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 SIX MONTHS ENDED 30 SEPTEMBER 2022

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 six months ended 30 September 2022, together with the comparative figures for the corresponding period in 2021 as below.

HIGHLIGHTS OF INTERIM RESULTS

	For the six months ended 30 September		
	2022	2021	**Change**
	(Unaudited)	(Unaudited)	
	RMB million		
Revenue	**40,611**	41,534	(2.2)%
Gross Profit	**10,112**	10,933	(7.5)%
Profit from Operations	**500**	560	(10.7)%
(Loss)/Profit for the Period	**(87)**	112	(177.7)%
(Loss)/Profit Attributable to Owners of the Company	**(69)**	117	(159.0)%
(Loss)/Earnings Per Share – Basic and diluted[1]	**RMB(0.01)**	RMB0.01	

	30 September 2022	31 March 2022	
	(Unaudited)	(Audited)	**Change**
	RMB million		
Total Assets	**66,882**	65,746	1.7%
Total Liabilities	**42,280**	40,680	3.9%
Net Assets	**24,602**	25,066	(1.9)%
Net Cash Position [2]	**20,332**	18,659	9.0%

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, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 and by the Company's audit committee (the "**Audit Committee**"). PricewaterhouseCoopers'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 (loss)/earnings per share for the six months ended 30 September 2022 and 2021 is based on the weighted average number of 9,539,704,700 ordinary shares in issue during the periods.

(2) The balance of net cash position is calculated as the sum of cash and cash equivalents, financial assets measured at fair value through profit or loss and time deposits minus bank loans.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2022

	Notes	Six months ended 30 September 2022 RMB million (Unaudited)	2021 RMB million (Unaudited)
Revenue	3	**40,611**	41,534
Cost		**(30,499)**	(30,601)
Gross profit		**10,112**	10,933
Selling and marketing expenses		**(9,378)**	(9,887)
Administrative expenses		**(1,036)**	(1,175)
Other income and other gains, net	4	**802**	689
Operating profit		**500**	560
Finance costs	6	**(234)**	(266)
Share of net loss of associates and joint ventures accounted for using the equity method		**(1)**	–
Profit before income tax		**265**	294
Income tax expense	7	**(352)**	(182)
(Loss)/profit for the period		**(87)**	112
Other comprehensive income for the period		**–**	–
Total comprehensive (loss)/income for the period		**(87)**	112
(Loss)/profit is attributable to:			
Owners of the Company		**(69)**	117
Non-controlling interests		**(18)**	(5)
(Loss)/profit for the period		**(87)**	112
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(69)**	117
Non-controlling interests		**(18)**	(5)
Total comprehensive (loss)/income for the period		**(87)**	112
(Loss)/earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company:			
Basic and diluted (loss)/earnings per share	8	**RMB (0.01)**	RMB0.01

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

	Notes	30 September 2022 RMB million (Unaudited)	31 March 2022 RMB million (Audited)
ASSETS			
Non-current assets			
Investment properties	*10*	**5,662**	5,830
Other property, plant and equipment	*10*	**23,400**	24,501
Intangible assets	*11*	**36**	31
Goodwill		**140**	140
Deferred tax assets		**1,481**	1,506
Investments accounted for using the equity method		**–**	1
Total non-current assets		**30,719**	32,009
Current assets			
Inventories		**9,531**	9,723
Trade and other receivables	*12*	**3,658**	4,102
Time deposits		**500**	700
Financial assets at fair value through profit or loss (“**Financial assets at FVPL**”)	*13*	**5,654**	6,665
Restricted deposits	*14*	**2,642**	1,253
Cash and cash equivalents	*14*	**14,178**	11,294
Total current assets		**36,163**	33,737
Total assets		**66,882**	65,746
LIABILITIES			
Non-current liabilities			
Trade and other payables	*16*	**28**	49
Lease liabilities	*15*	**5,936**	6,108
Deferred tax liabilities		**409**	430
Total non-current liabilities		**6,373**	6,587
Current liabilities			
Trade and other payables	*16*	**21,604**	20,211
Contract liabilities	*17*	**12,791**	12,347
Current tax liabilities		**114**	264
Lease liabilities	*15*	**1,398**	1,271
Total current liabilities		**35,907**	34,093
Total liabilities		**42,280**	40,680
Net assets		**24,602**	25,066

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2022

	Notes	**30 September 2022** **RMB million** **(Unaudited)**	31 March 2022 *RMB million* (Audited)
EQUITY			
Share capital		**10,020**	10,020
Reserves		**13,492**	13,938
Capital and reserves attributable to the owners of the Company		**23,512**	23,958
Non-controlling interests		**1,090**	1,108
Total equity		**24,602**	25,066

NOTES

*(Expressed in Renminbi ("**RMB**") unless otherwise stated)*

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Sun Art Retail Group Limited (the "**Company**") 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 report comprises the Company and its subsidiaries (the "**Group**"). The interim financial report has 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**").

The preparation of the interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual report for the year ended 31 March 2022.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below in note 2.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 March 2022 and any public announcements made by the Company during the interim reporting period.

The financial information relating to the year ended 31 March 2022 that is included in the condensed consolidated interim financial information for the six months ended 30 September 2022 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for year ended 31 March 2022 to the Registrar of Companies as required by section 622(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

2. CHANGE IN ACCOUNTING POLICIES

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 April 2022:

- Reference to the Conceptual Framework – Amendments to HKFRS 3.
- Property, Plant and Equipment: Proceeds before intended use – Amendments to HKAS 16.
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to HKAS 37.
- Annual Improvements to HKFRS Standards 2018-2020.
- Amendments to AG 5 Merger Accounting for Common Control Combinations.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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.

3. SEGMENT AND REVENUE INFORMATION

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 hypermarket buildings. Disaggregation of revenue from contracts with customers by major products or services is as follows:

	Six months ended 30 September	
	2022	2021
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers – sales of goods		
– recognised at a point in time	**39,084**	39,761
Revenue from other sources – rental income from tenants	**1,527**	1,773
Total revenue	**40,611**	41,534

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

The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed, as substantially all of the Group's contracts have a duration of 1 year or less.

The Group generally expenses contract acquisition costs when incurred because the amortisation period would have been 1 year or less.

4. OTHER INCOME AND OTHER GAINS, NET

	Six months ended 30 September	
	2022	2021
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
Miscellaneous income	**259**	245
Interest income on financial assets measured at amortised cost	**204**	153
Government grants	**148**	146
Gain on financial assets measured at FVPL	**94**	140
Disposal of packaging material	**74**	67
Net gain/(loss) on disposal and reassessment of investment properties and other property, plant and equipment	**23**	(62)
	802	689

5. DETAIL OF COST OF SALES AND EXPENSES

(a) Employee benefit expense

	Six months ended 30 September	
	2022	2021
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
Salaries, wages and other benefits	**4,518**	4,551
Contributions to defined contribution retirement plans	**526**	514
Contributions to Employee Trust Benefit Schemes *(i)*	**–**	36
	5,044	5,101

(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 undertake gains and losses to itself. The trusts 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 Schemes 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.

(b) Other items

	Six months ended 30 September	
	2022	2021
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
Cost of sales	**30,463**	30,554
Depreciation cost of investment properties and other property, plant and equipment	**1,786**	2,013
Operating lease charges	**497**	489
Impairment losses *(note 10 (c))*	**142**	357
Amortisation cost of intangible assets *(note 11)*	**3**	5
(Reversal of)/ loss allowance related to trade receivables and other debtors	**(35)**	29

6. FINANCE COSTS

	Six months ended 30 September	
	2022	2021
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
Interest expenses on lease liabilities	**233**	264
Interest expenses on other financial liabilities	**1**	2
	234	266

7. INCOME TAX EXPENSE

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

	Six months ended 30 September	
	2022	2021
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
Current tax-Hong Kong income tax		
Current tax on profits for the period (i)	**19**	3
Adjustments for current tax of prior periods*	**–**	–
Current tax-PRC income tax		
Current tax on profits for the period	**286**	291
Adjustments for current tax of prior periods	**43**	47
Total current tax expense	**348**	341
Deferred income tax		
Decrease/(increase) in deferred tax assets	**25**	(189)
(Decrease)/increase in deferred tax liabilities	**(21)**	30
Total deferred tax benefit	**4**	(159)
Income tax expense	**352**	182

* The amount is less than a million.

(i) Entities incorporated in Hong Kong are subject to Hong Kong profits tax under the two-tiered profits tax regime, which the tax rate is 8.25% for assessable profits in the first HK$2 million and 16.5% for any assessable profits in excess. However, for two or more connected entities, only one of them may elect the two-tiered profits tax rates.

(ii) PRC subsidiaries are subject to income tax at 25% for the six months ended 30 September 2022 (2021: 25%) under the Enterprise Income Tax law ("**EIT law**").

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) and Announcement on Implementing Preferential Income Tax Policy for Small and Micro Enterprises and Individual Business (Cai Shui [2021] No.12) jointly issued by the Ministry of Finance and the State Administration of Taxation in the PRC, qualified Small and Micro Enterprises meeting the criteria of employee number less than 300, total assets less than RMB50 million and annual taxable income less than RMB3 million are entitled to preferential tax treatment. More specifically, for the portion of annual taxable income which does not exceed RMB1 million, income tax shall be calculated at 12.5% 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 46% of PRC subsidiaries of the Group enjoyed this preferential income tax treatment during the 2021 annual tax filing.

(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 six months ended 30 September 2022, no deferred tax expenses (six months ended 30 September 2021: RMB2 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.

As at 30 September 2022, no deferred tax liabilities were provided on post-2007 undistributed profits of the Group's PRC subsidiaries amounted to RMB8,409 million for which the Group has no plan to distribute them outside the PRC in the foreseeable future (31 March 2022: RMB8,495 million).

(iv) The deferred tax assets/(liabilities) recognised in the condensed 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 and right-of-use assets, income recognised from aged unutilised prepaid cards, accruals, accumulated losses carry forward and other timing differences from the respective tax bases.

8. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company of RMB69 million (six months ended 30 September 2021: profit attributable to owners of the Company of RMB117 million) and the weighted average of 9,539,704,700 ordinary shares (six months ended 30 September 2021: 9,539,704,700 ordinary shares) in issue during the interim period.

There were no dilutive potential ordinary shares during the six months ended 30 September 2022 and 2021 and therefore diluted earnings per share is equivalent to basic earnings per share.

9. DIVIDENDS

No interim dividend has been declared in respect of the six months ended 30 September 2022 (six months ended 30 September 2021: Nil).

10. INVESTMENT PROPERTIES, AND OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

During the six months ended 30 September 2022, the Group recognised the additions to right-of-use assets of RMB555 million (six months ended 30 September 2021: RMB403 million).

The leases of hypermarket buildings contain variable lease payment terms that are based on sales generated from the hypermarkets and minimum annual lease payment terms that are fixed. At 30 September 2022, it is estimated that an increase/decrease in sales generated from these retail stores by 5% would have increased/decreased the lease payments by RMB16 million (31 March 2022: RMB37 million).

(b) Acquisitions and disposals

During the six months ended 30 September 2022, the Group incurred capital expenditure of RMB258 million (six months ended 30 September 2021: RMB840 million), primarily in respect of new store developments and store remodelling and digitalisation. Items of building and leasehold improvements and equipment with a net book value of RMB55 million were disposed during the six months ended 30 September 2022 (six months ended 30 September 2021: RMB103 million), resulting in a loss on disposal of RMB25 million (six months ended 30 September 2021: RMB78 million).

(c) Impairment provision

For the six months period ended 30 September 2022, impairment losses were made against the carrying amount of building and leasehold improvements, equipment and right-of-use assets in certain stores of the Group. The impairment losses of RMB142 million (six months ended 30 September 2021: RMB357 million) were recognised in "Selling and marketing expenses" (Note 5(b)).

11. INTANGIBLE ASSETS

	Software ***RMB million***
At 31 March 2022 (Audited)	
Cost	229
Accumulated amortisation and impairment	(198)
Net book amount	31
Six months ended 30 September 2021	
Opening net book amount	31
Addition	8
Amortisation charge *(Note 5(b))*	(3)
Closing net book amount	36
At 30 September 2022 (Unaudited)	
Cost	237
Accumulated amortisation and impairment	(201)
Net book amount	36

12. TRADE AND OTHER RECEIVABLES

	As at 30 September 2022 *RMB million* (Unaudited)	As at 31 March 2022 *RMB million* (Audited)
Trade receivables		
Amounts due from related parties	**1,772**	1,723
Amounts due from third parties	**550**	437
Less: provision for impairment	**(221)**	(262)
Subtotal	**2,101**	1,898
Other receivables		
Prepayments of rentals	**505**	883
Value-added tax receivables	**350**	599
Other debtors	**797**	811
Less: provision for impairment	**(95)**	(89)
Subtotal	**1,557**	2,204
Total trade and other receivables	**3,658**	4,102

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.

13. FINANCIAL ASSETS AT FVPL

	As at 30 September 2022 *RMB million* (Unaudited)	As at 31 March 2022 *RMB million* (Audited)
Structured deposits	**5,654**	6,665

14. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSIT

(a) Cash and cash equivalents

	As at 30 September 2022 ***RMB million*** **(Unaudited)**	As at 31 March 2022 *RMB million* (Audited)
Cash at bank and in hand	**12,976**	9,950
Deposits with banks within three months of maturity	**1,055**	1,103
Other financial assets and cash equivalents	**147**	241
	14,178	11,294

(b) Restricted deposits

	As at 30 September 2022 ***RMB million*** **(Unaudited)**	As at 31 March 2022 *RMB million* (Audited)
Restricted deposits in bank	**2,642**	1,253

Restricted deposits represent deposits based on unutilised prepaid cards balance and stipulated by PRC authorities in certain regions to be held in specified bank accounts with restricted usage.

15. LEASE LIABILITIES

The following table shows the remaining maturities of the Group's reasonably certain lease liabilities at the end of the current and previous reporting periods:

	As at 30 September 2022		As at 31 March 2022	
	Present value of the minimum lease payments ***RMB million*** **(Unaudited)**	**Total minimum lease payments** ***RMB million*** **(Unaudited)**	Present value of the minimum lease payments *RMB million* (Audited)	Total minimum lease payments *RMB million* (Audited)
Within 1 year	**1,398**	**1,791**	1,271	1,740
1-2 years	**1,129**	**1,444**	1,079	1,554
2-5 years	**2,486**	**3,077**	2,315	2,956
Over 5 years	**2,321**	**2,738**	2,714	3,357
	5,936	**7,259**	6,108	7,867
	7,334	**9,050**	7,379	9,607
Less: Total future interest expenses	**–**	**(1,716)**	–	(2,228)
Present value of lease liabilities	**7,334**	**7,334**	7,379	7,379

16. TRADE AND OTHER PAYABLES

	As at 30 September 2022 ***RMB million*** **(Unaudited)**	As at 31 March 2022 *RMB million* (Audited)
Current liabilities		
Trade payables	**14,268**	12,951
Construction costs payable	**835**	1,166
Amounts due to related parties	**992**	471
Dividends payable to non-controlling interests	**11**	13
Dividends payable to Company's shareholders	**8**	–
Accruals and other payables	**5,490**	5,610
	21,604	20,211
Non-current liabilities		
Other financial liabilities	**28**	49

The aging analysis of trade payables based on invoice date is as follows:

	As at 30 September 2022 ***RMB million*** **(Unaudited)**	As at 31 March 2022 *RMB million* (Audited)
Within six months	**12,176**	11,735
Over six months	**2,092**	1,216
	14,268	12,951

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

17. CONTRACT LIABILITIES

	As at 30 September 2022 ***RMB million*** **(Unaudited)**	As at 31 March 2022 *RMB million* (Audited)
Prepaid cards	**12,429**	12,073
Advance receipts from customers for sales	**300**	246
Customer loyalty program points liability	**62**	28
	12,791	12,347

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.

For the six months ended 30 September 2022, revenue from sales of goods was RMB39,084 million, representing a decrease of RMB677 million, or 1.7%, from RMB39,761 million for the corresponding period ended 30 September 2021.

For the six months ended 30 September 2022, the Same Store Sales Growth[(1)] ("**SSSG**") calculated based on sales of goods excluding electronic appliances was -0.2%. The Group's offline sales, mainly contributed by sales from hypermarkets, had been adversely affected by the recurrence of pandemic and related prevention and control quarantine measures, while the Group's online Business to Customer (the "**B2C**") business and the sales to Alibaba Group on community group buying (the "**CGB**") achieved significant progress and compensated for the drop of the Group's offline sales.

For the six months ended 30 September 2022, revenue from rental income was RMB1,527 million, representing a decrease of RMB246 million, or 13.9%, from RMB1,773 million for the corresponding period ended 30 September 2021. The pandemic control measures implemented in public areas by local governments, such as restricting the flow of people, shortening business hours, and temporarily closing stores, resulted in the decrease in rental income. At the same time, the Group's rent concession policy granted in favor of gallery tenants further reduced the rental income.

Notes:

(1) Same store sales growth: the growth rate of sales of the stores opened before 30 September 2021. It is calculated by comparing the sales derived from those stores during their operating periods in the six months ended 30 September 2022 with sales during the corresponding periods ended 30 September 2021.

Gross Profit

For the six months ended 30 September 2022, gross profit was RMB10,112 million, representing a decrease of RMB821 million, or 7.5%, from RMB10,933 million for the corresponding period ended 30 September 2021. The gross profit margin for the six months ended 30 September 2022 was 24.9%, representing a decrease of 1.4 percentage points from 26.3% for the corresponding period ended 30 September 2021.

The decrease in gross profit resulted from (i) the decrease in revenue from sales of goods and rental income; and (ii) the growth in the revenue contribution of online business and changes in channel mix during the six months ended 30 September 2022 following the change in consumption habit of customers since the pandemic started.

Other Income and Other Gains, net

Other income and other gains, net consists of government grants, gain on financial assets measured at FVPL, interest income, income from disposal of packaging materials, net gain/(loss) on disposal and reassessment of investment properties and other property, plant and equipment, and other miscellaneous income.

For the six months ended 30 September 2022, other income and other gains, net was RMB802 million, representing an increase of RMB113 million, or 16.4%, from RMB689 million for the corresponding period ended 30 September 2021. The increase was mainly attributed to the profit on disposal and reassessment of right-of-use assets and the reduction of disposal loss of property, plant and equipment.

Selling and Marketing Expenses

Selling and marketing expenses represent the expenses attributable to the operations of the stores and online business. Selling and marketing expenses 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 six months ended 30 September 2022, selling and marketing expenses were RMB9,378 million, representing a decrease of RMB509 million, or 5.1%, from RMB9,887 million for the corresponding period ended 30 September 2021.

The decrease was mainly due to (i) a decrease of RMB215 million impairment loss accrued for the stores; and (ii) the savings on operating cost resulted from the pandemic prevention and control measures required by local governments such as shortening business hours and temporarily closing stores.

The amount of selling and marketing expenses for the six months ended 30 September 2022 as a percentage of total revenue was 23.1%, representing a decrease of 0.7 percentage points from 23.8% for the corresponding period ended 30 September 2021.

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 six months ended 30 September 2022, administrative expenses were RMB1,036 million, representing a decrease of RMB139 million, or 11.8%, from RMB1,175 million for the corresponding period ended 30 September 2021.

The decrease was mainly related to (i) the reversal of a special loss allowance related to the trade receivables; and (ii) the management's effort in cost control.

The amount of administrative expenses for the six months ended 30 September 2022 as a percentage of total revenue was 2.6%, representing a decrease of 0.2 percentage points, from 2.8% for the corresponding period ended 30 September 2021.

Operating Profit

For the six months ended 30 September 2022, the profit from operations was RMB500 million, representing a decrease of RMB60 million, or 10.7%, from RMB560 million for the corresponding period ended 30 September 2021.

The operating margin during the six months ended 30 September 2022 was 1.2%, a decrease of 0.1 percentage points, from 1.3% for the corresponding period ended 30 September 2021.

Without taking into account the impact of the RMB142 million impairment loss accrued, the operating profit was RMB642 million for the six months ended 30 September 2022 and the operating margin was 1.6%.

Finance Costs

Finance costs primarily consist of the interest expenses on other financial liabilities and lease liabilities. For the six months ended 30 September 2022, the finance costs were RMB234 million, representing a decrease of RMB32 million, or 12.0%, from RMB266 million for the corresponding period ended 30 September 2021. The decrease was related to the reduced balance of lease liabilities.

Income Tax Expense

For the six months ended 30 September 2022, income tax expense was RMB352 million, representing an increase of RMB170 million, or 93.4%, from RMB182 million for the corresponding period ended 30 September 2021.

The related effective tax rate for the six months ended 30 September 2022 was 132.8%, an increase of 70.9 percentage points from 61.9% for the corresponding period ended 30 September 2021. The increase in the effective tax rate was attributable to the unrecognized deferred tax on losses generated in several entities since the recoverability of those losses before their expiry was not certain.

(Loss)/Profit for the Period

For the six months ended 30 September 2022, loss for the period was RMB87 million, representing a decrease of RMB199 million, or 177.7%, from a profit of RMB112 million for the corresponding period ended 30 September 2021.

The net loss margin for the six months ended 30 September 2022 was 0.2%, decreasing by 0.5 percentage points, from a net profit margin of 0.3% of the corresponding period ended 30 September 2021. The decrease was primarily attributable to the reduction in operating profit and the increase of income tax expense.

The post-tax impact of the impairment loss accrued mentioned above in the operating profit section was RMB107 million. Without taking into account the impact of it, the Group generated a profit of RMB20 million and the net profit margin was close to breakeven for the six months ended 30 September 2022.

(Loss)/Profit Attributable to Owners of the Company

For the six months ended 30 September 2022, the loss attributable to owners of the Company was RMB69 million, representing a decrease of RMB186 million, or 159.0%, from a profit of RMB117 million for the corresponding period ended 30 September 2021.

Loss Attributable to Non-Controlling Interests

For the six months ended 30 September 2022, the loss attributable to non-controlling interests was RMB18 million, representing a decrease of RMB13 million, or 260.0%, from a loss of RMB5 million for the corresponding period ended 30 September 2021.

The loss 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**"); and (iii) the interest held by Hema (China) Co., Ltd. in Shanghai Run He Internet Technology Co., Ltd.

Liquidity and Financial Resources

For the six months ended 30 September 2022, net cash inflow from operating activities was RMB3,127 million, representing a decrease of RMB31 million, or 1.0%, from RMB3,158 million for the corresponding period ended 30 September 2021.

As at 30 September 2022, the net current assets were RMB256 million as compared to the net current liabilities of RMB356 million as at 31 March 2022. The increase was primarily attributed to (i) an increase in the current assets of RMB2,426 million, which mainly resulted from the increase in the combined balance of cash and cash equivalents, restricted deposits and financial assets at FVPL; and (ii) an increase in the current liabilities of RMB1,814 million mainly attributed to the increased balance of trade payables and contract liabilities.

For the six months ended 30 September 2022, 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 six months, were 57 days and 80 days, respectively, compared to 59 days and 81 days for the corresponding period ended 30 September 2021.

As at 30 September 2022, the net cash position of the Group was RMB20,332 million as compared to RMB18,659 million as at 31 March 2022. The gearing ratio, calculated by dividing net cash position by the total equity was 0.83 as at 30 September 2022 as compared to 0.74 as at 31 March 2022.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between shareholder return and sound capital position. The Group continually makes adjustments, when necessary, to maintain an optimal capital structure and to reduce the cost of capital.

Investing Activities

For the six months ended 30 September 2022, net cash inflow from investing activities was RMB944 million, representing a decrease of RMB4,127 million, or 81.4%, from RMB5,071 million for the corresponding period ended 30 September 2021. The decrease was mainly attributable to the decrease in the net proceeds generated from investment in financial assets measured at FVPL.

The net cash inflow from investing activities was mainly reflected in (i) the capital expenditure of RMB588 million paid in respect of the development of new stores and the remodelling and digitalization of existing stores; (ii) the net proceeds generated from investment in financial assets at FVPL of RMB1,105 million; and (iii) the net proceeds generated from investment in time deposits with maturity over three months of RMB200 million.

Financing Activities

For the six months ended 30 September 2022, net cash outflow from financing activities was RMB1,187 million, with a decrease of RMB1,215 million, or 50.6%, from RMB2,402 million for the six months ended 30 September 2021. The decrease was mainly attributable to the decrease in the dividends paid and cash prepaid for the acquisition of non-controlling interests.

Material Acquisitions and Disposals

The Group did not have any material acquisitions or disposals in relation to subsidiaries, associates and joint ventures during the six months ended 30 September 2022.

Foreign Exchange Risks

The Group's businesses are principally conducted in RMB and most of the Group's monetary assets and liabilities are denominated in RMB. Accordingly, the directors consider the Group's exposure to foreign exchange risk is not significant.

As of the date of this announcement, the Group has not used any currency hedging instruments, but the management will continue to closely monitor exchange rate fluctuations and will take appropriate measures to keep foreign exchange risk exposure to the minimum.

Pledged Assets

As at 30 September 2022, the Group did not pledge any assets for bank loans or banking facilities.

BUSINESS REVIEW

Operating Environment

In the first three calendar quarters of 2022, China's gross domestic product ("**GDP**") grew by 3.0% year-on-year to about RMB87,026.9 billion. In terms of quarters, the year-on-year growth rate was 4.8% in the first quarter, 0.4% in the second quarter and 3.9% in the third quarter. The GDP in the third quarter showed a trend of recovery, with an obvious rebound from the GDP growth in the second quarter.

In the first three calendar quarters of 2022, the overall consumer price index ("**CPI**") increased by 2.0% compared to the same period last year, and the food CPI increased by 2.0%, of which the pork CPI decreased by 18.0% year-on-year. In July 2022, the year-on-year growth of pork CPI turned positive for the first time, with a year-on-year growth of 20.2%, which continued to expand in August and September, reaching 22.4% and 36.0% respectively.

In the first three calendar quarters of 2022, China's total retail sales of consumer goods amounted to RMB32,030.5 billion, representing a year-on-year increase of 0.7%. With the effective control of the pandemic, the growth rate of the total retail sales of social consumer goods has turned positive since June, from a year-on-year decline of 6.7% in May to a year-on-year growth of 3.1%. The recovery trend has continued to September. The national online retail sales amounted to RMB9,588.4 billion for the first three quarters of 2022, representing a year-on-year increase of 4.0%. The online retail sales of physical goods reached 8,237.4 billion, representing a year-on-year increase of 6.1% and accounting for 25.7% of the total retail sales of social consumer goods.

Offline Experience Centers

The Group actively promoted the store remodeling version 2.0. Based on the customer value of "shopping, experience, services and social", the Group accelerated the implementation of product strategy, optimized procurement logic, improved product expression, and created diversified scenarios to provide a more pleasant shopping experience in stores.

In the first half of the fiscal year, the remodeling version 2.0 was gradually rolled out to four stores in Eastern China following the success in the first pilot store. The offline revenue of all these stores after revamping achieved a double-digit growth.

The Group focused on the optimization of gallery tenants mix and introduced more tenants who are capable of bringing people flow to the galleries. The gallery and the store collectively aimed to create incentives for in-store shopping, to become a good assistant in daily life and a good neighbor in community. During the reporting period, the gallery vacancy rate maintained at a low single-digit percentage with the proportion of catering and service tenants increased, accounting for more than one-third of the total tenants.

Online Fulfillment Centers

Based on differentiated target customers from various channels, the Group provided differentiated product operation and marketing, as well as online refined operation to improve customers' experience. The increase in online ticket size drove the online business to achieve a double-digit growth and maintained a sustainable economic model. During the pandemic in Shanghai in April and May, the online order centralized processing capability has been strengthened and the same model has been implemented in the stores located in other regions. As such, the negative impact on stores due to lockdown amid the pandemic has therefore been mitigated.

The one-hour delivery business continued to grow, providing differentiated operation and independent offering arrangements for customers, cities and business areas from various channels. The omni-channel membership systems were integrated to lay a good foundation for digital operation of customers and further improve the operation efficiency of different customer profiles.

The Multi-format and Omni-channel Development

As a "low-cost extension of RT-Mart", the Group will open new RT-Super stores cautiously. The Group will continue to develop the business model of RT-Mini, focusing on community stores in Nantong City.

Fresh Product Supply Chain Development

In the first half of the fiscal year, the Group established eight organized, well-equipped and systematic fresh product processing centers to improve product quality and diversity, as well as the standardization of fresh products. During the reporting period, more than 200 stores have already switched the supply chains and maintained a steady development of fresh product supply chain in this process.

Sustainable Development

The Group endeavored to the long-term construction of Environmental, Social and Governance ("**ESG**") and to become a benchmark for green operation in the retail industry. The Group has set a clear long-term goal of achieving carbon neutrality for its own operations by 2030. In the future, the Group will focus more on providing safe, healthy and high-quality products, actively promote the development of sustainable green supply chain, emphasize the concept of "people-oriented", and actively engage in pandemic control and disaster relief as well as various charity activities, so as to contribute to the society with actions.

Expansion Status

During the six months ended 30 September 2022, the Group opened one hypermarket and two superstores, two of which were located in Eastern China and the other one was located in Northern China. During the period under review, the Group closed four stores, among them, one was located in Eastern China, one was located in Central China, one was located in Southern China and the remaining one was located in Western China. In addition, one store has changed from superstore to hypermarket.

As of 30 September 2022, the Group had a total of 488 hypermarkets, 10 superstores and 99 mini stores. On its own and through collaborations with third parties, the Group had a total of 20 fresh product processing centers across the country. Among them, there were five in Eastern China, five in Northern China, two in Northeastern China, four in Central China and four in Southern China. The total gross floor area ("**GFA**") of hypermarkets and superstores was approximately 13.61 million square meters, of which about 67.2% was operated as leased space, and 32.8% of the GFA was in self-owned properties. The GFA of mini stores was approximately 21,256 square meters, all of which was leased space. Please refer to note 1 below for definitions of the regions.

As of 30 September 2022, approximately 7.0% of the Group's hypermarkets and superstores were located in first-tier cities; 16.5% in second-tier cities; 47.2% in third-tier cities; 21.5% in fourth-tier cities; and 7.8% in fifth-tier cities. Please refer to note 2 below for definitions of tiers.

As of 30 September 2022, through the execution of lease contracts or acquisition of land plots, the Group had identified and secured 20 sites to open hypermarkets, of which 11 were under construction. At the same time, the Group had signed contracts in respect of 24 superstores, six of which are currently under construction as of the date of this announcement.

Region	Number of Brick-and-Mortar Stores (As of 30 September 2022) Hypermarket	Superstore	Mini Store	Total	Percentage	Total GFA of Brick-and-Mortar Stores (sq.m.) (As of 30 September 2022) Hypermarket	Superstore	Mini Store	Total	Percentage
Eastern China	185	5	71	261	45%	5,442,613	48,082	14,605	5,505,300	40%
Northern China	51	2	0	53	9%	1,327,103	16,261	0	1,343,364	10%
Northeastern China	54	2	0	56	9%	1,724,824	15,800	0	1,740,624	13%
Southern China	98	0	0	98	16%	2,417,944	0	0	2,417,944	18%
Central China	75	1	28	104	17%	1,940,391	6,425	6,651	1,953,467	14%
Western China	25	0	0	25	4%	668,610	0	0	668,610	5%
Total	**488**	**10**	**99**	**597**	**100%**	**13,521,485**	**86,568**	**21,256**	**13,629,309**	**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

Human Resources and Remuneration Policies

As of 30 September 2022, the Company had 114,490 employees (123,413 as of 30 September 2021). The total employee benefit expense was RMB5,044 million (RMB5,101 million as of 30 September 2021).

The Group's policy is to recruit and promote individuals based on merit and their development potentials. Remuneration package offered to all employees is determined with reference to their performance, time commitment, responsibilities and the prevailing salary levels in the market.

In addition to salary, the Company also makes contributions to defined contribution retirement plans and Employee Trust Benefit Schemes, respectively.

Outlook

The Group will adhere to promote the three strategies and one capability and its implementation. The low-cost modular remodeling of hypermarkets will be accelerated to continuously facilitate product upgrading and differentiation. The Group will also speed up the membership digitization process and continue to build the differentiated procurement capabilities for omni-channel customers, so as to optimize operational efficiency and maintain a healthy and stable development of online business. By leveraging RT-Mart's supply chain and organization capabilities, RT-Super will expand at low costs. The Group will improve RT-Mini's standardization of products and stores, and develop its business model. The Group will accelerate the construction of fresh product processing centers to realize business model iteration of fresh products.

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 six months ended 30 September 2022.

Audit Committee

The Audit Committee has reviewed and discussed the unaudited consolidated interim financial statements for the six months ended 30 September 2022 with the external auditors, PricewaterhouseCoopers, who have reviewed the interim financial statements in accordance with Hong Kong Standard on Review Engagements 2410.

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 six months ended 30 September 2022.

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

During the six months ended 30 September 2022, 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 15 November 2022, no dividend for the six months ended 30 September 2022 has been declared (for the six months ended September 30, 2021: Nil).

Publication of Interim Results and Interim Report for the six months ended 30 September 2022 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 six months ended 30 September 2022 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
LIN Xiaohai
Executive Director and Chief Executive Officer

Hong Kong, 15 November 2022

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

Executive Director:
LIN Xiaohai *(Chief Executive Officer)*

Non-Executive Directors:
HUANG Ming-Tuan *(Chairman)*
HAN Liu
LIU Peng

Independent Non-Executive Directors:
Karen Yifen CHANG
Charles Sheung Wai CHAN
Dieter YIH