.

The non-food operating area was reduced but the warehouse area was increased significantly in the pilot stores. After the renovation, the pilot store will not only meet the needs of the store itself, but also support half-day delivery, community group buying and B2B business of the city.

The renovation means each city has its own city warehouse. Logistics costs are greatly reduced. Product efficiency is significantly improved and customers’ shopping experience can also be greatly upgraded.

Expansion Status

During the twelve months ended 31 December 2020 under review, the Group opened four hypermarkets, three superstores and 24 mini stores. Among the new hypermarkets and superstores, two were located in Eastern China, two were located in Northern China, one was located in Northeastern China and two were located in Southern China. During the period under review, the Group closed three stores, which were all located in Eastern China.

As of 31 December 2020, the Group had a total of 484 hypermarkets and six superstores in China with a total gross floor area (“GFA”) of approximately 13.07 million square meters. Approximately 70.4% of the GFA was operated as leased space, and 29.6% of the GFA was in self-owned properties. Please refer to note 1 below for definitions of regional zones.

As of 31 December 2020, approximately 7.6% of the Group’s hypermarkets and superstores were located in first-tier cities, 16.5% in second-tier cities, 46.1% in third-tier cities, 21.8% in fourth-tier cities and 8.0% in fifth-tier cities. Please refer to note 2 below for definitions of tiers.

As of 31 December 2020, through the execution of lease contracts or acquisition of land plots, the Group had identified and secured 26 sites to open hypermarkets, of which 23 were under construction.

Region	Number of Brick-and-Mortar Stores (As of 31 December 2020)					Total GFA of Brick-and-Mortar Stores (sq.m.) (As of 31 December 2020)				
	Hypermarket	Superstore	Mini Store	Total	Percentage	Hypermarket	Superstore	Mini Store	Total	Percentage
Eastern China	187	4	24	215	42%	5,387,333	51,895	5,613	5,444,841	42%
Northern China	51	1	0	52	10%	1,286,329	10,283	0	1,296,612	10%
Northeastern China	52	1	0	53	10%	1,446,005	5,850	0	1,451,855	11%
Southern China	92	0	0	92	18%	2,231,922	0	0	2,231,922	17%
Central China	76	0	0	76	15%	1,933,517	0	0	1,933,517	15%
Western China	26	0	0	26	5%	719,759	0	0	719,759	5%
Total	484	6	24	514	100%	13,004,865	68,028	5,613	13,078,506	100%

Notes:

- (1) The Group adopts the following regional zoning according to the national regional economic planning guidelines:

Eastern China:	Shanghai City, Zhejiang Province, Jiangsu Province
Northern China:	Beijing City, Tianjin City, Shandong Province, Hebei Province, Shanxi Province, Inner Mongolia Autonomous Region (West)
Northeastern China:	Jilin Province, Liaoning Province, Heilongjiang Province, Inner Mongolia Autonomous Region (North)
Southern China:	Guangdong Province, Guangxi Zhuang Autonomous Region, Fujian Province, Hainan Province, Yunnan Province, Guizhou Province
Central China:	Anhui Province, Hunan Province, Hubei Province, Henan Province, Jiangxi Province
Western China:	Sichuan Province, Gansu Province, Shaanxi Province, Chongqing City, Ningxia Hui Autonomous Region

- (2) City tiers were classified according to the following standards:

First-tier cities:	Municipalities under the direct jurisdiction of the central government and Guangzhou City
Second-tier cities:	Provincial capitals and sub-provincial cities
Third-tier cities:	Prefecture-level cities
Fourth-tier cities:	County-level cities
Fifth-tier cities:	Townships and towns

Outlook

During the first half of 2020, retailers accelerated to increase their investments in online businesses one after another because of the pandemic. Fortunately, we have been committed to the digital transformation into new retail since 2018. In the second half of the year, as the market gradually opened up and consumption returned to normal, brick-and-mortar hypermarkets faced increased competition. The Group can not escape from it either.

Although the performance of the Group in the second half did not meet the expectations due to many unexpected and uncontrollable factors, we can also see that facing the brutal growth of new retail competitors and various uncertainties in the post-epidemic period, the Group still shows strong resilience and coping ability compared with its peers. We believe that while the money-burning model can develop the quantity of the customer, it can never develop the stickiness of the customer. This also allows the Group to clarify the future development strategies and stick to the correct path with full confidence.

2020 was a year of transformation as well as a year of polishing the Group's business models for multi-formats and omni-channels development. 2020 was also a milestone year. The future is an era of Internet and new retail. As Alibaba Group becomes the controlling shareholder of the Group, it will definitely bring in new vitality and impetus to the Group, and lead the Group to reach a new peak and create prosperity. Looking to the future, 2021 will be a year of investment and the first year of launching new business models. Although the investment cost to new business will affect the Group's profitability in the short term, this impact is anticipated, limited, and worthwhile. We believe that today's investment is for better and faster growth in the future. The Group expects that the revenue will return to a high-speed growth trajectory within two years.

OTHER INFORMATION

Corporate Governance

The Board is committed to maintaining high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has devised its own Corporate Governance and Compliance Manual which incorporates all the principles and practices as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules.

The Company reviews regularly its organizational structure to ensure operations are in line with the good corporate governance practices as set out in the CG Code and align with the latest developments.

In the opinion of the Directors, the Company has complied with all the code provisions as set out in the CG Code for the twelve months ended 31 December 2020, save and except for the deviation of code provisions A.2.1 and C.3.7(a) of the CG Code.

Code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Since the appointment of Mr. HUANG Ming-Tuan on 17 October 2020 as the Chairman of the Board, the position of Chairman and Chief Executive Officer of the Company are held by the same person. The Board believes that vesting the roles of Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership and allows for efficient business planning and decisions.

Code provision C.3.7(a) provides that under the terms of reference of the Audit Committee, the Audit Committee should review arrangements that can be used by the employees in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

The Company had not established any formal arrangement for employees to raise concern about possible improprieties in financial reporting, internal control or other matters. However, in practice, employees have direct access to the internal audit department via either a telephone line or a mailbox. In addition, they have direct access by email to the Executive Directors and the senior management. The Directors regularly receive and review monthly financial reports. The Directors, through the Audit Committee, meet quarterly with the Group's internal audit function, whose main responsibility is to review the internal control system of the Group. The Directors consider that the lack of such arrangements will not have a material effect on the functions of financial reporting, internal control or other related matters. The internal audit department, the Audit Committee and the Board will discuss proper actions to deal with any issue reported by any employee about improprieties in financial reporting, internal control and other matters.

Audit Committee

The Company established the Audit Committee on 27 June 2011 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to assist the Board in overseeing and reviewing (i) the effectiveness of the Company's risk management and internal control systems and regulatory compliance of the Group; (ii) the balance, transparency and integrity of the Company's financial statements and application of financial reporting principle; (iii) the relationship with the external auditors and their independence assessments; and (iv) the effectiveness of the Company's internal audit function. The Audit Committee currently consists of four Non-executive Directors, three of whom are independent. The members currently are Mr. XU Hong, Ms. Karen Yifen CHANG, Mr. Dieter YIH and Mr. Charles Sheung Wai CHAN, an Independent Non-executive Director, being the Chairman of the Audit Committee. The Audit Committee has reviewed and discussed the unaudited consolidated financial statements for the twelve months ended 31 December 2020 which have been prepared in accordance with the applicable standards, the Listing Rules and the statutory provisions and sufficient disclosure have been made. The Audit Committee has met with the external auditors, KPMG, who have reviewed the interim financial statements in accordance with Hong Kong Standard on Review Engagements 2410.

Nomination Committee

The Company established a nomination committee (the “**Nomination Committee**”) on 27 June 2011 with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to (i) review the structure, size and composition of the Board pursuant to the Diversity Policy adopted by the Board, (ii) identify individuals suitably qualified to become Board members, (iii) make recommendations to the Board on the selection of individuals nominated for directorships, and (iv) assess the independence of Independent Non-executive Directors pursuant to the Listing Rules and the nomination policy adopted by the Board. The Nomination Committee currently consists of four Non-executive Directors, three of whom are independent. The members currently are Mr. XU Hong, Ms. Karen Yifen CHANG, Mr. Charles Sheung Wai CHAN and Mr. Dieter YIH, an Independent Non-executive Director, being the Chairman of the Nomination Committee.

Remuneration Committee

The Company established a remuneration committee (the “**Remuneration Committee**”) on 27 June 2011 with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee are to (i) review and make recommendations to the Board on the Company’s policy and structure for all remuneration of the Directors and senior management and (ii) establish a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee currently consists of four Non-executive Directors, three of whom are independent. The members currently are Mr. XU Hong, Mr. Charles Sheung Wai CHAN, Mr. Dieter YIH and Ms. Karen Yifen CHANG, an Independent Non-executive Director, being the Chairman of the Remuneration Committee.

Securities Transactions by Directors

The Company has adopted its own code of conduct regarding Directors’ and relevant employees’ dealings in the Company’s securities (the “**Company Code**”) on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the relevant employees and they have confirmed that they have complied with the Model Code and the Company Code throughout the twelve months ended 31 December 2020.

Change of Financial Year End Date

On 22 December 2020, the Board resolved to change the financial year end date of the Company from 31 December to 31 March to enable better operational alignment between the Company and Alibaba Group and to facilitate synergies across all functions within the Alibaba Group. Accordingly, the next financial year end date of the Company will be 31 March 2021.

Purchase, Sale and Redemption of the Company’s Listed Securities

During the twelve months ended 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

Dividends

At the board meeting held on 31 January 2021, no dividend for the twelve months ended 31 December 2020 has been declared.

Publication of Interim Results and Interim Report for the twelve months ended 31 December 2020 of the Company

The interim results announcement of the Company is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sunartretail.com). The Interim Report of the Company for the twelve months ended 31 December 2020 will be dispatched to the shareholders of the Company and made available for review on the aforesaid websites in due course.

By Order of the Board
Sun Art Retail Group Limited
HUANG Ming-Tuan
Chairman and Chief Executive Officer

Hong Kong, 31 January 2021

As at the date of this announcement, the directors of the Company are:

Executive Directors:

HUANG Ming-Tuan (*Chairman and Chief Executive Officer*)

LIN Xiaohai

Non-executive Directors:

LI Yonghe

XU Hong

Independent Non-executive Directors:

Karen Yifen CHANG

Charles Sheung Wai CHAN

Dieter YIH