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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Sun Art Retail Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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# SUN ART

## Retail Group Limited

### SUN ART RETAIL GROUP LIMITED

高鑫零售有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 06808)

**(I) CONTINUING CONNECTED TRANSACTIONS:  
2021 MASTER SUPPLY AGREEMENT; AND**  
**(II) CONTINUING CONNECTED TRANSACTIONS:  
2021 MASTER BUSINESS COOPERATION AGREEMENT; AND**  
**(III) PROPOSED AMENDMENT TO THE ARTICLES OF  
ASSOCIATION; AND**  
**(IV) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee and  
Independent Shareholders**



**Alliance Capital Partners Limited**  
同人融資有限公司

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Capitalized terms used in this cover shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 13 to 39 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 40 to 41 of this circular. A letter from Alliance Capital Partners Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 42 to 71 of this circular.

A notice convening the Extraordinary General Meeting to be held at 24/F, Admiralty Centre Tower I, 18 Harcourt Road, Admiralty, Hong Kong on Friday, 24 September 2021 at 9:30 a.m. is set out on pages 79 to 81 of this circular.

A form of the proxy for use at the EGM is sent to the Shareholders together with this circular. Such form of proxy is also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.sunartretail.com>). Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending, and voting in person at the EGM or any adjournment thereof should you so wish.

**PRECAUTIONARY MEASURES FOR THE EGM**

To safeguard the health and safety of Shareholders and to prevent the spreading of the COVID-19 pandemic, the following precautionary measures will be implemented at the EGM:

- (1) Compulsory body temperature check;
- (2) Submission of health and travel declaration form;
- (3) Wearing of surgical face mask; and
- (4) Limit the number of attendees at the EGM as may be necessary in order to maintain appropriate distancing and spacing in compliance with the guidance issued by Hong Kong Government from time to time.

Attendees who do not comply with the precautionary measures referred to (1) to (3) above may be denied entry to the venue for the EGM, at the absolute discretion of the Company as permitted by law.

For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their forms of proxy by the time specified above, instead of attending the EGM in person.

The Company will keep the evolving COVID-19 pandemic situation under review and may implement additional measures. It may announce additional measures closer to the date of the EGM where necessary.

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the expressions below shall have the following meanings:*

“%”	Per cent
“12 April Announcement”	the announcement published by the Company on 12 April 2019 in relation to the entering into of various agreements entered into for the purpose of governing different categories of connected transactions, including the 2019 Master Supply Agreement
“2019 Master Supply Agreement”	the master supply agreement entered into between the Company and Taobao China (on behalf and together with Alibaba Affiliates) on 11 April 2019 and amended on 14 August 2019 according to the Supply Addendum in relation to the supply of Relevant Supply Products and/or the Relevant Supply Services to Alibaba Affiliates
“2020 Auchan China Rajax Network Shanghai Ele Me Business Cooperation Agreement (Promotion Service)”	the promotion services cooperation agreement entered into between Rajax Network Shanghai and Auchan China on 1 April 2020 in relation to the technical services relating to marketing activities provided to Auchan China based on the Ele Me platform
“2020 Rajax Network Shanghai Ele Me Business Cooperation Agreements (Promotion Service)”	the 2020 Auchan China Rajax Network Shanghai Ele Me Business Cooperation Agreement (Promotion Service) and the 2020 RT-Mart China Rajax Network Shanghai Ele Me Business Cooperation Agreement (Promotion Service)
“2020 RT-Mart China Rajax Network Shanghai Ele Me Business Cooperation Agreement (Promotion Service)”	the promotion services cooperation agreement entered into between Rajax Network Shanghai and RT-Mart China on 1 April 2020 in relation to the technical services relating to marketing activities provided to RT-Mart China based on the Ele Me platform
“2021 Dalian Hema Delivery Business Cooperation Supplementary Agreement”	the supplementary agreement to continue the Spring Festival event bonus arrangement entered into between Dalian Hema and Hangzhou Rajax on 26 February 2021 under the Dalian Hema Delivery Business Cooperation Supplementary Agreement
“2021 Master Business Cooperation Agreement”	The master business cooperation agreement entered into between the Company and Taobao China (on behalf of and together with Alibaba Affiliates) on 22 June 2021 in relation to the Relevant Cooperation between the Group and Alibaba Affiliates

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## DEFINITIONS

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“2021 Master Supply Agreement”	the master supply agreement entered into between the Company and Taobao China (on behalf of and together with Alibaba Affiliates) on 22 June 2021 in relation to supply of the Relevant Supply Products and the Relevant Supply Services by the Group to Alibaba Affiliates
“2021 RT-Mart China Rajax Network Shanghai Ele Me Business Cooperation Agreement (Promotion Service)”	the technical services cooperation agreement entered into between Rajax Network Shanghai and RT-Mart China on 31 March 2021 in relation to the technical and marketing services provided to RT-Mart China via the Ele Me platform
“2021 RT-Mart China Zhejiang Niaochao Delivery Business Cooperation Supplementary Agreement”	the delivery business cooperation supplementary agreement entered into between RT-Mart China and Zhejiang Niaochao on 28 May 2021 in relation to logistics and delivery services provided Zhejiang Niaochao
“2021 Shenyang Hema Delivery Business Cooperation Supplementary Agreement”	the delivery service agreement entered into between Shenyang Runhe and Hangzhou Rajax on 28 May 2021 in relation to the details of the bonus arrangement of the business cooperation under the Shenyang Hema Delivery Business Cooperation 2021 Renewal Agreement
“Affiliates”	has the meaning of “associate” ascribed to it under the Listing Rules
“Alibaba Affiliates”	Taobao China, Alibaba Holding, subsidiaries and affiliates of Alibaba Holding, and for the purpose of this circular, excluding members of the Group other than any subsidiaries which are connected subsidiaries of the Company
“Alibaba Group”	Alibaba Holding and its associates, and for the purpose of this circular, it excludes the Group
“Alibaba Holding”	Alibaba Group Holding Limited (阿里巴巴集團控股有限公司), a company incorporated in the Cayman Islands, with its American depositary shares, each representing eight ordinary shares, listed on the New York Stock Exchange (Stock Symbol: BABA), and its ordinary shares listed on the Main Board of the Stock Exchange (Stock Code: 9988)

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## DEFINITIONS

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“Alibaba Technology”	阿里巴巴(中國)網絡技術有限公司 (Alibaba (China) Network Technology Co., Ltd.*), a company incorporated under the laws of the PRC and an indirect wholly-owned subsidiary of Alibaba Holding
“Alibaba Zetai”	杭州阿里巴巴澤泰信息技術有限公司 (Hangzhou Alibaba Zetai Information Technology Company Limited*), a company incorporated in the PRC and an indirect wholly-owned subsidiary of Alibaba Holding
“Alipay (Hangzhou)”	支付寶(杭州)信息技術有限公司 (Alipay (Hangzhou) Information Technology Co., Ltd.*), a company incorporated under the laws of the PRC and an associate of Alibaba Holding
“Articles of Association”	the articles of association of the Company
“Associate(s)”	has the meaning ascribed to it under the Listing Rules
“Auchan China Ele Me Online Food Ordering Business Cooperation Agreement”	the agreement entered into between Auchan China and the Rajax Entities on 1 July 2020 in relation to the technical services relating to online food ordering, online promotion and delivery, as well as other related services to help Auchan China to meet its needs in operating online food ordering business on the Rajax Entities’ platforms (including the “Ele.me” platform)
“Auchan China”	歐尚(中國)投資有限公司 (Auchan (China) Investment Co., Ltd.*), a company incorporated in the PRC and a subsidiary of the Company
“Auchan Implementation Agreement”	the implementation agreement entered into between Auchan China and Taobao Software on 19 March 2018 relating to the cooperation between the parties thereto
“Auchan Stores”	the supermarkets and hypermarkets operated by Auchan China designated under the Auchan Implementation Agreement
“Auchan Tao Xianda Quadripartite Implementation Agreement”	the implementation agreement entered into between Taobao Software, Auchan China, Hangzhou Tao Xian Da and Hangzhou Rajax on 18 October 2019 relating to the cooperation between the parties thereof in relation to the Auchan Implementation Agreement
“Board”	the board of Directors

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## DEFINITIONS

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“category of Business Cooperation between the Group and Alibaba Affiliates”	the category of transactions relating to the mid to long term business cooperation between Alibaba Affiliates and the Group such as comprehensive business cooperation in the area of online sales platforms for Business to Business model and Business to Consumer model, and other ancillary services in connection with sales on such online platforms and any other business cooperation as may be confirmed and agreed by the parties in writing from time to time
“category of Sale of Goods and Services by the Group to Alibaba Affiliates”	the category of transactions relating to the sale of fresh food products, pre-packaged food products, other food products, grocery products, household products, computer, communications and consumer electronic products, and any other merchandise customarily sold in campus retail outlets, hypermarkets operated by the Group and comprehensive operating services such as the maintenance of online stores, human resources, logistics and warehouse services as well as fulfillment services such as packing and delivery, and the relevant services to be confirmed and agreed by the Group and Alibaba Affiliates in writing from time to time
“Company”	Sun Art Retail Group Limited (高鑫零售有限公司), a company incorporated under the laws of Hong Kong on 13 December 2000 with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected subsidiaries”	has the meaning ascribed to it under the Listing Rules
“Dalian Hema Delivery Business Cooperation 2021 Renewal Agreement”	the delivery cooperation agreement entered into between Dalian Runhe and Hangzhou Rajax on 26 February 2021 in relation to the delivery services to be provided by Hangzhou Rajax
“Dalian Hema Delivery Business Cooperation Agreement”	the delivery cooperation agreement entered into between Hangzhou Rajax and Dalian Runhe on 11 April 2019 in relation to the delivery services for the “Hema Fresh” (“盒馬鮮生”) business model contemplated under the Hainan Hema Business Cooperation Agreement and the Northeast China Hema Business Cooperation Agreement

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## DEFINITIONS

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“Dalian Hema Delivery Business Cooperation Renewal Agreement”	the delivery cooperation agreement entered into between Hangzhou Rajax and Dalian Runhe on 27 February 2020 in relation to the delivery services for the “Hema Fresh” (“盒馬鮮生”) business model contemplated under the Hainan Hema Business Cooperation Agreement and the Northeast China Hema Business Cooperation Agreement, which renewed the Dalian Hema Delivery Business Cooperation Agreement
“Dalian Hema Delivery Business Cooperation Supplementary Agreement”	the supplementary agreement entered into between Dalian Hema and Hangzhou Rajax on 16 March 2020 in respect of the Dalian Hema Delivery Business Cooperation Agreement
“Dalian Runhe”	大連潤盒雲網絡科技有限公司 (Dalian Runhe Cloud Network Technology Co. Ltd.*), a limited liability company incorporated in the PRC, which is principally engaged in the operation of the Hema Stores. Dalian Runhe is an indirect wholly-owned subsidiary of the Company
“Director(s)”	director(s) of the Company
“Effective Date (2021 MBCA)”	The date on which Independent Shareholders’ approval of the Company has been obtained in respect of the 2021 Master Business Cooperation Agreement in the EGM
“Effective Date (2021 MSA)”	The date on which Independent Shareholders’ approval of the Company has been obtained in respect of the 2021 Master Supply Agreement in the EGM
“EGM”	the extraordinary general meeting of the Company to be convened for the Independent Shareholders to, among others, approve, confirm and ratify the entering into of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps) and the Proposed Amendment to the Articles of Association

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## DEFINITIONS

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“Ele Me Business Cooperation 2021 Renewal Agreement”	the business cooperation agreement entered into between RT-Mart China and the Rajax Entities on 31 March 2021 in relation to entering in arrangements in respect of the business cooperation adopting the “Ele.me” model, which continued business cooperation contemplated under the Ele Me Business Cooperation Renewal Agreement
“Ele Me Business Cooperation Agreement”	the business cooperation agreement entered into between the RT-Mart China and Shanghai Rajax on 11 April 2019 in relation to entering in arrangements in respect of the business cooperation adopting the “Ele.me” model
“Ele Me Business Cooperation Renewal Agreement”	the business cooperation agreement entered into between RT-Mart China and Shanghai Rajax on 27 December 2019 in relation to entering in arrangements in respect of the business cooperation adopting the “Ele.me” model, which renewed the Ele Me Business Cooperation Agreement
“Existing Business Cooperation Agreements”	collectively, the Hainan Hema Business Cooperation Agreement, the Northeast China Hema Business Cooperation Agreement, the Dalian Hema Delivery Business Cooperation Supplementary Agreement, the RT-Mart China Ele Me Online Food Ordering Business Cooperation Agreement, the Auchan China Ele Me Online Food Ordering Business Cooperation Agreement, the Dalian Hema Delivery Business Cooperation 2021 Renewal Agreement, the Shenyang Hema Delivery Business Cooperation 2021 Renewal Agreement, the 2021 Dalian Hema Delivery Business Cooperation Supplementary Agreement, the Tao Xian Da Business Cooperation Agreement, the RT-Mart China Zhejiang Niaochao Delivery Business Cooperation Agreement, the Taobao Business Cooperation Agreement, the Ele Me Business Cooperation 2021 Renewal Agreement, and the 2021 RT-Mart China Rajax Network Shanghai Ele Me Business Cooperation Agreement (Promotion Service), the 2021 RT-Mart China Zhejiang Niaochao Delivery Business Cooperation Supplementary Agreement, and the 2021 Shenyang Hema Delivery Business Cooperation Supplementary Agreement
“Group”	the Company and its subsidiaries



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## DEFINITIONS

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“Guangdong Ruenhua”	廣東潤華商業有限公司 (Guangdong Ruenhua Commercial Co., Ltd.*), a company incorporated in the PRC and a subsidiary of the Company
“Hainan Hema Business Cooperation Agreement”	the business cooperation agreement dated 15 January 2019 entered into between Shanghai Runhe and Shanghai Hema relating to the cooperation between the parties thereto within the Hainan province of the PRC
“Hainan Hema Supply Agreement”	the master supply agreement (inclusive of the sub-commercial agreement) entered into between Guangdong Ruenhua and Hainan Hema on 31 May 2019 in relation to the supply of Relevant Supply Products
“Hainan Hema”	海南盒馬網絡科技有限公司 (Hainan Hema Network Technology Co. Ltd.*), a company incorporated in the PRC and a subsidiary of Shanghai Runhe
“Hangzhou Rajax”	杭州拉扎斯信息科技有限公司 (Hangzhou Rajax Information Technology Company Ltd*), a company incorporated in the PRC and an indirect subsidiary of Alibaba Holding
“Hangzhou Tao Xian Da”	杭州淘鮮達網絡科技有限公司 (Hangzhou Taoxianda Network Technology Co., Ltd.*), a limited liability company incorporated in the PRC and a consolidated entity of Alibaba Holding
“Hema Stores”	the retail store(s) operated by Shanghai Runhe, Dalian Runhe and/or Shenyang Runhe, which adopt(s) the “Hema Fresh” (“盒馬鮮生”) business model
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all of the independent non-executive Directors
“Independent Financial Adviser” or “Alliance Capital”	Alliance Capital Partners Limited, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps)

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## DEFINITIONS

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“Independent Shareholders”	the Shareholders other than Alibaba Holding and its associates (as defined under the Listing Rules)
“Latest Practicable Date”	3 September 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master BCA and Supply Announcement”	the announcement published by the Company on 22 June 2021 in relation to the entering into of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement
“Northeast China Hema Business Cooperation Agreement”	the business cooperation agreement entered into between Shanghai Runhe and Shanghai Hema on 15 January 2019 relating to the cooperation between the parties thereto within the Heilongjiang, Jilin and Liaoning provinces of the PRC
“Northeast China Hema Supply Agreement”	the supply agreement (inclusive of the subcommercial agreement) entered into between Qingdao Ruentex and Shanghai Hema on 31 May 2019 in relation to the supply of Relevant Supply Products
“Original Business Cooperation Agreement”	the business cooperation agreement entered into between Alibaba Zetai, the Company, Auchan China and RT-Mart China on 7 December 2017 in relation to the cooperation to adopt the “Taobao Daojia” (“淘寶到家”) business model across the Stores
“Platform”	the online platform operated by Alibaba Group or RT-Mart China
“PRC”	the People’s Republic of China and for the purpose of this circular, it excludes Taiwan, Hong Kong and Macau Special Administrative Region of the PRC
“Promotional Goods Supply Agreement”	the promotional goods supply agreement entered into between RT Mart China, Auchan China and Alipay (Hangzhou) on 19 August 2019 in relation to supply of Relevant Supply Products
“Proposed Amendment”	The proposed amendment to the Articles of Association as set out in this circular, the full text of which is set out in Appendix II to this circular

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## DEFINITIONS

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“Qingdao Ruentex”	青島潤泰事業有限公司瀋陽分公司 (Qingdao Ruentex Enterprises Co., Ltd., Shenyang branch*), a branch of a subsidiary of the Company
“Rajax Entities”	Rajax Network Shanghai and Shanghai Rajax
“Rajax Network Shanghai”	拉扎斯網絡科技(上海)有限公司 (Rajax Network Technology (Shanghai) Co., Ltd.*), a company incorporated in the PRC and an indirect subsidiary of Alibaba Holding
“Relevant Business Cooperation Annual Caps”	the proposed annual caps under the category of Business Cooperation between the Group and Alibaba Affiliates for each of the three years ending 31 March 2024
“Relevant Cooperation”	the mid to long term business cooperation between Alibaba Affiliates and the Group such as comprehensive business cooperation in the area of online platforms, delivery services, Alipay, hardware, software, assistance in procurement and sourcing, and the specific services to be provided by Alibaba Affiliates to the Group include (i) cooperation to adopt the “Hema Fresh” (“盒馬鮮生”) model across certain stores of the Group and its affiliates, (ii) cooperation to adopt the “Ele.me” (“餓了嗎”) model across certain stores of the Group and its affiliates, (iii) cooperation to adopt the “Taoxianda” and Niaochoao Delivery) (“淘鮮達及鳥潮配送”) model across certain stores of the Group and its affiliates, and (iv) any other business cooperation as may be confirmed and agreed by the parties in writing from time to time. Depending on the specific services, the roles and responsibilities of each of the Group and Alibaba Affiliates under the 2021 Master Business Cooperation Agreement would vary but the Group is generally responsible for supplying its products to platform users and paying platform fees and levies for Alipay, whereas Alibaba Affiliates are generally responsible for building and promoting their online platforms and providing ancillary services such as delivery services and payment services for the online platform users
“Relevant Supply Annual Caps”	the proposed annual caps under the category of Sale of Goods and Services by the Group to Alibaba Affiliates for each of the three years ending 31 March 2024

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## DEFINITIONS

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“Relevant Supply Product(s)”	fresh food products, pre-packaged food products, other food products, grocery products, household products, computer, communications and consumer electronic products, and any other merchandise customarily sold in campus retail outlets, hypermarkets operated by the Group
“Relevant Supply Service(s)”	comprehensive operating services such as maintenance of online stores, market analyses and research, products screening and planning, e-commerce operation, marketing campaign and related promotional initiatives services, human resources, logistics and warehouse services, as well as, fulfillment services such as packing and delivery, and the relevant services to be confirmed and agreed by the Group and Alibaba Affiliates in writing from time to time
“RMB”	Renminbi, the lawful currency of the PRC
“RT Implementation Agreement”	the implementation agreement entered into between RT-Mart China and Taobao Software on 19 March 2018 relating to the cooperation between the parties thereto
“RT Stores”	the hypermarkets and supermarkets operated by RT- Mart China designated under the Tao Xian Da Business Cooperation Agreement to be connected to the Platform
“RT-Mart China Ele Me Online Food Ordering Business Cooperation Agreement”	the agreement entered into between RT-Mart China and the Rajax Entities on 1 July 2020 in relation to the technical services relating to online food ordering, online promotion and delivery, as well as other related services to help RT-Mart China to meet its needs in operating online food ordering business on the Rajax Entities’ platforms (including the “Ele.me” platform)
“RT-Mart China Zhejiang Niaochao Delivery Business Cooperation Agreement”	the business cooperation agreement entered into between RT-Mart China and Zhejiang Niaochao on 18 March 2021 whereby Zhejiang Niaochao agreed to provide logistics and delivery services to stores designated by Hangzhou Tao Xian Da for orders placed via the Platform
“RT-Mart China”	康成投資(中國)有限公司 (Concord Investment (China) Co., Ltd.*), a limited liability company incorporated in the PRC and a subsidiary of the Company

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## DEFINITIONS

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“RT-Mart Tao Xianda Quadripartite Implementation Agreement”	the implementation agreement entered into between Taobao Software, RT-Mart China, Hangzhou Tao Xian Da and Hangzhou Rajax on 18 October 2019 relating to the cooperation between the parties thereto in relation to the RT Implementation Agreement
“Shanghai Hema”	上海盒馬網絡科技有限公司 (Shanghai Hema Network Technology Co., Ltd*), a limited liability company incorporated in the PRC and an indirect wholly-owned subsidiary of Alibaba Holding
“Shanghai Rajax”	上海拉扎斯信息科技有限公司 (Shanghai Rajax Information Technology Co., Ltd.*), a limited liability company incorporated in the PRC and a consolidated entity of Alibaba Holding
“Shanghai Runhe”	上海潤盒網絡科技有限公司 (Shanghai Runhe Internet Technology Co., Ltd*), a limited liability company incorporated in the PRC and jointly held by RT-Mart China (holding 51% equity interest) and Alibaba Technology (holding 49% equity interest)
“Shanghai Runhe Supply Agreements”	the Northeast China Hema Supply Agreement and the Hainan Hema Supply Agreement
“Share(s)”	ordinary share(s) of the Company in issue
“Shareholder(s)”	holder(s) of Share(s)
“Shenyang Hema Delivery Business Cooperation 2021 Renewal Agreement”	the delivery cooperation agreement entered into between Shenyang Runhe and Hangzhou Rajax on 26 February 2021 in relation to the delivery services to be provided by Hangzhou Rajax
“Shenyang Hema Delivery Business Cooperation Agreement”	the delivery cooperation agreement entered into between Shenyang Runhe and Hangzhou Rajax on 31 May 2019 in relation to the delivery services for the “Hema Fresh” business model
“Shenyang Hema Delivery Business Cooperation Renewal Agreement”	the delivery cooperation agreement entered into between Shenyang Runhe and Hangzhou Rajax on 27 February 2020 in relation to the delivery services for the “Hema Fresh” business model, which renewed the Shenyang Hema Delivery Business Cooperation Agreement
“Shenyang Runhe”	瀋陽潤盒雲科技網絡有限公司 (Shenyang Runhe Network Technology Co., Ltd.*), a limited liability company incorporated in the PRC and an indirect subsidiary of the Company

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## DEFINITIONS

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Store(s)”	the retail store(s) operated by the Group
“Subsidiary”	has the meaning ascribed to it under the Listing Rules
“Subsisting Supply Agreements”	the agreements for the supply of the Relevant Supply Products and/or the Relevant Supply Services entered into by the Group and Alibaba Affiliates under the 2019 Master Supply Agreement. Please refer to the announcement published by the Company on 12 April 2019 for further details
“Substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Supply Addendum”	the addendum agreement entered into between the Company and Taobao China (on behalf of and together with Alibaba Affiliates) on 14 August 2019 in respect of the 2019 Master Supply Agreement
“Taobao China”	Taobao China Holding Limited (淘寶中國控股有限公司), a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of Alibaba Holding
“Tao Xian Da Business Cooperation Agreement”	the business cooperation agreement entered into between RT-Mart China and Hangzhou Tao Xian Da on 18 March 2021 whereby RT-Mart China agreed to cooperate with Hangzhou Tao Xian Da to adopt the “Taoxianda” (“淘鮮達”) model across the RT Stores and Auchan Stores
“Taobao Business Cooperation Agreement”	the business cooperation agreement entered into between RT-Mart China and Taobao Entities on 18 March 2021 in relation to the software and information display services provided by Taobao Entities
“Taobao Entities”	Zhejiang Taobao and Taobao Software
“Taobao Software”	淘寶(中國)軟件有限公司 (Taobao (China) Software Co., Ltd.*), a company incorporated in the PRC and a direct wholly owned subsidiary of Taobao China
“Zhejiang Niaochao”	浙江烏潮供應鏈管理有限公司 (Zhejiang Niaochao Supply Chain Management Co., Ltd.*), a company incorporated in the PRC and an indirect subsidiary of Alibaba Holding

\* for identification purpose only

**SUN ART**  
**Retail Group Limited**

**SUN ART RETAIL GROUP LIMITED**

**高鑫零售有限公司**

*(Incorporated in Hong Kong with limited liability)*  
**(Stock code: 06808)**

*Executive Director:*

Mr. LIN Xiaohai (*Chief Executive Director*)

*Non-executive Directors:*

Mr. HUANG Ming-Tuan (*Chairman*)

Mr. XU Hong

*Independent non-executive Directors:*

Ms. Karen Yifen CHANG

Mr. Dieter YIH

Mr. Charles Sheung Wai CHAN

*Registered office:*

Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

*Place of business in the PRC:*

No. 255 Jiangchang Xi Road  
Jing'an District  
Shanghai  
China

7 September 2021

*To the Shareholders*

Dear Sir/Madam,

**(I) CONTINUING CONNECTED TRANSACTIONS:  
2021 MASTER SUPPLY AGREEMENT;  
(II) CONTINUING CONNECTED TRANSACTIONS:  
2021 MASTER BUSINESS COOPERATION AGREEMENT; AND  
(III) PROPOSED AMENDMENT TO THE ARTICLES OF  
ASSOCIATION**

**1. INTRODUCTION**

**Continuing Connected Transactions: 2021 Master Supply Agreement**

References are made to the announcements of the Company made on 12 April 2019, 31 May 2019, 14 August 2019, 19 August 2020 and 22 June 2021 (collectively, hereinafter referred to as the “**Supply Related Announcements**”) in relation to the continuing connected transactions entered into between the Group and Alibaba Affiliates in relation to the Sales of

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## LETTER FROM THE BOARD

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Goods and Services by the Group to Alibaba Affiliates. The transactions contemplated under this category are similar in nature and are therefore aggregated pursuant to the requirement under Rule 14A.81 of the Listing Rules.

As disclosed in the Supply Related Announcements, since the alliance with Alibaba Group in 2017, the Group has been developing this long-term relationship and has carried out on-going transactions with Alibaba Affiliates. In April 2019, the Company entered into a number of master agreements with Taobao China for different categories of goods and services.

Under the category of Sale of Goods and Services by the Group to Alibaba Affiliates, the Company has entered into the 2019 Master Supply Agreement, the Northeast China Hema Supply Agreement and the Hainan Hema Supply Agreement, and the Promotional Goods Supply Agreement, details of which were disclosed in the 12 April Announcement and the announcements of the Company dated 31 May 2019 and 19 August 2019, respectively. Further Subsisting Supply Agreements have also been entered into subsequent to the 12 April Announcement in relation to the Sales of Goods and Services by the Group to Alibaba Affiliates.

As the current term of the 2019 Master Supply Agreement will expire on 31 December 2021, and to continue the business transactions contemplated thereunder, and for the purpose of aligning the annual caps under the category of Sale of Goods and Services by the Group to Alibaba Affiliates with the financial year end of the Group, the Company and Taobao China have entered into the 2021 Master Supply Agreement on 22 June 2021, pursuant to which the Group will supply the Relevant Supply Products and the Relevant Supply Services to Alibaba Affiliates.

Taobao China directly holds approximately 27.33% and indirectly holds approximately 46.33% of the total Shares as at the Latest Practicable Date and is therefore a substantial shareholder and a connected person of the Company under the Listing Rules. Taobao China is an indirect wholly-owned subsidiary of Alibaba Holding. Alibaba Holding is therefore also a connected person of the Company under the Listing Rules. Accordingly, the 2021 Master Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the Relevant Supply Annual Caps exceed 5%, the continuing connected transactions under the 2021 Master Supply Agreement are subject to the reporting and announcement requirements, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **2021 Master Business Cooperation Agreement**

References are made to the announcements of the Company made on (i) 8 December 2017, (ii) 19 March 2018, (iii) 15 January 2019, (iv) 12 April 2019, (v) 31 May 2019, (vi) 20 August 2019, (vii) 18 October 2019, (viii) 27 December 2019, (ix) 27 February 2020, (x) 16



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March 2020, (xi) 1 April 2020, (xii) 2 July 2020, (xiii) 26 February 2021, (xiv) 18 March 2021, (xv) 31 March 2021 and (xvi) 28 May 2021 in relation to, amongst others, the continuing connected transactions under the category of Business Cooperation between the Group and Alibaba Affiliates. The transactions contemplated under this category are similar in nature and are therefore aggregated pursuant to the requirement under Rule 14A.81 of the Listing Rules.

In view of the increasing business cooperation transactions with Alibaba Affiliates, and for the purpose of better governing the conduct of the continuing connected transactions in this respect between the Group and Alibaba Affiliates going forward, the Company and Taobao China have entered into the 2021 Master Business Cooperation Agreement on 22 June 2021, pursuant to which the Group and Alibaba Affiliates will undertake the Relevant Cooperation. The transactions contemplated under this category are similar in nature and are therefore aggregated pursuant to the requirement under Rule 14A.81 of the Listing Rules.

Following the entering into of the 2021 Master Business Cooperation Agreement and subject to obtaining the requisite Independent Shareholders' approval, connected transactions under the category of Business Cooperation between the Group and Alibaba Affiliates will be primarily governed by the 2021 Master Business Cooperation Agreement, which sets out the principal framework between the Group and the Alibaba Affiliates. For the purpose of Rule 14A.81 of the Listing Rules, this category will include the following Existing Business Cooperation Agreements, which at the time they were entered into were subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

- (a) the Original Business Cooperation Agreement, which was entered into between Alibaba Zetai, the Company, Auchan China and RT-Mart China on 7 December 2017. Please refer to the announcement published by the Company on 8 December 2017 for further details;
- (b) the Auchan Implementation Agreement, which was entered into between Auchan China and Taobao Software (a direct wholly-owned subsidiary of Taobao China) on 19 March 2018. Please refer to the announcement published by the Company on 19 March 2018 for further details;
- (c) the RT Implementation Agreement, which was entered into between RT-Mart China and Taobao Software on 19 March 2018. Please refer to the announcement published by the Company on 19 March 2018 for further details;
- (d) the RT-Mart Tao Xianda Quadripartite Implementation Agreement, which was entered into between (i) Taobao Software, (ii) RT-Mart China, (iii) Hangzhou Tao Xian Da and (iv) Hangzhou Rajax on 18 October 2019. Please refer to the announcement published by the Company on 18 October 2019 for further details;

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- (e) the Hainan Hema Business Cooperation Agreement, which was entered into between Shanghai Runhe and Shanghai Hema (an indirect wholly-owned subsidiary of Alibaba Holding) on 15 January 2019. Please refer to the announcement published by the Company on 15 January 2019 for further details;
- (f) the Northeast China Hema Business Cooperation Agreement, which was entered into between Shanghai Runhe and Shanghai Hema on 15 January 2019. Please refer to the announcement published by the Company on 15 January 2019 for further details;
- (g) the Ele Me Business Cooperation Agreement, which was entered into between RT-Mart China and Shanghai Rajax on 11 April 2019. Please refer to the announcement published by the Company on 12 April 2019 for further details;
- (h) the Ele Me Business Cooperation Renewal Agreement, which was entered into between RT-Mart China and Shanghai Rajax on 27 December 2019. Please refer to the announcement published by the Company on 27 December 2019 for further details;
- (i) the Dalian Hema Delivery Business Cooperation 2021 Renewal Agreement, which was entered into between Dalian Runhe and Hangzhou Rajax on 26 February 2021 and has been revised by the parties on 26 February 2021 pursuant to the 2021 Dalian Hema Delivery Business Cooperation Supplementary Agreement. Please refer to the announcement published by the Company on 26 February 2021 for further details of the Dalian Hema Delivery Business Cooperation 2021 Renewal Agreement, and the announcement published by the Company on 26 February 2021 for further details of the 2021 Dalian Hema Delivery Business Cooperation Supplementary Agreement;
- (j) the Shenyang Hema Delivery Business Cooperation Agreement which was entered into between Shenyang Runhe (an indirect non-wholly owned subsidiary of the Company) and Hangzhou Rajax. The Shenyang Hema Delivery Business Cooperation Agreement expired on 29 February 2020 and has been renewed by the parties on 27 February 2020 pursuant to the Shenyang Hema Delivery Business Cooperation Renewal Agreement. The Shenyang Hema Delivery Business Cooperation Renewal Agreement expired on 28 February 2021 and has been renewed by the parties on 26 February 2021 pursuant to the Shenyang Hema Delivery Business Cooperation 2021 Renewal Agreement. Please refer to the announcement published by the Company on 31 May 2019 for further details of the Shenyang Hema Delivery Business Cooperation Agreement, the announcement published by the Company on 27 February 2020 further details of the Shenyang Hema Delivery Business Cooperation Renewal Agreement, and the announcement published by the Company on 26 February 2021 for further details of the Shenyang Hema Delivery Business Cooperation 2021 Renewal Agreement;

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- (k) the Auchan Tao Xianda Quadripartite Implementation Agreement which was entered into between (i) Taobao Software, (ii) Auchan China, (iii) Hangzhou Tao Xian Da and (iv) Hangzhou Rajax on 18 October 2019. Please refer to the announcement published by the Company on 18 October 2019 for further details;
- (l) (1) the 2020 RT-Mart China Rajax Network Shanghai Ele Me Business Cooperation Agreement (Promotion Service), which was entered into between RT-Mart China and Rajax Network Shanghai on 1 April 2020, and (2) the 2020 Auchan China Rajax Network Shanghai Ele Me Business Cooperation Agreement (Promotion Service), which was entered into between Auchan China and Rajax Network Shanghai on 1 April 2020. Please refer to the announcement published by the Company on 1 April 2020 for further details;
- (m) the RT-Mart China Ele Me Online Food Ordering Business Cooperation Agreement, which was entered into between RT-Mart China and the Rajax Entities on 1 July 2020. Please refer to the announcement published by the Company on 2 July 2020 for further details;
- (n) the Auchan China Ele Me Online Food Ordering Business Cooperation Agreement, which was entered into between Auchan China and the Rajax Entities on 2 July 2020. Please refer to the announcement published by the Company on 2 July 2020 for further details;
- (o) (1) the Tao Xian Da Business Cooperation Agreement, which was entered into between RT-Mart China and Hangzhou Tao Xian Da on 18 March 2021, (2) the RT-Mart China Zhejiang Niaochao Delivery Business Cooperation Agreement, which was entered into between RT-Mart China and Zhejiang Niaochao on 18 March 2021, (3) the 2021 RT-Mart China Zhejiang Niaochao Delivery Business Cooperation Supplementary Agreement entered into between RT-Mart China and Zhejiang Niaochao on 28 May 2021, and (4) the Taobao Business Cooperation Agreement, which was entered into between RT-Mart China and Taobao Entities on 18 March 2021. Please refer to the announcements published by the Company on 18 March 2021 and 28 May 2021 for further details;
- (p) (1) the Ele Me Business Cooperation 2021 Renewal Agreement, which was entered into between RT-Mart China and Rajax Entities on 31 March 2021, and (2) the 2021 RT-Mart China Rajax Network Shanghai Ele Me Business Cooperation Agreement (Promotion Service) 31 March 2021. Please refer the announcement published by the Company on 31 March 2021 for further details; and
- (q) the 2021 Shenyang Hema Delivery Business Cooperation Supplementary Agreement entered into between Shenyang Runhe and Hangzhou Rajax on 28 May 2021. Please refer the announcement published by the Company on 28 May 2021 for further details.

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Taobao China directly holds approximately 27.33% and indirectly holds approximately 46.33% of the total Shares as at the Latest Practicable Date and is therefore a substantial shareholder and a connected person of the Company under the Listing Rules. Taobao China is an indirect wholly-owned subsidiary of Alibaba Holding. Alibaba Holding is therefore also a connected person of the Company under the Listing Rules. Accordingly, the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the Relevant Business Cooperation Annual Caps under the category of Business Cooperation between the Group and Alibaba Affiliates exceed 5%, the continuing connected transactions under the 2021 Master Business Cooperation Agreement are subject to the reporting and announcement requirements, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The entering into of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps are subject to the Independent Shareholders' approval at the EGM and details of which are set out below.

### **Proposed amendment to articles of association**

Reference is made to the announcement of the Company dated 11 June 2021 in relation to the Proposed Amendment of the Articles of Association. The Company proposed an amendment to be made to the Articles of Association in order to enhance the flexibility of the corporate governance structure of the Company.

The purpose of this circular is to provide you with, among other things:

- (i) details of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder and the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps;
- (ii) the advice and recommendations from the Independent Board Committee to the Independent Shareholders in respect of the 2021 Master Supply Agreement, the 2021 Master Business Cooperation Agreement, the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps;
- (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its recommendation in respect of the 2021 Master Supply Agreement, the 2021 Master Business Cooperation Agreement, the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps;
- (iv) further details of the Proposed Amendment to the Articles of Association;
- (v) a notice convening the EGM; and

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(vi) other information required under the Listing Rules.

At the EGM, ordinary resolutions will be proposed to approve (i) the entering into of the 2021 Master Supply Agreement and the Relevant Supply Annual Caps; (ii) the entering into of the 2021 Master Business Cooperation Agreement and the Relevant Business Cooperation Annual Caps; and (iii) the transactions contemplated thereunder, and a special resolution will be proposed to approve the Proposed Amendment to the Articles of Association.

### 2. CONTINUING CONNECTED TRANSACTIONS

#### 2021 Master Supply Agreement

##### *(i) Key terms of the 2021 Master Supply Agreement*

As disclosed in the Master BCA and Supply Announcement, the principal terms of the 2021 Master Supply Agreement are as follows:

<b>Date</b>	:	22 June 2021 (after trading hours)
<b>Parties</b>	:	(i) The Company; and  (ii) Taobao China (on behalf of and together with Alibaba Affiliates).
<b>Term</b>	:	The term shall commence from the Effective Date (2021 MSA) and ending on 31 March 2024, unless at any time prior to the expiry of the 2021 Master Supply Agreement either party gives the other party of not less than one (1) month's prior notice to terminate the 2021 Master Supply Agreement.
<b>Effective Date (2021 MSA)</b>	:	The date on which Independent Shareholders' approval of the Company has been obtained in respect of the 2021 Master Supply Agreement in the EGM.
<b>Nature of transaction</b>	:	Pursuant to the 2021 Master Supply Agreement, Taobao China (through members of Alibaba Affiliates) agreed to and shall procure Alibaba Affiliates to, purchase from the Group, and the Group agreed to supply to Alibaba Affiliates, the Relevant Supply Products and/or Relevant Supply Services (together with any other services and/or products as may be agreed in writing by the parties from time to time).

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Each of the Company and Taobao China shall, and shall procure the relevant entities within the Group and Alibaba Affiliates (as appropriate) to, enter into relevant agreements (as applicable) setting out the terms and conditions of the sales of the Relevant Supply Products and/or the Relevant Supply Services.

- Prices and fees** : The selling price for the Relevant Supply Products and/or the Relevant Supply Services (inclusive of any value-added tax, customs duties, other relevant taxes payable by the Group, packaging and delivery costs, etc. included) will be determined at the time of the particular sale based on arm's length negotiations with reference to (i) the selling price charged for the same category of services and/or products offered to independent purchasers at the time of a particular transaction; (ii) the gross profit margin expected by the Group in respect of the Relevant Supply Products and/or Relevant Supply Services of the same categories; and (iii) the price of products and services of the same categories as the Relevant Supply Products and/or Relevant Supply Services generally offered on the market by independent third parties.
- Payment arrangements** : Payment of the relevant consideration of the Relevant Supply Products and/or the Relevant Supply Services shall be settled by Alibaba Affiliates in cash each half a month on the 5th day and 20th day of each calendar month, or any date as agreed by parties.
- Relationship with the Subsisting Supply Agreements** : With effect from the Effective Date (2021 MSA), the Parties agreed that the Subsisting Supply Agreements that used to be governed by the 2019 Master Supply Agreement shall instead be governed by and subject to the 2021 Master Supply Agreement and the annual caps of the Subsisting Supply Agreements have been incorporated into the Relevant Supply Annual Caps.

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**Relationship with the Northeast China Hema Supply Agreement, the Hainan Hema Supply Agreement, and the Promotional Goods Supply Agreement** : With effect from the Effective Date (2021 MSA), the Parties agreed that the Northeast China Hema Supply Agreement, the Hainan Hema Supply Agreement, and the Promotional Goods Supply Agreement shall be governed by and subject to the 2021 Master Supply Agreement and the annual caps of these agreements have been incorporated into the Relevant Supply Annual Caps.

*(ii) General transaction principles*

The Group shall conduct review and evaluation of the fees chargeable under the 2021 Master Supply Agreement with reference to the (i) the selling price charged for the same category of services and/or products offered to independent purchasers at the time of a particular transaction; (ii) the gross profit margin expected by the Group in respect of the Relevant Supply Products and/or Relevant Supply Services of the same categories; and (iii) the price of products and services of the same categories as the Relevant Supply Products and/or Relevant Supply Services generally offered on the market by independent third parties in order to ensure that the fees under such agreements are conducted on normal commercial terms.

Where it is impracticable to make reference to the rate of the fees chargeable for the products and/or services offered by independent third party service providers for comparable products and/or services, the Group will take into consideration the specifications, cost structure, profit margin, market condition and development strategy in determining the rate for the fees chargeable by the Group pursuant to the 2021 Master Supply Agreement, ensuring the terms of the agreements are in the interest of the Group.

To ensure the price determination and terms of the transactions under the 2021 Master Supply Agreements comply with the Listing Rules, operation departments are required to submit the written agreements and materials to the legal department, including the estimated transaction amounts, an analysis on the fairness of the commercial terms and pricing with the support of market research data or cost analysis, for approval prior to entering into such agreements.

*(iii) Historical transaction amounts and the Relevant Supply Annual Caps*

The aggregate of the transaction amounts under the category of Sale of Goods and Services by the Group to Alibaba Affiliates, being the aggregate of the transaction amounts payable by Alibaba Affiliates to the Group (i) for the two years ended 31 December 2019, and 31 December 2020 amounted to approximately RMB373.1 million, and approximately RMB2,519.1 million, respectively.

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Accordingly, the proposed annual caps under the category of Sale of Goods and Services by the Group to Alibaba Affiliates for the three years ending 31 March 2024, are set out as follows:

	<b>For the financial year ending 31 March 2022 RMB</b>	<b>For the financial year ending 31 March 2023 RMB</b>	<b>For the financial year ending 31 March 2024 RMB</b>
Relevant Supply Annual Caps	18,000,000,000	25,300,000,000	35,000,000,000

The above proposed annual caps are not intended, and do not purport, to be an indication of the Group's future performance or profitability and investors should not rely on the proposed annual caps in deciding whether to invest in the Shares of the Company.

The proposed annual caps under the category of sale of goods and services by the Group to Alibaba Affiliates under 2021 Master Supply Agreement primarily consists of the following main business categories with Alibaba Affiliates; namely, Shared Inventory and Alibaba Group's community group buying ("CGB") business (which include Hema Market and Cainiao CGB) and were determined based on the following factors:

*Shared Inventory* (“共享庫存”)

The estimated proposed annual caps amounts under the Shared Inventory category were calculated with reference to:

- (a) Estimations between Sun Art and Alibaba, as Alibaba has a database of its customers' historical spending habits, order type and size and patterns in different cities where the Group has physical stores. In this regard, the estimated daily order per store and amount per order are determined based on the Group's experience in operating one-hour and half-day delivery on its own platform and also take into account Alibaba's past experience in operating online sales platforms considering the number of registered Tmall customers and their preferences for each store location;
- (b) On top of estimated sales through Tmall under the Shared Inventory business model mentioned above, the Group has also included the estimations of the associated costs with respect to managing one-hour delivery and half-day delivery, product packaging, warehouse rental, energy and depreciation; and



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- (c) Transaction amounts under the category of supply of goods and services in the coming years as compared to the historical amounts for the year ended 31 December 2020. The historical transaction amounts under the Shared Inventory category in 2019 and 2020 accounted for approximately 67% and 90% of the total historical amounts, respectively.

The Group's Shared Inventory initiative piloted in June 2019 and 2020 was the year in which the Group started to ramp up transactions with Alibaba Affiliates under this business model and the transactions in 2020 registered growth of approximately 8 times compared to that in 2019. It is projected that the percentage growth rates for the proposed annual cap amounts under this category for the year ending 31 March 2022 would be approximately 4 times as compared to the year ended 31 December 2020 and for the two years ending 31 March 2024 would be in the high teens, respectively.

### *CGB*

#### “Cainiao Post” “菜鳥驛站”

The historical transaction amounts under “Cainiao Post” “菜鳥驛站”, which represented approximately 2% and 6% of the total amount of Relevant Supply to Alibaba Affiliates for the year ended 31 December 2019 and 2020 respectively, registered a growth of 20 times from 2019 to 2020. It is projected that the transaction amounts under the “Cainiao Post” “菜鳥驛站” category will further increase by approximately around 30 times for the 15 months ending 31 March 2022. The proposed annual caps amounts under the “Cainiao Post” “菜鳥驛站” category were estimated based on (i) the projected number of active community group buying initiators within “Cainiao Network” “菜鳥網絡” for the three years ending 31 March 2024, and (ii) the estimated average transaction amount per order and on a 365 days per year basis.

It is projected that the proposed annual caps amounts under the “Cainiao Post” “菜鳥驛站” category will grow by approximately 30 times for the 15 months ending 31 March 2022, high teens and about 50% growth for the two years ending 31 March 2024, respectively, with reference to:

- While the number of active community group buying initiators to the number of “Cainiao Post” “菜鳥驛站” pick-up points is currently at a relatively low level (i.e. less than 10,000 up to 30 June 2021), however, with an aim to achieving the target for at least one active community group buying initiator for each Cainiao Post pick-up point, the Group currently expects the number of active community group buying initiators within the Cainiao Network will cover at least two-third of the Cainiao Post pick-up points by 31 March 2022 and will reach full coverage by 31 March 2024. Currently, there are approximately 50,000 Cainiao Post pick-up points in the PRC, according to Cainiao Post. Therefore, with an aim to achieving such target, which implied that the number of active community group buying initiators is expected to

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increase by over 20 times from 31 December 2020 to the 15 months period ending 31 March 2022 and shall further increase by approximately 10% and 15% for the two years ending 31 March 2024. This has taken reference from an increase in the number of such buying initiators historically and current market focus in CGB business in the PRC; and

- the expected increase in the average transaction amount per order for approximately 66% for the 15 months period ending 31 March 2022 as compared to the year ended 31 December 2020, and a further increase at a compound annual growth rate of around 20% for the two years ending 31 March 2024. The Company envisages the increase in the average transaction amount per order having taken into account of the growth of increased transaction amount per order of the major market competitors ranged from approximately 50% to 100% over nine months period of 2020 as compared to the corresponding period of prior year.

### *Hema Market*

The estimated proposed annual cap amounts under the Hema Market category were calculated based on the estimated cost of services provided to Alibaba Affiliates with reference to the projected sales to be conducted through Hema Market. It is estimated that Relevant Supply fees will be charged to Alibaba Affiliates based on the projected sales amount to be assigned to the Group for the three years ending 31 March 2024. It is estimated that approximately 10%-20% of the total revenue under the 2021 Master Supply Agreement for the year ending 31 March 2022 will be generated from the Hema Market category. It is also estimated that approximately 20% to 30% and 30% to 40% of the total revenue will be generated from the Hema Market category for the two years ending 31 March 2023 and 2024, respectively. As at 31 March 2021, the Group's retail stores covered 234 cities in China and it is expected that more than half of the cities which the Group has coverage would have been equipped to facilitate the CGB business under Hema Market for the year ending 31 March 2022. The Group expects such business coverage will be further expanded to all the cities that the Group has coverage in by 31 March 2024. It is also expected that this business will be further expanded to the cities which are not yet covered by the Group given the current 10 regional distribution centers and their coverage capabilities.

### *(iv) Basis for the Relevant Supply Annual Caps*

In determining the Relevant Supply Annual Caps, the Board has taken into account the following factors:

- (a) the historical amount of fees received by the Group under the category of Sale of Goods and Services by the Group to Alibaba Affiliates;
- (b) the wide range of the Relevant Supply Products and/or the Relevant Supply Services supplied and to be supplied under the 2021 Master Supply Agreement;

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- (c) the quality of the Relevant Supply Products and/or the Relevant Supply Services supplied and to be supplied under the 2021 Master Supply Agreement;
  - (d) the anticipated number of stores of the Group participating in the shared inventory arrangements (“共享庫存”);
  - (e) the estimated number of orders and amount per order for each type of participating stores referred to in (d) above;
  - (f) the implementation timeline of the shared inventory arrangement;
  - (g) the anticipated number of the products and services that the Group will supply to the Alibaba Affiliates under the 2021 Master Supply Agreement;
  - (h) the Company’ ongoing strategy to utilise the internet technologies and the expansion in the market segment offered through the “Hema Fresh” (“盒馬鮮生”) model and online platforms including the “Ele.me” (“餓了麼”), the “Taoxianda” (“淘鮮達”) and the “Niaochao Delivery” (“鳥潮配送”) to increase the efficiency of the traditional hypermarket and supermarket Stores;
  - (i) the estimated transaction value of Relevant Supply Products and/or the Relevant Supply Services under “Cainiao” (“菜鳥驛站”);
  - (j) the estimated transaction value of Relevant Supply Products and/or the Relevant Supply Services under “Tmall Supermarket” (“天貓超市”); and
  - (k) the anticipated increase in the scale of operation of the Group.
- (v) *Reasons for and benefits of entering into the 2021 Master Supply Agreement*

The Company believes that the growing business cooperation between the Group and Alibaba Affiliates under the 2021 Master Supply Agreement will enable the Group to promote and increase sales of its products through various distribution channels, including retail stores and online platform which is essential in the growing PRC retail market.

In light of the above as well as the categories and quality of the Relevant Supply Products and/or the Relevant Supply Services offered and to be offered under the 2021 Master Supply Agreement, the Directors (including the independent non-executive Directors who have taken into consideration of the advice from the Independent Financial Adviser) believe that it is for the benefit of the Group to enter into the 2021 Master Supply Agreement and consider that the transactions contemplated thereunder are in the usual and ordinary course of business of the Group.

The Directors (including the independent non-executive Directors who have taken into consideration of the advice from the Independent Financial Adviser) are of the view that (i) the entering into of the 2021 Master Supply Agreement and the Relevant Supply Annual Caps are fair and reasonable and are in the interests of the Company and its Shareholders as a whole; and (ii) the entering into of the 2021 Master Supply Agreement and the transactions contemplated thereunder were on normal commercial terms or better, and in the ordinary and usual course of business of the Group.

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### 2021 Master Business Cooperation Agreement

(i) *Key terms of the 2021 Master Business Cooperation Agreement*

As disclosed in the Master BCA and Supply Announcement, the principal terms of the 2021 Master Business Cooperation Agreement are as follows:

<b>Date</b>	:	22 June 2021 (after trading hours)
<b>Parties</b>	:	(i) The Company; and  (ii) Taobao China (on behalf of and together with Alibaba Affiliates).
<b>Term</b>	:	The term shall commence from the Effective Date (2021 MBCA) and ending on 31 March 2024, unless at any time prior to the expiry of the 2021 Master Business Cooperation Agreement either party gives the other party of not less than one (1) month's prior notice to terminate the 2021 Master Business Cooperation Agreement.
<b>Effective Date (2021 MBCA)</b>	:	The date on which Independent Shareholders' approval of the Company has been obtained in respect of the 2021 Master Business Cooperation Agreement in the EGM.
<b>Nature of transaction</b>	:	Pursuant to the 2021 Master Business Cooperation Agreement, Taobao China (through members of Alibaba Affiliates) agreed to, and shall procure Alibaba Affiliates to, engage in the Relevant Cooperation with the Group, and the Group agrees to engage in the Relevant Cooperation with Alibaba Affiliates (together with any other cooperation as may be agreed in writing by the parties from time to time), which may be required by the Group in circumstances which are of commercial benefit to the Group.

Each of the parties shall, and shall procure the relevant entities within Alibaba Affiliates or the Group (as appropriate) to, enter into relevant agreements (as applicable) setting out the terms and conditions of the Relevant Cooperation.

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- Prices and fees** : The consideration for the Relevant Cooperation (inclusive of any value-added tax, customs duties, other relevant taxes payable by the relevant cooperating partner(s), and packaging and delivery costs) with the cooperating partner(s), that is determined at the time of the particular cooperation based on arms-length negotiation with due regards to (i) the price charged for the same category of services as the Relevant Cooperation offered by independent third party service providers at the time of a particular transaction; and (ii) the price of identical or similar Relevant Cooperation generally offered on the market by independent third parties.
- Payment arrangements** : Payment of the relevant consideration shall be made as and when due pursuant to the terms of each relevant agreement. Each Party shall make each payment and undertake the Relevant Cooperation in accordance with the terms and conditions of each relevant agreement.
- Relationship with the Existing Business Cooperation Agreements** : With effect from the Effective Date (2021 MBCA), the parties agreed that the Existing Business Cooperation Agreements shall be governed by and subject to the 2021 Master Business Cooperation Agreement and the annual caps of the Existing Business Cooperation Agreements have been incorporated into the annual caps of the 2021 Master Business Cooperation Agreement.

*(ii) General transaction principles*

The Group shall conduct review and evaluation of the fees payable under the 2021 Master Business Cooperation Agreement with reference to (i) the price charged for the same category of services as the Relevant Cooperation offered by independent third party service providers at the time of a particular transaction; and (ii) the price of identical or similar Relevant Cooperation generally offered on the market by independent third parties, in order to ensure that the fees under such agreements are conducted on normal commercial terms.

Where it is impracticable to make reference to the rate of the service fees offered by independent third party service providers for comparable services, the Group will take into consideration the cooperative specifications, cost structure, market condition and development strategy in determining the rate for the fees payable by the Group pursuant to the 2021 Master Business Cooperation Agreement, ensuring the terms of the agreements are in the interest of the Group.

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To ensure the price determination and terms of the transactions under the 2021 Master Supply Agreements comply with the Listing Rules, operation departments are required to submit the written agreements and materials to the legal department, including the estimated transaction amounts, an analysis on the fairness of the commercial terms and pricing with the support of market research data or cost analysis, for approval prior to entering into such agreements.

***(iii) Historical transaction amounts and the Relevant Business Cooperation Annual Caps***

The aggregate of the transaction amounts under the category of Business Cooperation between the Group and Alibaba Affiliates, being the aggregate of the transaction amounts payable by the Group to Alibaba Affiliates (i) for the two years ended 31 December 2019, 31 December 2020 amounted to approximately RMB1,148.8 million, and RMB1,655.3 million, respectively.

Accordingly, the proposed annual caps under the category of Business Cooperation between the Group and Alibaba Affiliates for the following periods, are set out as follows:

	<b>For the financial year ending 31 March 2022 RMB</b>	<b>For the financial year ending 31 March 2023 RMB</b>	<b>For the financial year ending 31 March 2024 RMB</b>
Relevant Business			
Cooperation Annual Caps	7,800,000,000	12,400,000,000	17,000,000,000

The above proposed annual caps are not intended, and do not purport, to be an indication of the Group's future performance or profitability and investors should not rely on the proposed annual caps in deciding whether to invest in the Shares of the Company.

The proposed annual caps under the category of Business Cooperation between the Group and Alibaba Affiliates for the three years ending 31 March 2024 mainly consist of the estimated amounts of the four main business categories with Alibaba Affiliates; namely, "Hema Market", "Taoxianda" ("淘鮮達"), "Ele.me" ("餓了麼") and "Niaochao" ("鳥潮") and were determined based on the following factors:

***"Hema Market"***

The proposed annual caps amounts under the "Hema Market" category were estimated based on platform fee chargeable to the Group and calculated with reference to the estimated transaction value. Such transaction value is primarily estimated based on the number of cities expected to be involved for such services and the estimated order size for each year. It is estimated that approximately 30% to 40% of the total costs of the Relevant Cooperation under the 2021 Master Business Cooperation Agreement for the year ending 31 March 2022 will be generated from the Hema Market transactions, and

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## LETTER FROM THE BOARD

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approximately 45% to 55% and 50% to 60% of the total costs of the Relevant Cooperation will be generated from the Hema Market services fees for the two years ending 31 March 2024, respectively. As at 31 March 2021, the Group's retail stores covered 234 cities in China and it is expected that more than half of the cities which the Group has coverage would have been equipped to facilitate the CGB business under Hema Market for the year ending 31 March 2022. The Group expects such business coverage will be further expanded to all the cities that the Group has coverage in by 31 March 2024. It is also expected that the business will be expanded to the cities which are not yet covered by the Group given the current 10 regional distribution centers and their coverage capabilities. Further, it is estimated that the average order size will grow at approximately 20% to 25% per year for the three years ending 31 March 2024, respectively. The target and assumptions were made with reference to (i) the number of cities covered as well as the number of orders per city by the CGB market players with similar capacities and (ii) the average historic order size in the CGB market. In the view of the potential growth of CGB sector and as one of the major sellers on Hema Market, the Group is expected to benefit from the increase in the number of orders and order size.

*“Taoxianda” (“淘鮮達”)*

The historical transaction amounts under the “Taoxianda” “淘鮮達” category in 2019 and 2020 represented approximately 30% and 32% of the total amounts under the Relevant Business Cooperation with Alibaba Affiliates for the year ended 31 December 2020, respectively. This category of business cooperation enables the Group to use Taobao's software across its hypermarkets and supermarkets in order to allow ordering, payment and delivery of products to Alibaba Affiliates' online customers. As such, the proposed annual caps amounts were estimated based on the Group's projected transaction amounts on “Taoxianda” “淘鮮達”, platform fee for the use of such platform and a levy for the use of Alipay service. It is estimated that approximately 10% or less than 10% of the total cost of Relevant Cooperation under the 2021 Master Business Cooperation Agreement for the three years ending 31 March 2024 will be generated from this type of transaction. In terms of transaction amounts, it is projected that it will increase by approximately 40% for the 15 months ending 31 March 2022 as compared to the year ended 31 December 2020.

The Company projects the growth of the transaction amount in “Taoxianda” based on the historical growth which approached 50% for the year ended 31 December 2020 as compared to the same period in 2019 and the projected growth in the Group's B2C business for coming years taking in to account of the following factors (**“B2C Business Growth Factors”**):-

- Average growth rate of online sales of food and consumer goods – items of the Group's sales – was 30.4% and 16.2% respectively during the past two years;

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## LETTER FROM THE BOARD

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- Based on sales transactions among the platforms for the three months ended 30 June 2021, it was noted that approximately 80% of the B2C sales were from Alibaba Affiliate’s online platforms (i.e. “Taoxianda” “淘鮮達”, “Ele.me” “餓了麼” and Tmall under shared inventory);
- The order numbers and the transaction value from B2C platforms including “Taoxianda” “淘鮮達”, RT-Mart Fresh App (the Group’s own online store app), “Ele.me” “餓了麼” and Tmall under shared inventory increased from approximately 65% and 86% for the year ended 31 December 2020 as compared to the year before;
- During the three months ended 30 June 2021, the Company achieved approximately 28% year-over-year growth in online orders, with the shared inventory initiative with Tmall Supermarket being the biggest growth contributor, according to the announcement of June 2021 quarter results of Alibaba;
- More promotional and commercial campaign opportunities such as double 11 and double 12 will be scheduled during second half of the year; and
- Various initiatives to be integrated with the Group’s B2C business following further in-depth cooperation with Alibaba Affiliates.

“Ele.me” (“餓了麼”)

The historical transaction amounts under the “Ele.me” “餓了麼” category in 2019 and 2020 represented approximately 2% and 3% of the total amounts under the Relevant Business Cooperation with Alibaba Affiliates, respectively. The proposed annual caps amounts was estimated to register a growth rate of over 200% for the year ending 31 March 2022 as compared to the historical amount for the year ended 2020. It is estimated that approximately 5% or less than 5% of the total cost of the Relevant Cooperation under the 2021 Master Business Cooperation Agreement for the three years ending 31 March 2024 will be generated from this type of transaction. In terms of transaction amount, it is estimated it will increase by approximately 200% for the 15 months ending 31 March 2022 as compared to the year ended 31 December 2020. The projected percentage growth in terms of annual cap amount under this category for the three years to 31 March 2024 is expected to increase in the high teens in each year.

The Company projects the growth of the transaction amount in “Ele.me” based on the historical growth of around 100% of platform fee paid to Ele.me for the year ended 31 December 2020 as compared to the same period in 2019 and the projected growth in the Group’s B2C business for coming years taking in to account of B2C Business Growth Factors.



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## LETTER FROM THE BOARD

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“Niaochao” (“鳥潮”)

Prior to the engagement of “Niaochao” (“鳥潮”) for distribution and delivery services by the Group, relevant delivery service fees were included in the transaction amount under “Taoxianda” “淘鮮達” and “Ele.me” “餓了麼” as a package. Since mid-March 2021, such distribution and delivery services have been charged to “Niaochao” (“鳥潮”) separately. The historical transaction amounts under “Niaochao” (“鳥潮”) and distribution services from “Taoxianda” “淘鮮達”, “Ele.me” “餓了麼” and RT-Mart App in both 2019 and 2020 accounted for approximately 60% and 64% of the total transaction amounts under the category of business cooperation with Alibaba Affiliates, and recorded a growth of about 50% in 2020. It is further estimated that the transaction amount under this category will increase in the high teens for the two years ending 31 March 2024, respectively, and such growth is expected to be in line with the growth in the Group’s B2C business. It is estimated that approximately 45% to 55% of the proposed annual cap under the Relevant Business Cooperation between the Group and Alibaba Affiliates for the year ending 31 March 2022 will be assigned for “Niaochao” (“鳥潮”) and such percentage will gradually reduce to approximately 30% to 35% for the year ending 31 March 2024. The estimated delivery fees were based on existing delivery fees charge per order and on projected number of orders under “Taoxianda” “淘鮮達” platform, “Ele.me” “餓了麼” and RT-Mart App for the three years ending 31 March 2024.

***(iv) The Relevant Business Cooperation Annual Caps***

In determining the Relevant Business Cooperation Annual Caps, the Board has taken into account the following factors:

- (a) the wide range of the Relevant Cooperation between the Group and Alibaba Affiliates under the 2021 Master Business Cooperation Agreement;
- (b) the historical amount of fees paid by the Group under the category of Business Cooperation between the Group and Alibaba Affiliates;
- (c) the estimated transaction value through the online platforms operated by Alibaba Affiliates through its “Taoxianda” (“淘鮮達”) and “Ele.me” (“餓了麼”) business based on projected customers’ demand;
- (d) the estimated transaction value and the fee for of the delivery services under the “Hema Fresh” (“盒馬鮮生”) model and other business models based on projected customers’ demand;
- (e) the Company’s ongoing strategy to utilise the internet technologies and the expansion in the market segment offered through the “Hema Fresh” (“盒馬鮮生”) model and online platforms including the “Ele.me” (“餓了麼”), the “Taoxianda” (“淘鮮達”) and the “Taobao Marketplace” (“淘寶網”) to increase the efficiency of the traditional hypermarket and supermarket Stores; and
- (f) the anticipated increase in the scale of the Group’s operation through any new business model.

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## LETTER FROM THE BOARD

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*(v) Reasons for and benefit of entering into the 2021 Master Business Cooperation Agreement*

In light of the continuous business cooperation with members of Alibaba Affiliates, the Company believes that it is for the benefit of the Group to conduct the transactions contemplated under the 2021 Master Business Cooperation Agreement.

The Directors (including the independent non-executive Directors who have taken into consideration of the advice from the Independent Financial Adviser) believe that the arrangements contemplated under the 2021 Master Business Cooperation Agreement will facilitate the Group's on-going leverage of Alibaba Affiliates' expertise in internet technologies and digital infrastructure to expand its online food ordering and retail channels to maximise the revenue of the Group. They allow the Group to digitalise and introduce further new retail solutions. The alliance with Alibaba Group will enable the Group's activities to benefit from Alibaba Affiliates' digital ecosystem and also promote the development of business cooperations including "Ele.me" ("餓了麼"), "Taoxianda" ("淘鮮達"), "Taobao Marketplace" ("淘寶網") and "Hema Fresh" ("盒馬鮮生") for the Group.

The Directors (including the independent non-executive Directors who have taken into consideration of the advice from the Independent Financial Adviser) are of the view that the transactions contemplated under the 2021 Master Business Cooperation Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, and that the terms of such agreements and the Relevant Business Cooperation Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### INFORMATION OF THE PARTIES

#### **The Group**

The principal activity of the Group is the operation of brick-and-mortar stores and online sales channels in the PRC.

#### **Alibaba Holding and Alibaba Group**

Alibaba Holding is a company incorporated in the Cayman Islands, with its American depositary shares, each representing eight ordinary shares, listed on the New York Stock Exchange (Stock Symbol: BABA), and its ordinary shares listed on the Main Board of the Stock Exchange (Stock Code: 9988). Alibaba Group's mission is to make it easy to do business anywhere. Alibaba Group aims to build the future infrastructure of commerce and envisions that its customers will meet, work and live at Alibaba, and that it aspires to be a good company that will last for 102 years. Alibaba Group's businesses are comprised of core commerce, cloud computing, digital media and entertainment and innovation initiatives.

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## LETTER FROM THE BOARD

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### **Taobao China**

Taobao China is a limited liability company incorporated in Hong Kong and an indirect wholly-owned Subsidiary of Alibaba Holding. Taobao China is the direct holding company of certain PRC subsidiaries of Alibaba Holding relating to Taobao Marketplace, China's leading mobile commerce destination with a large and growing social community, and Tmall, the world's leading third-party online and mobile commerce platform for brands and retailers, in each case in terms of gross merchandise value in the twelve months ended March 31, 2020.

### **INTERNAL CONTROL PROCEDURES ON THE CONTINUING CONNECTED TRANSACTIONS**

The Company has adopted and implemented the following internal control procedures to comply with the Listing Rules requirements with respect to the supervision and monitoring of the transactions contemplated under the 2021 Master Supply Agreement and the 2021 Business Cooperation Agreement (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps):

- (a) The Company has formulated and implemented an internal policy in relation to the management of connected transactions and all departments and divisions of the Company and its subsidiaries must follow the requirements under such policy and the representatives of different departments are required to attend regular internal meetings and meet at least once every quarter to report on connected transactions, including but not limited to the review process, annual caps and pricing of connected transactions conducted during the period. Representatives of different departments are also required to participate in trainings in relation to connected transactions held regularly every year;
- (b) The Group's procurement department has set up a committee whose responsibility is to collate, on a daily basis, prices for the relevant products and/or services in order to ensure that the transactions under the 2021 Master Supply Arrangement and 2021 Business Cooperation Agreement are conducted on normal commercial terms. More specifically, the Group maintains a centralised commodity system that generates the costs of the relevant products and/or services automatically and will add a margin rate on top of such cost to arrive at the selling price. The applicable margin rates vary according to the different products and sales models and are determined according to factors including prevailing market prices and prices offered to independent customers to ensure that the pricing terms for each of the transactions under such master supply agreement are no less favourable to the Group than those offered to comparable independent customers, and that the transactions are on normal commercial terms. The prevailing market prices and prices offered to independent customers are collected through daily online research on competitors' online platforms and market research carried out at the Group's stores;

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## LETTER FROM THE BOARD

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- (c) The respective managers and senior managers of each of the products and sales models responsible for different transactions will review the gross profit margin report on a daily basis and will adjust sales prices of the products and/or services under the 2021 Master Supply Agreement if they deviate from a reasonable range of prices based on the considerations set out above;
- (d) The same procurement committee will also review, evaluate and approve the sales price and fees payable to Alibaba Affiliates under the 2021 Master Business Cooperation Agreement with reference to at least two rates quoted by other independent third party service providers of comparable services on a quarterly basis, in order to ensure that the fees under such agreements are conducted on normal commercial terms. They will review the transaction amount and compare the price and terms to rates quoted by other independent third party service providers before approval. Where it is impracticable to make reference to the rate of the service fees offered by independent third party service providers for comparable services, the Group will take into consideration the cooperative specifications, cost structure, market condition and development strategy in determining the rate for the fees payable by the Group with the view to ensure the terms of the agreements are in the best interest of the Group;
- (e) The finance department of the Company has been collecting and will continue to collect information on the actual transactions conducted with the relevant parties, and the corresponding transaction amounts under the 2021 Master Supply Agreement and the 2021 Business Cooperation Agreement, on a monthly basis and from time to time, respectively, and has been updating such information to the legal department, the chief executive officer and the chief financial officer of the Company to monitor these transaction amounts. The legal department has been providing regular updates of the connected transactions and transaction amounts to the board of Directors (including the independent non-executive Directors);
- (f) To ensure the price determination and terms of the transactions under the 2021 Master Supply Agreements and the 2021 Master Business Cooperation Agreement comply with the Listing Rules, operation departments are required to submit the written agreements and materials to the legal department, including the estimated transaction amounts, the category that the connected transactions fall under, an analysis on the fairness of the commercial terms and pricing with the support of market research data or cost analysis, for approval prior to entering into such agreements. Further, operation departments are required to track actual transaction amounts and the use of the Relevant Business Cooperation Annual Caps and Relevant Supply Annual Caps on a monthly basis;
- (g) The Company will continue to closely monitor the implementation of the connected transactions and, in the event that any adjustment to an annual cap becomes foreseeable, will take prompt action to make necessary disclosure and obtain the Independent Shareholders' approval;

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## LETTER FROM THE BOARD

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- (h) The Company's external auditors have reviewed and will continue to review the connected transactions under each of the 2021 Master Supply Agreement and the 2021 Business Cooperation Agreement annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the relevant annual caps have been exceeded; and
- (i) The independent non-executive Directors will review the continuing connected transactions under the 2021 Master Supply Agreement and the 2021 Business Cooperation Agreement quarterly to check and confirm whether such continuing connected transactions have been conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions are conducted in accordance with the pricing policies set out in such relevant agreements.

The Directors are of the view that the above methods and procedures can ensure that the pricing and other contract terms for the Group's continuing connected transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders and that transactions under the 2021 Master Supply Agreement and the 2021 Business Cooperation Agreement are conducted in compliance with Chapter 14A of the Listing Rules.

### LISTING RULES IMPLICATIONS

Taobao China directly holds approximately 27.33% and indirectly holds approximately 46.33% of the total Shares as at the Latest Practicable Date and is therefore a substantial shareholder and a connected person of the Company under the Listing Rules. Taobao China is an indirect wholly-owned subsidiary of Alibaba Holding. Alibaba Holding is therefore also a connected person of the Company under the Listing Rules. Accordingly, each of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for each of the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps exceed 5%, the continuing connected transactions under the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement are subject to the reporting and announcement requirements, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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### 3. PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION

Reference is made to the announcement of the Company dated 11 June 2011 in relation to the Proposed Amendment.

The Board proposed an amendment to be made to the existing Articles of Association in order to enhance the flexibility of the corporate governance structure of the Company. The Proposed Amendment is subject to the approval by the Shareholders by way of a special resolution at the EGM and will come into effect immediately upon such special resolution being passed. The Board considers that the Proposed Amendment to the Articles of Association is in the interest of the company and the Shareholders as a whole.

Details of the Proposed Amendments are set out in Appendix II to this circular. Save for the Proposed Amendment, other provisions of the Articles of Association remain unchanged.

Our Company's legal advisers have confirmed that the Proposed Amendments are in compliance with the requirements of the Listing Rules and the laws of Hong Kong. The Company also confirms that there is nothing unusual about the proposed amendments to the Articles of Association for a company listed in Hong Kong.

Please note that the Proposed Amendment is prepared in English language. The Chinese translation of the Proposed Amendment is for information only and not an official translation of the English version. In case of any discrepancy, the English version shall prevail.

### GENERAL INFORMATION AND EGM

The EGM will be held at 24/F., Admiralty Centre 1, 18 Harcourt Road, Admiralty, Hong Kong on Friday, 24 September 2021 at 9:30 a.m. for the Shareholders to consider, if thought fit, approve the aforementioned resolutions. The resolutions in relation to the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps) will be proposed by way of ordinary resolution at the EGM to be approved by the Independent Shareholders, while the resolutions in relation to the Proposed Amendment to the Articles of Association will be proposed by way of special resolutions at the EGM to be approved by the Shareholders. The voting in relation to such resolutions will be conducted by way of poll. A notice of the EGM is set out on pages 79 to 81 of this circular.

Alibaba Holding (through its subsidiaries and/or associates, as at the Latest Practicable Date, indirectly holds 7,507,666,581 Shares, representing approximately 78.70% of the total issued Shares of the Company, in aggregation), and its Affiliates, are considered to have material interests in respect of the relevant resolutions in connection with the entering into of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps), shall abstain from voting on resolutions in

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## LETTER FROM THE BOARD

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relation to the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps) at the EGM. Save as aforementioned, to the best of the Directors' knowledge, information and belief, no other shareholder has a material interest in the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps), and therefore no other Shareholder is required to abstain from voting at the EGM for the relevant resolution.

To the best of the Directors' knowledge, information and belief, no shareholder has a material interest in the Proposed Amendment to the Articles of Association, and therefore no Shareholder is required to abstain from voting at EGM for the relevant resolution.

A form of proxy for use at the EGM is enclosed with this circular and are also published on the website of the Stock Exchange. Whether or not you are able to attend the EGM (or any adjournment thereof), you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be) to the office of the Company's registrar and transfer office, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person if you so wish, and in such case, the form of proxy previously submitted shall be deemed to be revoked.

As Mr. Lin Xiaohai is currently the vice-president of Alibaba Holding, and Mr. Xu Hong is currently the deputy chief financial officer of Alibaba Holding, they are considered to have material interests in respect of the relevant board resolutions in connection with the entering into of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps).

For good corporate governance, Mr. Lin Xiaohai and Mr. Xu Hong had voluntarily abstained from voting on the relevant board resolution in connection with entering into of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps).

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## LETTER FROM THE BOARD

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Save for the aforesaid and to the best knowledge, information and belief of the Company, none of the Directors have any material interest in entering into of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps) or the Proposed Amendment to the Articles of Association for which they would be required to abstain from voting on the relevant board resolution approving such documents pursuant to the articles of association of the Company.

### RECOMMENDATION

After taking into account the view of the Independent Board Committee as set out in this circular and the reasons for and benefits of entering into of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement, the Directors consider that the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole, and the entering into of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder were on normal commercial terms or better, in the ordinary and usual course of business of the Group and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolution approving, confirming and ratifying the entering into of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps) at the EGM.

An Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the entering into of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps), and Alliance Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Your attention is drawn to the advice of the Independent Board Committee set out in its letter on pages 40 to 41 of this circular. Your attention is also drawn to the letter of advice from Alliance Capital to the Independent Board Committee and the Independent Shareholders in respect of the same set out on pages 42 to 71 of this circular. None of the members of the Independent Board Committee has any interest in the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder.

The Independent Board Committee, having taking into account the advice of Alliance Capital, considers that the entering into of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps) is in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. The Independent Board Committee also considers that the terms of the 2021 Master Supply Agreement and the 2021



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## LETTER FROM THE BOARD

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Master Business Cooperation Agreement and the transactions contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and recommend the Independent Shareholders to vote in favour of the ordinary resolution approving, confirming and ratifying the entering into of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps) at the EGM.

The Board also recommends the Shareholders to vote in favour of the relevant resolutions in relation to the Proposed Amendment to the Articles of Association to be proposed at the EGM.

By Order of the Board  
**Sun Art Retail Group Limited**  
**Mr. LIN Xiaohai**  
*Executive Director and*  
*Chief Executive Officer*

**SUN ART**  
**Retail Group Limited**

**SUN ART RETAIL GROUP LIMITED**

**高鑫零售有限公司**

*(Incorporated in Hong Kong with limited liability)*  
**(Stock code: 06808)**

7 September 2021

*To the Independent Shareholders*

Dear Sir or Madam,

**(I) CONTINUING CONNECTED TRANSACTIONS:  
2021 MASTER SUPPLY AGREEMENT; AND  
(II) CONTINUING CONNECTED TRANSACTIONS:  
2021 MASTER BUSINESS COOPERATION AGREEMENT**

We refer to the circular of the Company to its Shareholders 7 September 2021 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

Under the Listing Rules, the transactions contemplated under the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement will constitute continuing connected transactions for the Company and are subject to the approval of the Independent Shareholders at the EGM.

We have been appointed by the Board as members of the Independent Board Committee to consider the transactions contemplated under the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps) and to advise the Independent Shareholders in connection therewith. Alliance Capital has been appointed as the Independent Financial Adviser to advise us in this respect. We wish to draw your attention to the letter from the Board and the letter from Alliance Capital as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Alliance Capital as set out in its letter of advice, we consider that entering into of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps) are in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. The Independent Board Committee also considers that the terms of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions approving, confirming and ratifying the entering into of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and the transactions contemplated thereunder (including the Relevant Supply Annual Caps and the Relevant Business Cooperation Annual Caps) at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Ms. Karen Yifen CHANG**

*Independent  
non-executive Director*

**Mr. Dieter YIH**

*Independent  
non-executive Director*

**Mr. Charles Sheung Wai CHAN**

*Independent  
non-executive Director*

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## LETTER FROM ALLIANCE CAPITAL

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*The following is the full text of the letter of advice from Alliance Capital to the Independent Board Committee and the Independent Shareholders in respect of continuing connected transactions for 2021 Master Supply Agreement and 2021 Master Business Cooperation Agreement for the purpose of incorporation into this circular.*



**Alliance Capital Partners Limited**  
同人融資有限公司

**Alliance Capital Partners Limited**

Room 1502-03A  
15/F, Wing On House  
71 Des Voeux Road Central  
Hong Kong

7 September 2021

*To the Independent Board Committee and Independent Shareholders*

Dear Sir or Madam,

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement entered into between the Group and Alibaba Affiliates. Alibaba Group is currently a controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the proposed annual cap amounts under the category of sales of goods and services in the 2021 Master Supply Agreement and the category of business cooperation in the 2021 Master Business Cooperation Agreement exceed 5%, the continuing connected transactions under the aforementioned agreements are subject to Independent Shareholders' approval under Chapter 14A of the Listing Rules.

Details of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement are contained in the Letter from the Board as set out in the circular of the Company dated 7 September 2021 (the "Circular"). Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

An Independent Board Committee comprising all of the independent non-executive Directors has been established to advise the Independent Shareholders on whether the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement with Alibaba Affiliates are in the ordinary and usual course of business of the Company, on normal commercial terms, and on terms that are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and Shareholders as a whole.

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## LETTER FROM ALLIANCE CAPITAL

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In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on statements, information and representations referred to in the Circular as well as information and representations provided to us by the Company. We have assumed that all such information and representations provided by the Company, for which the Directors are solely responsible, are true and accurate at the time when they were made. We have also assumed that all statements of belief, opinion, forecasts and intention made by the Company were reasonably made after due enquiry and careful consideration. At the time of writing, we have no reason to doubt the truth and accuracy of the information and representations provided to us and have been advised by the Company that no material facts have been withheld or omitted from the information provided and/or referred to in the Circular.

We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, for the purpose of this exercise conducted any independent verification of the information included in the Circular and/or those provided to us by the Company nor have we conducted any form of investigation into the businesses, affairs of the Group.

In this last two years, save for the appointment as the independent financial adviser of the Company in respect of the revision of annual caps for the continuing connected transaction (details of which were set out in the circular of the Company dated 10 September 2019), there was no other engagement between the Group and us. Notwithstanding the aforesaid engagement, we have no relationship or interest with the Company or any of its associates during the past two years immediately preceding the Latest Practicable Date that could reasonably be regarded as relevant to our independence.

Apart from normal advisory fee payable to us in connection with our appointment as independent financial adviser to the Independent Board Committee and the Independent Shareholders for the aforesaid engagement and this engagement, we do not have a relationship with, or interest in, the Group and/or the Alibaba Group, including any of their respective associates. As such, we are of the opinion that we are independent in relation to our acting as independent financial adviser to the Company in this regard.

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## LETTER FROM ALLIANCE CAPITAL

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the 2021 Master Supply Agreement and 2021 Master Business Cooperation Agreement (including their respective proposed annual cap amounts for three financial years ending 31 March 2024), we have considered the following principal factors and reasons:

#### Background

The Group is a leading retailer in China that operates hypermarkets, superstores and mini stores under RT-Mart (大潤發), RT-Super (中潤發) and RT-Mini (小潤發). As at 31 March 2021, the Group had 490 hypermarket complexes, 6 superstores and 32 mini stores covering 234 cities across 29 provinces, autonomous regions and municipalities in China with a total gross floor area of approximately 13.22 million square meters. As of 31 March 2021, approximately 7.5% of the Group's hypermarkets and superstores were located in first-tier cities, 16.5% in second-tier cities, 46.2% in third-tier cities, 21.8% in fourth-tier cities and 8.0% in fifth-tier cities.

In October 2020, Taobao China, an indirect wholly owned subsidiary of Alibaba Holding, acquired control of the Company and became the Group's ultimate controlling shareholder. Prior to this, Alibaba Holding, as a strategic minority shareholder of the Company, had already been working with the Company to integrate the Group's offline hypermarket businesses with Taobao's online capabilities and prowess. These initiatives included (1) remodeling of the Group's hypermarkets in order to meet the needs of online and offline customers; (2) enabling all Sun Art stores to launch a one-hour-delivery-to-home service of fresh products through Taoxianda (淘鮮達) under Taobao, Alibaba's B2C online platform; (3) extending the Group's services by offering one-hour and half-day delivery of abundant products under the "Shared Inventory" initiative with TMall (which is Alibaba Group's online platform) as well as 30-minutes or one-hour delivery services through Ele.me (餓了麼) (Alibaba Group's online food ordering and delivery platform) and (4) becoming a core supply chain service provider of Alibaba Group's community group buying ("CGB") business. All the above initiatives involve the sale of goods and services by the Group to the Alibaba Affiliates as well as business cooperation between the two groups. The above development forms the foundation for the Group to tap into the vast online networks of the Alibaba Group in China with a view to increase the Group's overall sales.

With the continuous development of the above online businesses, the Group's offline stores have also become logistics fulfillment centers which enable the Group to reduce fulfillment costs and to support the development of its online business.

As a result of the above mentioned initiatives and development, the Group's B2C revenue and total order volume during the 15 months period ended 31 March 2021 increased by 64% and 60% compared to the corresponding 15 months period ended 31 March 2020 respectively. In the first quarter of 2021, the Daily Order per Store ("DOPS") of one-hour-delivery business was nearly 1,100, an increase of more than 40% over the same period last year. The ticket size

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was RMB68 per order, representing an increase about 6% as compared to the first quarter in 2019. Fresh products and dairy products were main revenue drivers contributing about 53% of the Group's total revenue, with fast moving consumer goods (FMCG) accounted for more than 45% and non-food products about 2% in the second half of 2020.

The Group's main New Retail development strategy is "to synchronize hypermarkets, superstores and mini stores, integrate online and offline business, and develop multi-formats and omni-channels". In this respect, we understand the Group is currently embarking on the following development strategies:

### *Accelerating multi-service omni-channel development*

As of 31 December 2020, the Group had 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"). Fresh products and dairy products at these stores contributed about 57% of revenue whereas FMCG and non-food products accounted for around 38% and 5% respectively for the twelve months ended 31 December 2020.

RT-Super will seek scale expansion by focusing on second and third-tier cities so as to enhance the market positioning in the region. According to the differentiation of catchment areas and customer positioning, RT-Super features different offerings suitable for customers in their catchment areas. By leveraging the Group's supply chain and diversified products offering, RT-Super builds fresh superstores closer to young consumers through the offering of core product categories.

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 revenue in these stores, representing an important proportion. More specifically, 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 has continued to improve direct sourcing with a view to offer seasonal items and local specialties at affordable prices relying on fresh products processing center owned by the Group and sharing the product pool of hypermarkets and RT-mini, with an aim to becoming the neighborhood stores for community residents. In addition, mini store designs different display models and offerings according to the store's operating area and customer positioning.

### *In-depth cooperation with Alibaba Group for expanding into Community Group Buying Business*

During the year, the pick-up stations developed by the Group were also launched in 125 cities, and more than 220 stores had started the CGB business.

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Cainiao Post (菜鳥驛站), being Cainiao Network's (菜鳥網絡) community logistics network under Alibaba Group, operates in local communities, university campuses, townships and rural areas and self-pickup networks in residential communities. In 2020, the Group's CGB business strengthened its business cooperation with Cainiao Post located in over 36 cities with the number of active stations reaching 8,000. Cainiao Post is one of the important channel partners of the Group in CGB.

Increased cooperation with Alibaba Group's CGB allows the Group to expand procurement scale, improve category operation capability and core competitiveness of its supply chain. Facing increasing competition from online multi-channel retailers, traditional offline retail business has been adversely impacted. By strengthening the cooperation with Alibaba community group buying business, the Group's multi-channel supply chain capabilities as well as sales performance are expected to be benefitted from it.

CGB operates through the sharing of supply chain and product pool of the Group's hypermarkets, thus increases the Group's bargaining power in negotiating better terms with suppliers due to increase procurement scale. In 2020, FMCG contributed about 64.7% of CGB with non-standard fresh products accounted for around 33.5%.

With a view to react to online impact on sales of non-food products in physical stores, the Group has initiated a renovation project to transform some stores into the "warehouse-based" model. This involves a reduction of non-food operating area and an increase in the warehouse area to support omni-channel businesses. Such renovation means each city has its own city warehouse resulting in reduction of logistics and human costs, leading to improvement in product efficiency and customers' shopping experience. More importantly, these changes not only meet the needs of the stores itself, but also support one-hour delivery services, half-day delivery services, community group buying and B2B business in their respective cities.

Customers' buying habits have become at anytime and anywhere, online and offline, deliver to home or shop in stores. To cater for such market changes, the general trend in the physical retail industry is to be online, miniaturized, convenient and community-based. Through working with Alibaba Group's online networks, the Group requires to focus on investments in user experience, new business formats and fresh products processing capability so as to position itself for long-term revenue growth. Going forward, we understand Sun Art stores aim not only serve as traditional hypermarkets but will also become customers' offline experience centers and order fulfillment centers of online business focusing on fresh products.

In terms of importance of CGB, it was mentioned in Alibaba Holding's June 2021 quarter results announcement that such business exhibited rapid growth, with quarter over quarter growth of around 200% in gross transaction value of its regional distribution center when compared to the year before. In addition, Alibaba Group shall focus on leveraging the supply chain capabilities of Sun Art to ensure product quality, availability and price competitiveness.



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### 2021 Master Supply Agreement

Basic terms of the 2021 Master Supply Agreement dated 22 June 2021 governing the Group's supply of Relevant Supply Products and Relevant Supply Services to Alibaba Affiliates are as follows:

**Term:** Effective Date (2021 Master Supply Agreement) and ending on 31 March 2024, unless at any time prior to the expiry of the 2021 Master Supply Agreement either party gives the other party not less than one month's prior notice to terminate such agreement.

**Type of Products:** 1. Relevant Supply Products:

Primarily supply of fresh food and other food products, pre-packaged food products, grocery items, household products, and any other merchandise customarily sold in campus retail outlets, hypermarkets operated by the Group as well as any other products as may be agreed in writing by the parties from time to time.

2. Relevant Supply Services:

Comprehensive operating services such as maintenance of online stores, human resources, logistics and warehouse services, as well as fulfilment services such as packing and delivery, and other relevant services to be confirmed and agreed by both Parties in writing from time to time.

**Pricing:** The selling price for the Relevant Supply Products and/or the Relevant Supply Services (including any value-added tax, customs duties payable by Alibaba Affiliates, packaging and delivery costs etc.) will be determined at the time of the particular sale based on arm's length negotiations with reference to (i) the selling price charged for the same category of products and/or services offered to independent purchasers at the time of a particular transaction; (ii) the gross profit margin expected by the Group in respect of the Relevant Supply Products and/or Relevant Supply Services of the same categories; and (iii) the price of products and services of the same categories as the Relevant Supply Products and/or Relevant Supply Services generally offered on the market by independent third parties.

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Payment: Payments for the Relevant Supply Products and/or Relevant Supply Services are to be settled by Alibaba Affiliates in cash on the 5th day and 20th day of each calendar month, or any date as agreed by both Parties.

We understand the supply of Relevant Supply Products and Relevant Supply Services under the above-mentioned agreement involves, among the others, primarily the following types of supplies to Alibaba Affiliates:

<b>Platforms/business model involved</b>	<b>Supply products/services</b>	<b>Basis of charges</b>
<b>Tmall under shared inventory</b>	Supply products and services	Charged on the products supplied and fulfilment services such as packing and delivery services
<b>Cainiao Post</b>	Supply products	Number of active community group buying initiators within the Cainiao Network x average transaction amount x 365 days
<b>Hema Market service</b>	Supply service	Service fee of the projected sales amount to be assigned to the Group (i.e. average daily orders per city x average amount per order x number of cities to be covered x service fee rate)

### Historical transaction amounts and new caps

Set out below are the proportion of historical transaction amounts received by the Group from Alibaba Affiliates for the relevant transactions as contemplated under the 2021 Master Supply Agreement:

	<b>For the year ended 31 December 2019</b>	<b>For the year ended 31 December 2020</b>
Tmall under shared inventory	67%	90%
Cainiao Post	2%	6%
Hema Market service	N/A	N/A
Others	31%	4%
<b>Total:</b>	<b>100%</b>	<b>100%</b>

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Set out below are the proposed proportion of annual cap for the relevant transactions contemplated under the 2021 Master Supply Agreement for the three financial years ending 31 March 2024:

	<b>For the year ending 31 March 2022</b>	<b>For the year ending 31 March 2023</b>	<b>For the year ending 31 March 2024</b>
Tmall under shared inventory	50%-60%	40%-50%	40%-50%
Cainiao Post	20%-30%	20%-30%	20%-30%
Hema Market service	10%-20%	20%-30%	30%-40%
Others ( <i>Note</i> )	<5%	<5%	<5%
<b>Total:</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Note:* Others mainly represent the supply of products to Tmall Supermarket, which is Alibaba Group's online supermarket store that allows its online customers to purchase daily necessities such as packaged food products, household items, personal hygiene and household cleaning products as well as baby care items.

As the projected annual cap amount may vary depending on the market sentiment and conditions in B2C business and CGB business, amount receivables among each of the segments above will be subject to change.

*(i) "Shared inventory" (共享庫存) with Alibaba Affiliates*

Started in 2019, this "Shared inventory" business model relates to the supply of goods and services from the Group to Alibaba Affiliates and involves the Group sharing its inventory system with Tmall on a real time basis. Such collaboration allows Alibaba Affiliates to know exactly the quantity of each type of goods available at each Sun Art's physical stores in the country on a real time basis.

Using Alibaba Group's location-based services technology, the "Tmall Supermarket Shared Inventory" initiative enables the Group stores to serve online customers within a radius of 5 to 20 km. Under this arrangement, once Alibaba Affiliates' online customer places an order, Alibaba Affiliates' system will notify the Group to pack the products at its stores and arrange delivery of the order within one hour if such online customer is situated within a 5km radius from the Group's store or within half a day if such online customer is situated within 5km and 20km radius from the Group's store. Payment for orders of the Relevant Supply Products and/or Services will be made by Alibaba Affiliates to the Group in the following month.

From Sun Art's perspective, the main advantages of this shared supply chain is that it allows the Group to reach additional customers by tapping into the vast online B2C networks of Alibaba Affiliates without the need for additional investments in physical stores, staff and inventory. Sun Art's supply chain's cooperation with Alibaba Affiliates also allows it to

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increase its bargaining power in merchandise procurement, improve inventory turnover rate, increase sales volume/revenue, expand its customer base, while Alibaba Affiliates are able to provide their online consumers with a wide product portfolio and a more convenient shopping experience.

From Alibaba Group's standpoint, this business model allows it to tap into the existing inventory of a physical store chain without the need to invest in its own inventory. Under this business model, the Group is able to increase sales by attracting online customers through various apps of Alibaba Affiliates while Alibaba Affiliates save inventory and other operation costs by making use of the extensive network of Sun Art's physical stores throughout the country.

Following the launch of Shared Inventory initiative with Tmall in 2019, we understand the Group has also become one of the core suppliers of household and food products to Tmall Supermarket online customers. This business collaboration is expected to continue its growth, taking full advantage of the Group's supply chains and physical stores network to serve the Group's omni-channel businesses.

**(ii) CGB business**

**(a) Cainiao Post (菜鳥驛站)**

Cainiao Post is Alibaba Group's Cainiao Network's (菜鳥網絡) community logistics solutions, operating in local communities, university campuses, townships and rural sites and self-pickup networks in residential communities. The Group supplies fresh food and other food products, pre-packaged food products, grocery items, household products to Alibaba Affiliates according to the orders from Cainiao Network.

CGB is a form of social e-commerce that utilizes a user's social networks on messaging apps to promote and sell products and services. In China, CGB is an increasing important consumption model that enables residents within residential communities to buy grocery items collectively through bulk purchases at a discount. China's CGB business model usually involves designated group-buying initiators acting as intermediaries between e-commerce platforms, of which Cainiao Post is one such platform. Group-buying initiator creates social media group (usually a WeChat group) to coordinate grocery orders in a community. Members or customers within the community convene through personal networks on WeChat to place individual orders which are then collated into group purchase orders by the designated community group leader. The range of products offered by the CGB platform consists mostly of basic household and food items one can find in grocery stores or wet markets such as fresh produce, canned foods, rice, toiletries etc.

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After submitting the bulk order, items are packed and delivered to a designated pick-up location, divided, and distributed by the group-buying initiator. Group-buying initiators are responsible for creating the group chat, gathering customers, placing and picking up the order, and distributing the items to the community, in return for a commission based on the amount of the bulk order.

Based on research undertaken by iiMedia Research (an independent research firm in China), size of CGB e-commerce market jumped 112% from RMB34 billion in 2019 to RMB72 billion in 2020<sup>1</sup>. Such markedly increase was primarily due to the COVID-19 pandemic lockdown in early 2020 that caused adaptive consumer behaviors in the country. Currently, about 10% of all grocery sales in China are made through e-commerce platforms, with wet markets accounting for 50% and retail supermarkets 40%. iiMedia Research further forecasted that CGB market would reach RMB102 billion in 2022<sup>2</sup>.

*(b) Hema Market services 盒馬集市服務商合作協議*

With a view to further develop CGB business, apart from Cainiao, Alibaba Group has set up 盒馬集市 (“Hema Market”), which is a community group buying platform for groceries and other daily essential products (such as rice, source, FMCGs, etc.) and a new online platform launched by Alibaba Group since April 2021.

Under the 2021 Master Supply Agreement arrangement, the Group shall provide the following services to Alibaba Group for its business in Hema Market including, market analyses and research, products screening and planning, e-commerce operation, marketing campaign and related promotional initiatives services. Save for the above, additional relevant services may be confirmed and agreed by both Parties in writing from time to time, where necessary. Services fee payable by Alibaba Affiliates to the Group is based on arm’s length negotiation between the parties and have made reference to the similar services offered by independent third-party.

The Group is also one of the sellers of Hema Market. Details of the arrangement is under the 2021 Master Business Cooperation Agreement.

### **Sales price/services fee charged to Alibaba Affiliates**

For the supply of the Group’s FMCGs to Alibaba Affiliates under the 2021 Master Supply Agreement, sales price will be determined based on arm’s length negotiations with reference to the sales price charged for the same category of products and/or services offered to independent purchasers as well as prices generally offered on the market by independent third parties. Payments for products and services provided to the Alibaba Affiliates are to be settled

1 <https://www.headscm.com/uploads/file1/20200914/5f5ed06f2f1f5.pdf>

2 <https://www.headscm.com/uploads/file1/20200914/5f5ed06f2f1f5.pdf>

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by Alibaba Affiliates in cash on the 5th day and 20th day of each calendar month, or any dates as agreed by both parties. We note credit terms offered by a majority of the Group's suppliers are longer than that of the credit terms offered by the Group to Alibaba Affiliates.

We are of the view that, from Sun Art's standpoint, sales under the Shared inventory business model and its participation in CGB under Alibaba's online platforms are a vital and continuing part of the Group's business expansion from offline to online, taking advantage of the Group's existing and future physical stores, products offering and supply chains. Such cooperation with Alibaba Affiliates brings about additional business in which the Group does not have to bear significant additional 'costs' associated with the need to open additional physical stores within the same vicinities incurring additional staff and utilities costs.

Having considered (i) sales transactions with Alibaba Affiliates under the 2021 Master Supply Agreement are conducted on normal commercial and arm-length terms; (ii) transactions from the Shared Inventory and CGB business models under such agreement is expected to increase the Group's business volume significantly following in-depth cooperation with Alibaba Affiliates for expanding into Community Group Buying Business and accelerating multi-service omni-channel development of the Group considering the great potential growth in China's online retail sales market; and (iii) these business models are not expected to strain the Group's financial resources, we are of the opinion that the proposed sales transactions with Alibaba Affiliates are in the Group's ordinary and usual course of business and are in the interests of the Company and its Shareholders as a whole.

### **Annual Caps of sales of goods and services to Alibaba Affiliates**

Historically, transaction amounts under the category of sale of goods and services by the Group to Alibaba Affiliates for the two years ended 31 December 2019 and 31 December 2020 were approximately RMB373 million and RMB2,519 million, respectively. It is noted that a substantial amount of the above transacted amounts in 2020 were derived from sale of goods and services under the Shared Inventory business model with TMall (one of the key online platforms of Alibaba Affiliates).

The proposed annual cap under the category of Sales of Goods and Services by the Group to Alibaba Affiliates for the following periods are as follows:

<i>(RMB million)</i>	<b>For the year ending 31 March</b>		
	<b>2022</b>	<b>2023</b>	<b>2024</b>
Proposed annual cap	18,000	25,300	35,000

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The COVID-19 outbreak in 2020 accelerated the formation of consumers' online shopping mindset in China, represented by marked increase in the Group's B2C Daily Order per Store ("DOPS"). 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. For the full year of 2020, the Group's B2C transactions increased by more than 80% with total B2C orders increased by more than 60% compared with the same period in 2019. As of 31 January 2021, the number of registered B2C users was over 69 million, among which active users exceeded 16.5 million. During the first quarter of 2021, the Group's DOPS of one-hour-delivery business was around 1,100, an increase of more than 40% over the same period the year before. Ticket size also increased by 6% to RMB68 per order.

The proposed annual caps under the category of sale of goods and services by the Group to Alibaba Affiliates under 2021 Master Supply Agreement primarily consists of the following main business categories with Alibaba Affiliates; namely, Shared Inventory and CGB (which include Hema Market and Cainiao CGB).

In assessing the reasonableness of the proposed annual caps for the sale of goods and services by the Group to the Alibaba Affiliates under the 2021 Master Supply Agreement, we have reviewed and discussed with the Company's management such annual caps (including their bases) provided by the Group and have been advised that such annual caps for the three years ending 31 March 2024 are mainly determined based on the following factors:

### ***Growth in China's online retail sales***

Based on data published by the National Bureau Statistics of China<sup>3</sup>, China's online retail sales from January to April 2021 reached RMB3,763.8 billion, a year-on-year growth of 27.6% and an average growth rate of 13.9% in the past two years. Among China's online retail sales of sales of food, physical goods, clothing and consumer goods increased by 24.5%, 33.8% and 20% respectively, with an average growth rate of 30.4%, 8.5% and 16.2% respectively in the past two years. Particularly, it is worth noting that average growth rate of online sales of food and consumer goods – items of the Group's sales – was 30.4% and 16.2% respectively during the past two years.

Following Alibaba Holding securing control over Sun Art in October 2020, the Group started to ramp up B2C business transactions with Alibaba Affiliates. Having considered the historical growth in transaction amounts through different B2C platforms including Taoxianda, RT-Mart Fresh App (the Group's own online store app), Ele.me and Tmall under shared inventory during the past two years, the Group estimated that the B2C business from these existing online platforms will grow further at approximately 50% for the 15 months period to 31 March 2022, compared to year ended 31 December 2020 and be able to maintain a high-teens percentage growth for the two years ending 31 March 2024.

3 <https://data.stats.gov.cn/easyquery.htm?cn=A01&zb=A0701&sj=202104>

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The management considered and we concur with them, that such estimated growth rates are fair and reasonable due to the following factors:

- Average growth rate of online sales of food and consumer goods – items of the Group’s sales – was 30.4% and 16.2% respectively during the past two years;
- Based on sales transactions among the platforms for the three months ended 30 June 2021, it was noted that approximately 80% of the B2C sales were from Alibaba Affiliates’ online platforms (i.e. Taoxianda, Ele.me and Tmall under shared inventory);
- The order numbers and the transaction value from B2C platforms including Taoxianda, RT-Mart Fresh App (the Group’s own online store app), Ele.me and Tmall under shared inventory increased from approximately 65% and 86% for the year ended 31 December 2020 as compared to the year before;
- During the three months ended 30 June 2021, Sun Art achieved approximately 28% year-over-year growth in online orders, with the shared inventory initiative with Tmall Supermarket being the biggest growth contributor, according to the announcement of June 2021 quarter results of Alibaba Group;
- More promotional and commercial campaign opportunities such as double 11 and double 12 will be scheduled during second half of the year; and
- Various initiatives as mentioned earlier to be integrated with the Group’s B2C business following further in-depth cooperation with Alibaba Affiliates.

Having considered the above factors, we are of the opinion that, the growth rates for B2C business are fair and reasonable.

### ***With respect to Shared Inventory***

With respect to Shared Inventory, the expected cap amounts are estimated based on the following:

- (a) Estimations are worked out between Sun Art and Alibaba Affiliates, as the latter has a database of its customers’ historical spending habits, order type and size and patterns in different cities where the Group has physical stores. In this regard, the estimated DOPS and amount per order are determined based on the Group’s experience in operating one-hour and half-day delivery on its own platform and also take into account Alibaba Affiliates’ past experience in operating online sales platform considering the number of registered Tmall customers and their preferences particular to each store location;



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- (b) On top of estimated sales through Tmall under the Shared Inventory business model mentioned above, the Group has also included the estimations of the associated cost with respect to managing one-hour delivery and half-day delivery, products packaging, warehouse rental, energy and depreciation in such estimations; and
- (c) Transactions amount under the category of supply of goods and services in the coming years would be higher compared to the historical amounts achieved in 2020. The historical transaction amounts under Shared Inventory category in 2019 and 2020 accounted for approximately 67% and 90% of the total historical transaction amounts under the category of supply of goods and service, respectively.

We understand that the Group's Shared Inventory initiative piloted in June 2019 and 2020 was the year in which the Group started to ramp up transactions with Alibaba Affiliates under this business model. We note this type of transactions in 2020 registered a growth of approximately 8 times compared to that in 2019. Consequently, we are of the view that an estimated growth rate of approximately 4 times for the 15 months ending 31 March 2022 is fair and reasonable.

It is further estimated that percentage growth rate for cap amounts under this category for the ensuing two years ending 31 March 2024 would be in the high-teens. Given China's average growth rate of online sales of food and consumer goods – the Group's sales items – was 30.4% and 16.2% respectively during the past two years, we are of the view the estimated growth in cap amounts going forward is fair and reasonable.

Having considered the above, we are of the view that the expected aggregate revenue receivable by the Group from Alibaba Affiliates under share inventory business model under a range of approximately 50% to 60% of the Group's total annual cap amount for the year ending 31 March 2022, 40% to 50% for the two years ending 31 March 2024, are fair and reasonable. In addition, having considered the fluctuation of the average order value of this type of transaction in the mid-teen from the six months ended 30 June 2021 as compared to the corresponding period of the year before, we are of the view that the +/-10% range is fair and reasonable.

### ***With respect to CGB***

#### *Cainiao Post*

Historically, the transaction amounts in Cainiao Post, represented approximately 2% and 6% of the total amount of revenue generated from Alibaba Affiliates for the year ended 31 December 2019 and 2020 respectively, registered a growth of 20 times from 2019 to 2020. It is further estimated that the transaction amount in Cainiao Post will further increase by around 30 times for the 15 months ending 31 March 2022.

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We understand cap amounts for Cainiao Post are estimated based on (i) projected number of active community group buying initiators within the Cainiao Network for the three years ending 31 March 2024, and (ii) estimated average transaction amount per order and on 365 days per year basis.

We have been advised by the management that it is estimated that the annual cap amount under this type of transaction will grow by about 30 times for the 15 months ending 31 March 2022, by high-teens and by about 50% for the two years ending 31 March 2024 due to the factors below:

- While the number of active community group buying initiators to the number of Cainiao Post pick-up points is currently at a relatively low level (i.e. less than 10,000 up to 30 June 2021), however, with an aim to achieving the target for at least one active community group buying initiator for each Cainiao Post pick-up point, the Group currently expects the number of active community group buying initiators within the Cainiao Network will cover at least two-third of the Cainiao Post pick-up points by 31 March 2022 and will reach full coverage by 31 March 2024. Currently there are approximately 50,000 Cainiao Post pick-up points in the PRC, according to Cainiao Post. Therefore, with an aim to achieving such target, which implied that the number of active community group buying initiators is expected to increase by over 20 times from 31 December 2020 to the 15 months period ending 31 March 2022 and shall further increase by approximately 10% and 15% for the two years ending 31 March 2024. This has taken reference from an increase in the number of such buying initiators historically and current market focus in CGB business in the PRC; and
- the expected increase in average transaction amount per order by approximately 66% from for the 15 months period ending 31 March 2022 as compared to the year ended 31 December 2020, and a further increase at a compound annual growth rate of around 20% for the two years ending 31 March 2024. Such increment was based on the growth of transaction amount per order of major market competitors, which ranged from approximately 50% to 100% over nine months period of 2020 as compared to the corresponding period of prior year, according to the public information.

Having considered:

- the historical growth of 20 times from 2019 to 2020 where the Group's CGB business was still at a development stage;
- further in-depth expansion of this category and various marketing initiative with collaboration with Alibaba Affiliates as mentioned above;

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- Cainiao Network continues to expand both its domestic services and global smart logistics network by deepening integration with logistics partners as well as offering more products and services, according to the published information as announced by Alibaba Group in August 2021. The Cainiao Network's business has been fast growing and was evidenced by the 50% revenue growth for the second quarter of 2021 as compared to the corresponding period in 2020. Given the fast development of Cainiao Network's domestic business, the number of domestic orders in the Q2 of 2021 had increased by 63% as compared to the corresponding period in 2020;
- comprehensive marketing campaign on the CGB platform and promotional events during mid-autumn festival, national day, Double 11 (Singles' Day in China), Double 12, Chinese New Year for the newly registered users as well as the increasing popularity of such buying mode in the communities; and
- the target of at least one active community group buying initiators to be established for each of Cainiao Post pick up points to be achieved for the three years ending 31 March 2024,

we are of the view that the growth on estimated annual cap amounts for this type of transaction are fair and reasonable.

On the basis of the above, it is currently expected that aggregate revenue receivable by the Group from Alibaba Affiliates for Cainiao Post would be in a range of approximately 20% to 30% of the Group's total annual cap for the three years ending 31 March 2024.

### *Hema Market*

For Hema Market services, the expected cap amounts are calculated based on the estimated cost of services provided to Alibaba Affiliates, which has made reference to projected sales to be conducted through Hema Market, with respect to products categories to be assigned to the Group for management and operation. It is currently estimated that services fees will be charged to Alibaba Affiliates based on the projected sales amount to be assigned to the Group for the three years ending 31 March 2024. Such services fee is determined based on arm's length negotiation between the parties with due regard to market price charged for the same category of services offered by independent third-party service providers.

It is estimated that approximately 10%-20% of the total revenue under the 2021 Master Supply Agreement for the year ending 31 March 2022 will be generated from this type of transaction. And it is further estimated that approximately 20% to 30% and 30% to 40% of the total revenue will be generated from this type of services fee for the years ending 31 March 2023 and 2024 respectively.

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As at 31 March 2021, the Group's retail stores covered 234 cities in China and it is expected that more than half of the cities which the Group currently has coverage would be equipped to facilitate the CGB business under Hema Market for the year ending 31 March 2022. The Group expects such business coverage will at least be further expanded to all the cities that the Group has coverage by 31 March 2024. It is also expected that this business will be further expanded to the cities which are not yet covered by the Group given current 10 regional distribution centers ("RDC") and their coverage capabilities. According to the research reports and public information of relevant CGB market players, up to March 2021, the number of Chinese cities covered by major CGB market players ranged between 190 and 300, and their relevant daily order numbers for the cities covered ranged from over 10 million orders to over 25 million orders with average amount per order ranged from RMB8 to RMB20. Having compared the market ranges as referenced above, we are of the view that the Group's assumptions for projected transaction amount under this type of transaction are fair and reasonable.

As mentioned above, CGB was started in 2018 and rapidly became popular within communities in 2019, leading to 112% increase in the amount of CGB e-commerce market, from RMB34 billion in 2019 to RMB72 billion in 2020. Such markedly increase was primarily due to the COVID pandemic lockdown in early 2020 that caused adaptive consumer behaviors in the country. Currently, about 10% of all grocery sales in China are made through e-commerce platforms, with wet markets accounting for 50% and retail supermarkets 40%. iiMedia Research further forecasted that CGB market would reach RMB102 billion in 2022. The adoption of online channels in the fresh food market is at a nascent stage, creating huge growth potential due to popular demand and delivery characteristics. In view of the potential growth in online community group buying business in the fresh goods market in the country, we are of the view the estimated growth in cap amounts going forward is fair and reasonable.

Given the CGB business model is still in the ramp up phase in China and the Group's cap amounts under this category going forward are estimated based on the expected growth in numbers of participants (i.e. community group buying initiators) and on transaction amounts per order (for the case of Cainiao), we are of the view that the estimated cap amounts for the three years ending 31 March 2024 are fair and reasonable so far as the Company and its shareholders are concerned.

### **2021 Master Business Cooperation Agreement**

Purpose of the 2021 Master Business Cooperation Agreement is to allow Alibaba's Affiliates to provide services to the Group including, among others, (a) granting access of the Group's software systems to work with Alibaba Group's online platforms; (b) data sharing; (c) integration of systems and POS hardware; and (d) delivery services to be provided by Alibaba Affiliates.

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## LETTER FROM ALLIANCE CAPITAL

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Basic terms of the 2021 Master Business Cooperation Agreement dated 22 June 2021 governing the Group's Relevant Cooperation with Alibaba Affiliates are as follows:

### *Term*

Effective Date (2021 Master Business Cooperation Agreement) and ending on 31 March 2024, unless at any time prior to the expiry of the 2021 Master Business Cooperation Agreement either party gives the other party not less than one month's prior notice to terminate such agreement.

### *Nature of transactions*

Alibaba Affiliates shall provide software technical and support services to the Group to enable it to display, manage and sale of the Group's products using 盒馬集市商家服務 Hema Market, 鳥潮 Niaochao (Alibaba Group's intra-city logistics service platform for delivery within cities), 淘鮮達 Taoxianda and 餓了麼 Ele.me (Alibaba Group's online platform for the ordering of meals, groceries and daily necessities).

To support the Group as a supplier, Alibaba Affiliates will also allow the Group to have real time information on sales and payments, sales returns and to participate in different types of sales promotion from time to time. In addition, Alibaba Affiliates will also allow different apps including Alipay to be used by their customers for payments of the Group's products and services online.

We understand the supply of Relevant Business Cooperation under the above-mentioned agreement involve primarily the following types of services provided by Alibaba Affiliates:

<b>Platforms involved</b>	<b>Nature of business cooperation</b>	<b>Basis of charges</b>
<b>Hema Market</b>	Platform services	Platform services fee is charged based on the Group's transaction value through Hema Market x an estimated platform fee rate
<b>Niaochao</b>	Delivery services	Delivery service fee = Last mile fulfilment charges per order x projected number of orders of the Group as conducted through Taoxianda, Ele.me and RT-Mart App
<b>Taoxianda</b>	Platform services	Platform services fee = The Group's transaction value through Taoxianda x estimated platform fee rate

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**LETTER FROM ALLIANCE CAPITAL**

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<b>Platforms involved</b>	<b>Nature of business cooperation</b>	<b>Basis of charges</b>
<b>Ele.me</b>	Platform services	Platform services fee = The Group's transaction value through Ele.me x an estimated platform fee rate

**Historical transaction amounts and new caps**

Set out below are the proportion of historical transaction amounts paid by the Group to Alibaba Affiliates for the relevant transactions contemplated under the 2021 Master Business Cooperation Agreement:

	<b>For the year ended 31 December 2019</b>	<b>For the year ended 31 December 2020</b>
Hema Market	N/A	N/A
Delivery services fee ( <i>Note</i> )	60%	64%
Taoxianda	30%	32%
Ele.me	2%	3%
Others	8%	1%
<b>Total:</b>	<b>100%</b>	<b>100%</b>

*Note:* Prior to the engagement of Niaochao for distribution and delivery services by the Group in mid-March 2021, relevant delivery service fee was included in the transaction amount under Taoxianda and Ele.me as a package. The percentage represents the historical transactions amount of distribution service for Taoxianda, Ele.me and RT-Mart App. And such distribution and delivery services had been included in the transaction under Niaochao since mid-March 2021. The percentage is separately disclosed for illustrative purpose.

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## LETTER FROM ALLIANCE CAPITAL

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Set out below are the proposed proportion of annual cap for the relevant transactions contemplated under the 2021 Master Business Cooperation Agreement for the three financial years ending 31 March 2022, 2023 and 2024:

	<b>For the year ending 31 March 2022</b>	<b>For the year ending 31 March 2023</b>	<b>For the year ending 31 March 2024</b>
Hema Market	30%-40%	45%-55%	50%-60%
Niaochao	45%-55%	30%-40%	30%-35%
Taoxianda	<10%	<10%	<10%
Ele.me	<5%	<5%	<5%
Others ( <i>Note</i> )	<5%	<5%	<5%
<b>Total:</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Note:* Others mainly represent platform fee and delivery services paid to Hema Fresh in Hainan and Northeast China, which adopts Hema Fresh business model across the Hema Stores

### **Pricing**

The consideration for such cooperation primarily involves supports services (such as delivery services and/or e-commerce supports) required by the Group and payable to Alibaba Affiliates. Such consideration is determined based on arm's length negotiation between the parties with due regard to market price charged for the same category of services offered by independent third party service providers from time to time. Where it is impracticable to make reference to the rate of the service fees offered by independent third party service providers for comparable services, the Group will take into consideration the cooperative specifications, cost structure, market condition and development strategy in determining the rate for the fees payable by the Group with the view to ensure the terms of the agreements are in the best interest of the Group.

We understand the Group's Relevant Cooperation with Alibaba Affiliates under the above mentioned agreement involve primarily the following four types of services required from Alibaba Affiliates:

#### *盒馬集市商家服務 Hema Market*

As mentioned above, apart from Cainiao, the Group aims to further strengthen its community group buying business by working with Hema Market.

Under 2021 Master Business Cooperation Agreement, the Group is one of the major sellers on Hema Market and the Group is obliged to deliver the ordered products to designated warehouse of Hema Market for further delivery to end customers who ordered via Hema Market online app. In this regard, Alibaba Affiliates shall provide, among others, the

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## LETTER FROM ALLIANCE CAPITAL

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information technology and online payment system that supports such sales as well as operating supports to the Group, such as business promotion and logistics service, in return the Group pays Alibaba Affiliates a platform fee for such supporting services.

The platform fee is charged based on an arm's length terms and at prices no less favourable to Sun Art than those rates charged to other independent third-party.

### *Taoxianda (淘鮮達)*

Taoxianda is Alibaba Group's online supermarket store that allows its customers to order fresh fruits, vegetables meat and groceries online and with their orders delivered within one hour on demand. The Group's business cooperation with Alibaba Affiliates started in 2018 under 淘寶到家 Taobao Daojia (Alibaba Group's online convenience store). In time, such cooperation expanded to cover a more diversified network operated under Taoxianda in more cities. In order to implement such cooperation, the Group adopted Taobao's software across its hypermarkets and supermarkets in order to allow ordering, payment and delivery of products to Alibaba Affiliates' online customers.

### *Ele.me (餓了麼)*

Ele.me is Alibaba Group's online platform for the ordering of meals, groceries and daily necessities in China. The Group's business cooperation with Ele.me started in 2019 and involves the placing of the Group's products on Ele.me platform for sales and delivery.

We concur with the Directors' view that the arrangements under the 2021 Master Business Cooperation Agreement would facilitate the Group's on-going leverage of Alibaba Affiliates' expertise in internet technologies and digital infrastructure to expand its retail channels and online food ordering business to increase the revenue of the Group. In addition, such business cooperation will enable the Group to benefit from Alibaba Affiliates' digital ecosystem, with a view to promote the expansion of its online retail business through the development of business cooperation with Alibaba Group's online marketplace including Hema Market, Taoxianda and Ele.me etc. All such initiatives are expected to increase the Group's revenue going forward and in our opinion in the interest of the Company and its shareholders.

### *鳥潮 Niaochao*

Niaochao (Alibaba Group's intra-city logistics service platform for delivery within cities) is principally engaged in distribution and delivery business. Under the 2021 Master Business Cooperation Agreement, Niaochao provides logistics and delivery services to stores designated by Taoxianda and Ele Me for orders placed via Alibaba's platform and it is also responsible for delivery services for the Group's sales through the Group's own online platforms such as RT-Mart App and Auchan App.



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## LETTER FROM ALLIANCE CAPITAL

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Delivery services is an essential part of Taoxianda. Prior to the engagement of Niaochoao for distribution and delivery services by the Group, relevant services were included in the transaction amount under Taoxianda as a package. Since mid-March 2021, such distribution and delivery services have been charged to Niaochoao separately.

The fee for the delivery service provided by Niaochoao is determined after arm's length negotiations with reference to (i) the continuing partnership with Alibaba Group on Taoxianda platform; and (ii) price of the same delivery services offered on the market by independent third parties.

### **Basis for determining services fee payable to Alibaba Affiliates**

Under the 2021 Master Business Cooperation Agreement, the Group shall conduct review and evaluation of the fees payable with reference to the rates quoted by other independent third party service providers of comparable services, in order to ensure that the fees under such agreements are conducted on normal commercial terms. Where it is impracticable to make reference to the rate of the service fees offered by independent third party service providers for comparable services, the Group will take into consideration the cooperative specifications, cost structure, market condition and development strategy in determining the rate for the fees payable by the Group with the view to ensure the terms of the agreements are in the best interest of the Group.

### **Annual Caps relating to business cooperation with Alibaba Affiliates**

The aggregate transaction amounts under the category of Relevant Business Cooperation between the Group and Alibaba Affiliates for the years ended 31 December 2019 and 31 December 2020 amounted to approximately RMB1,149 million and RMB1,655 million, respectively. We understand from the Company that the above services fees paid by the Group to Alibaba Affiliates under business cooperation categories mainly represented platform fee, distribution and delivery services fees for Taoxianda, Ele.me and RT-Mart App. Prior to the engagement of Niaochoao for distribution and delivery services by the Group in mid-March 2021, relevant delivery service fee was included in the transaction amount under Taoxianda and Ele.me as a package.

The proposed annual caps under the category of business cooperation with Alibaba Affiliates under 2021 Master Business Cooperation Agreement for the following periods are:

<i>(RMB million)</i>	<b>For year ending 31 March</b>		
	<b>2022</b>	<b>2023</b>	<b>2024</b>
Proposed annual cap	7,800	12,400	17,000

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## LETTER FROM ALLIANCE CAPITAL

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As for the annual caps under the 2021 Master Business Cooperation Agreement for the three years ending 31 March 2024, it mainly consists of estimated amounts of the four main business categories with Alibaba Affiliates; namely, Hema Market, 淘鮮達 Taoxianda, 餓了麼 Ele.me and 鳥潮 Niaochao.

In assessing the reasonableness of the proposed annual caps relating to services fees under the 2021 Master Business Cooperation Agreement with Alibaba Affiliates, we have reviewed and discussed with the Company's management such annual caps (including their bases) provided by the Group and have been advised that such annual caps for the three years ending 31 March 2024 are mainly determined based on the following factors:

***With respect to the services fee payable to Alibaba Group as seller on Hema Market***

Amounts are estimated based on platform fee chargeable to the Group and calculated based on the estimated transaction value expected to be conducted over Hema Market. Such transaction value is primarily estimated based on the number of cities expected to be involved for such services and estimated order size in each year.

It is estimated that approximately 30% to 40% of the total cost of relevant services under the 2021 Master Business Cooperation Agreement for the year ending 31 March 2022 will be generated from this type of transaction. And it is further estimated that approximately 45% to 55% and 50% to 60% of the total cost of relevant services will be generated from this type of services fee for the two years ending 31 March 2024.

As at 31 March 2021, the Group's retail stores covered 234 cities in China and it is expected that more than half of the cities which the Group has coverage would be equipped to facilitate the CGB business under Hema Market for the year ending 31 March 2022. The Group expects such business coverage will at least be further expanded to all the cities that the Group has coverage by 31 March 2024. It is also expected that the business will be expanded to the cities which are not yet covered by the Group given current 10 RDC and their coverage capabilities.

It is further estimated that the average order size will grow at approximately 20% to 25% per year for the three years ending 31 March 2024 respectively. We noted that target and assumptions were made with reference to (i) the number of cities covered as well as number of orders per city by the CGB market players with similar capacities and (ii) the average historic order size in CGB market. According to the research reports and public information of relevant major market players in CGB, up to March 2021, it is noted the cities coverage by the major market players in CGB ranged from approximately over 190 cities to over 300 cities, and their relevant daily order numbers for the cities covered ranged from over 10 million orders to over 25 million orders, with the average amount per order ranged from RMB8 to RMB20. Having compared the market ranges as referenced above, we are of the view that the Group's assumptions for projected transaction amount under this type of transaction are fair and reasonable.

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## LETTER FROM ALLIANCE CAPITAL

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As mentioned above, CGB was started in 2018 in the country and rapidly became popular within communities in 2019, leading to 112% increase in the amount of CGB e-commerce market, from RMB34 billion in 2019 to RMB72 billion in 2020. In the view of the potential growth of CGB sector and as one of the major sellers on Hema Market, the Group is expected to benefit in this regard.

The platform fee is charged based on an arm's length terms and at prices no less favourable to Sun Art than those rates charged to other independent third-party. Since Alibaba Affiliates shall provide online platform support services such as the information system services, online payment services, sales support, promotion and logistic services, we have compared the relevant service fee rates to the market rates and found that such service fee rate is within market range.

### ***With respect to Taoxianda 淘鮮達***

The historical transaction amounts under Taoxianda in 2019 and 2020 represented 30% and 32% of the total amount respectively under the Relevant Business Cooperation with Alibaba Affiliates in 2020.

This category of business cooperation enables the Group to use Taobao's software across its hypermarkets and supermarkets in order to allow ordering, payment and delivery of products to Alibaba Affiliates' online customers. As such, cap amounts under this category are estimated based on the Group's projected transaction amounts on 淘鮮達 Taoxianda, platform fee for the use of such platform and a levy for the use of Alipay service. We note the above platform fee and Alipay levy are charged based on an arm's length basis and are comparable or lower than service fees and levies payable by other independent third party offline suppliers to Alibaba Affiliates. As Alibaba Affiliates shall provide online platform support services such as the brand name usage, software systems, hardware devices support, online payment services, sales support and promotion services, we have compared the relevant service fee rates with market rates and we found that the service fee rate is within the market range.

It is estimated that approximately 10% or less than 10% of the total cost of relevant services under the 2021 Master Business Cooperation Agreement for the three years ending 31 March 2024 will be generated from this type of transaction. In terms of transaction amount, it is assumed it will increase by around 40% for the 15 months ending 31 March 2022 as compared to the year ended 31 December 2020. Considering (i) the historical growth approached 50% for the year ended 31 December 2020 as compared to the same period in 2019, (ii) the explanation under paragraph – “*Growth in China's online retail sales*” on the projected growth in the Group's B2C business for coming years, we are of the opinion that the estimated growth in this type of transaction are fair and reasonable.

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## LETTER FROM ALLIANCE CAPITAL

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*With respect to 餓了麼 Ele.me*

The historical transaction amounts under the category of service in 2019 and 2020 represented 2% and 3% of the total amount respectively under the Relevant Business Cooperation with Alibaba Affiliates. Cap amount for this category is estimated to register a growth rate of over around 200% in year ending 31 March 2022 compared to the amount achieved in 2020.

It is estimated that approximately 5% or less than 5% of the total cost of relevant services under the 2021 Master Business Cooperation Agreement for the three years ending 31 March 2024 will be generated from this type of transaction. In terms of transaction amount, it is estimated it will increase by around 200% for the 15 months ending 31 March 2022 as compared to the year ended 31 December 2020. Considering (i) the historical growth of around 100% of platform fee paid to Ele.me for the year ended 31 December 2020 as compared to the same period in 2019, (ii) the explanation under paragraph – “*Growth in China’s online retail sales*” on the projected growth in the Group’s B2C business for coming years, we are of the opinion that the estimated growth in this type of transaction are fair and reasonable.

It is noted that around 5% of annual cap for year ending 31 March 2022 will be utilized for the transactions under this sector. We further note the projected percentage growth in terms of cap amount for Ele.me for the three years to 31 March 2024 will increase in the high-teens in each year. Based on the average growth rate of online sales of food and consumer goods in China of 30.4% and 16.2% respectively during the past two years, we are of the view that the estimated growth rates are fair and reasonable.

Based on an independent research published in June 2020, China’s online food delivery market has grown at an average rate of 49.9% p.a. from approximately RMB179 billion in 2016 to approximately RMB604 billion in 2019<sup>4</sup> ; whereas, the number of China’s online food delivery platform user has increased from approximately 406 million in 2018 to approximately 419 million in 2020<sup>5</sup>, according to the Statistical report on the Development of Internet in China published by China Internet Network Information Centre. As such, we are of the view that the above estimated growth rate in cap amounts as mentioned above is fair and reasonable.

A platform fee is charged based on the transaction amount via Ele.me. We note such platform fee is charged at a lower rate when compared to other online food delivery companies in China<sup>6</sup> with charged rate (i.e. 5% to 8%) as displayed in 餓了麼 Ele.me’s app for other independent merchants.

4 <https://www.100ec.cn/detail--6576160.html>

5 [http://www.cac.gov.cn/2021-02/03/c\\_1613923423079314.htm](http://www.cac.gov.cn/2021-02/03/c_1613923423079314.htm)

6 <https://www.163.com/dy/article/GAHMR7TV0511ICNQ.html>

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## LETTER FROM ALLIANCE CAPITAL

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### *With respect to Niaochao*

Prior to the engagement of Niaochao for distribution and delivery services by the Group, relevant delivery service fee was included in the transaction amount under Taoxianda and Ele.me as a package. Since mid-March 2021, such distribution and delivery services have been charged to Niaochao separately. Historical transactions amount under Niaochao, which represent distribution service from Taoxianda, Ele.me and RT-Mart App, in both 2019 and 2020 represented 60% and 64% of the total transaction amount under the category of business cooperation with Alibaba Affiliates, and recorded a growth of around 50% in 2020. The annual cap amount under this type of transaction is expected to increase by over 200% for the 15 months ending 31 March 2022 as compared to that in 2020. Such growth was mainly due to the growth of businesses under Taoxianda, Ele.me and RT-Mart App. As mentioned in paragraphs “Annual Caps relating to business cooperation with Alibaba Affiliates – With respect to Taoxianda” and “Annual Caps relating to business cooperation with Alibaba Affiliates – With respect to 餓了麼 Ele.me”, it is assumed the transaction amount in Taoxianda and Ele.me will increase by around 40% and over 200%, respectively, for the 15 months ending 31 March 2022 as compared to the year ended 31 December 2020. It is further estimated that the percentage increase of transaction amount under this category will increase in the high-teens for two years ending 31 March 2024 respectively and such growth is expected to be in line with the growth in the Group’s B2C business. For detailed explanation on the growth of business Taoxianda and Ele.me, please refer to their respective discussions above. With respect to the transactions in RT-Mart App, we noted the transaction value and the order volume increased by approximately 60% and 43%, respectively, from 2019 to 2020. We further note the Group’s total order volume through Taoxianda, Ele.me and Rt-Mart App during the 15 months period ended 31 March 2021 increased by around 40% compared to the corresponding 15 months period ended 31 March 2020 respectively.

On the basis of the above, it is estimated that approximately 45% to 55% of the proposed annual cap under Relevant Business Cooperation between the Group and Alibaba Affiliates for the year ending 31 March 2022 will be assigned for this sector and such percentage will gradually reduce to approximately 30% to 35% for the year ending 31 March 2024.

We understand delivery fees are estimated based on existing delivery fees charge per order and on projected number of orders under Taoxianda platform, Ele.me and RT-Mart App for the three years ending 31 March 2024. We also note that the delivery fees charge per order is no less favourable than market rate after comparing such delivery service fee charges to other market participants providing similar services.

Consequently, we are of the view that the projected cap amounts with respect to delivery services for the three years ending 31 March 2024 are fair and reasonable.

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## LETTER FROM ALLIANCE CAPITAL

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### Internal control

We understand the Company has adopted the following internal control procedures to ensure the Group's transactions with Alibaba Affiliates are conducted at arm's length terms and at prices no less favourable to Sun Art than those offered by independent third parties. In this respect,

- (a) The Group's procurement department has set up a committee whose responsibility is to collate, on a daily basis, prices for the relevant products and/or services in order to ensure that the transactions under the 2021 Master Supply Agreement and 2021 Master Business Cooperation Agreement are conducted on normal commercial terms.

More specifically, the Group maintains a centralised commodity system that generates the costs of the relevant products and/or services automatically and will add a margin rate on top of such cost to arrive at the selling price. The applicable margin rates vary according to the different products and sales models and are determined according to factors including prevailing market prices and prices offered to independent customers to ensure that the pricing terms for each of the transactions under the such master supply agreement are no less favourable to the Group than those offered to comparable independent customers, and that the transactions are on normal commercial terms. The prevailing market prices and prices offered to independent customers are collected through daily online research on competitors' online platforms and market research carried out at the Group's stores.

- (b) The respective managers and senior managers of the Group's procurement department responsible for different transactions will review the gross profit margin report on a daily basis and will adjust sales prices of the products and/or services under the 2021 Master Supply Agreement if they deviate from a reasonable range of prices based on the considerations set out above.
- (c) The same procurement department will also review, evaluate and approve the sales price and fees payable to Alibaba Affiliates under the 2021 Master Business Cooperation Agreement with reference to at least two rates quoted by other independent third party service providers of comparable services on a quarterly basis, in order to ensure that the fees under such agreements are conducted on normal commercial terms. They will review the transaction amount and compared the price and terms to rates quoted by other independent third party service providers before approval. Where it is impracticable to make reference to the rate of the service fees offered by independent third party service providers for comparable services, the Group will take into consideration the cooperative specifications, cost structure, market condition and development strategy in determining the rate for the fees payable by the Group with the view to ensure the terms of the agreements are

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## LETTER FROM ALLIANCE CAPITAL

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in the best interest of the Group. Given the services fee rates are relatively stable, the management considered and we concur with them that the above-mentioned procedures to be conducted a quarterly basis are adequate.

- (d) Company's operation departments are required to submit draft written agreements and materials to the legal department, including the estimated transaction amounts, nature of the connected transactions, analyses on fairness of the commercial terms and pricing with support of market research data or cost analysis, for approval prior to entering into such agreements. Furthermore, operation departments are also tasked to track actual transaction amounts and the use of the Relevant Business Cooperation Annual Caps and Relevant Supply Annual Caps on a monthly basis.
- (e) Company's finance department shall review information on actual transactions conducted with relevant parties and corresponding transaction amounts under the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement, on a monthly basis. Updated information will also be provided to the Company's legal department, chief executive officer and the chief financial officer of the Company at the same time. The Company's legal department will also provide regular updates of connected transactions with transaction amounts to the board of Directors (including the independent non-executive Directors).

The Group's finance department will also monitor transaction amounts with Alibaba Affiliates on a on a monthly basis and from time to time. In the event the relevant Cap amount (as referred to below for each year) is likely to be exceeded as approved earlier, it will immediately notify the Board and shall agree with it the need to put forth any revised annual cap amount for that year and any subsequent year during the term of the 2021 Master Supply Agreement and 2021 Master Business Cooperation Agreement. The Company will take prompt action to make necessary disclosure and obtain the Independent Shareholders' approval as required.

- (f) On a quarterly basis, the independent non-executive Directors will review the continuing connected transactions under the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement with a view to see whether such continuing connected transactions have been conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions are conducted in accordance with the pricing policies set out in such relevant agreements.

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## LETTER FROM ALLIANCE CAPITAL

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- (g) Pursuant to Listing Rules, the Company's external auditors will continue to review the connected transactions under each of the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the relevant annual caps have been exceeded.

In terms of the Group's supply of products and services, we had randomly sampled more than 60 transactions with Alibaba Group during the period from January 2020 to May 2021 and noted that, during the above period, products and services were provided to Alibaba Affiliates at prices which command comparable profit margins when compared to other independent third parties, having taken into consideration size of their orders.

In terms of the Alibaba Affiliates' provision of services to the Group, we have obtained all the internal quarterly reports from the Group and reviewed the total historical number of orders and transaction value as well as the services fee rates charged in relation to the transactions conducted under for Taoxianda, Ele.me and RT-Mart App for 2019, 2020 and first half of 2021, we noted the average delivery services charge rates and the relevant platforms services fee rates charged to the Group in these online platforms are comparable to other independent third parties.

We also note in the Company's Annual Report for 15 months ended 31 March 2021, the Company's auditors, reported to the Company that, in respect of the continuing connected transactions with Alibaba Affiliates carried out during the 15-month period to 31 March 2021, nothing has come to their attention that caused them to believe:

- (a) the continuing connected transactions have not been approved by the Board;
- (b) the transactions were not, in all material respects, in accordance with the pricing policies of the Company;
- (c) the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (d) the aggregated continuing connected transactions had exceeded the annual cap disclosed in the announcements made by the Company for the 15-month period ended 31 March 2021.

Accordingly, we are of the view that the Group's historical transactions with Alibaba Affiliates were fair and reasonable and in the best interest of the Company and Shareholders as a whole. Furthermore, the management has also provided us with an extract of the Group's internal policies in relation to the internal control measures as to the relevant connected transaction concerned. It is noted that there is no change to the internal control procedures adopted by the Group for the connected transactions under category of Sale of Goods and Services and Business Cooperation between the Group and Alibaba Affiliates under the 2021 Master Supply Agreement and that for the connected transactions under 2021 Master Business Cooperation Agreement.



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## LETTER FROM ALLIANCE CAPITAL

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Having obtained and reviewed the relevant internal policies, and considered that the Group's measures to ensure that the transactions under the 2021 Master Supply Agreement and 2021 Master Business Cooperation Agreement are conducted under the terms similar to, or more favourable than, those agreed between the Group and other independent third parties, we are of the view that effective implementation of the internal control measures will help to ensure fair pricing of the transactions between the Group and Alibaba Affiliates going forward.

We consider that the Company has adopted adequate internal control measures to be able to comply with the Listing Rules requirements with respect to the supervision and monitoring of the Annual Caps of the transactions contemplated under the 2021 Master Supply Agreement and 2021 Master Business Cooperation Agreement.

### RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) both the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement with Alibaba Affiliates including the transactions thereunder are in the ordinary and usual course of business of the Company, on normal commercial terms, and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the amount and basis for determining the proposed annual caps relating to the sale of goods and services by the Group to the Alibaba Affiliates under the 2021 Master Supply Agreement and that for determining the proposed annual caps relating to business cooperation between the Group and Alibaba Affiliates under the 2021 Master Business Cooperation Agreement are fair and reasonable.

Consequently, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement and their respective proposed cap amounts thereunder at the upcoming EGM.

Yours faithfully  
For and on behalf of  
**Alliance Capital Partners Limited**  
**David Tsang**  
*Responsible Officer*  
*SFC CE No. ACH258*

*Mr. David Tsang is a SFC licensed person and a responsible officer licensed to carry out Type 1 (Dealing in securities) and Type 6 (Advising on corporate finance) activities and has over 30 years of advising listed companies in corporate finance transactions.*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at the Latest Practicable Date, the interests and short positions of each of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") (including interests and short positions which they were taken or deemed to have under such provision of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock, were as follows:

Name of director/ chief executive	Name of corporation	Nature of interest	Total number of shares <sup>(1)</sup>	Approximate percentage shareholding of the relevant entity
HUANG Ming-Tuan	Company	Interest of spouse <sup>(2)</sup>	68,334,202(L)	0.71%
LIN Xiaohai	Alibaba Holding <sup>(3)</sup>	Beneficial owner	362,432(L) <sup>(4)</sup>	0.0000%
XU Hong	Alibaba Holding	Beneficial owner	449,040(L) <sup>(5)</sup>	0.0000%
Charles Sheung Wai CHAN	Alibaba Holding	Beneficial owner	4,000(L) <sup>(6)</sup>	0.0000%

Notes:

- (1) The letter "L" denotes the person's long position in the shares.
- (2) Ms. LEE Chih-Lan is the spouse of Mr. HUANG Ming-Tuan. Ms. LEE Chih-Lan holds 66,782,964 shares through Unique Grand Trading Limited and 1,551,238 shares under her name. Accordingly, Mr. HUANG Ming-Tuan is deemed to be interested in all of the shares held by Ms. LEE Chih-Lan.

- (3) Alibaba Holding is a company incorporated in the Cayman Islands with its American depositary shares, each representing eight ordinary shares, listed on the New York Stock Exchange, stock symbol BABA, and its ordinary shares listed on the main board of The Stock Exchange of Hong Kong Limited, stock code 9988. Taobao China is a company incorporated in Hong Kong and a wholly-owned subsidiary of Alibaba Holding, therefore Alibaba Holding is deemed to be interested in all the shares in which Taobao China is interested in by virtue of Part XV of the SFO. Alibaba Holding is also holding company (as defined in the SFO) of the Company and is therefore an associated corporation (as defined in the SFO) of the Company. Alibaba Holding and its Affiliates are entitled to exercise control over the voting right in respect of the 7,507,666,581 Shares, representing approximately 78.70% of the total issued Shares of the Company by virtue of Part XV of the SFO.
- (4) It represents 255,432 ordinary shares (American Depositary Shares (“ADS”)) and 107,000 Restricted Share Units (“RSU”) in the number of ordinary shares of Alibaba Holding beneficially held by Mr. LIN Xiaohai.
- (5) It represents 225,040 ordinary shares (ADS) and 274,000 RSU in the number of ordinary shares of Alibaba Holding beneficially held by Mr. XU Hong.
- (6) It represents 4,000 ordinary shares of Alibaba Holding beneficially held by Mr. Charles Sheung Wai CHAN.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange and to be disclosed under the Takeovers Code.

As at the Latest Practicable Date:–

- (a) Mr. Lin Xiaohai was the vice president of Alibaba Holding; and
- (b) Mr. Xu Hong was the deputy financial officer of Alibaba Holding and was also a director of New Retail Strategic Investments 1 Limited and New Retail Strategic Opportunities GP Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares, underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### 3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors and chief executives of the Company and based on 9,539,704,700 ordinary Shares in issue as at the Latest Practicable Date, the following persons (other than Directors and chief executives of the Company) had an interest or short position in the Shares and underlying Shares of the Company, which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions on the Shares and underlying Shares of the Company:

Name of Shareholders	Nature of interest	Number of Shares Interested <sup>(1)</sup>	Approximate percentage of issued Shares
A-RT Retail Holding Limited <sup>(2)</sup>	Beneficial owner	4,419,731,966(L) <sup>(7)</sup>	46.33%
Taobao China Holding Limited <sup>(3)</sup>	Interest in a controlled corporation	4,419,731,966(L) <sup>(7)</sup>	46.33%
Taobao China Holding Limited <sup>(3)</sup>	Beneficial owner	2,607,565,384(L)	27.33%
Taobao Holding Limited <sup>(4)</sup> (“ <b>Taobao Holding</b> ”)	Interest in a controlled corporation	7,027,297,350(L)	73.66%
New Retail Strategic Opportunities Investments 1 Limited <sup>(5)</sup> (“ <b>New Retail</b> ”)	Beneficial owner	480,369,231(L) <sup>(8)</sup>	5.04%
New Retail Strategic Opportunities Fund, L.P. <sup>(5)</sup>	Interest in a controlled corporation	480,369,231(L) <sup>(8)</sup>	5.04%
New Retail Strategic Opportunities Fund GP, L.P. <sup>(5)</sup>	Interest in a controlled corporation	480,369,231(L) <sup>(8)</sup>	5.04%
New Retail Strategic Opportunities GP Limited <sup>(5)</sup>	Interest in a controlled corporation	480,369,231(L) <sup>(8)</sup>	5.04%
Alibaba Investment Limited <sup>(5)</sup>	Interest in a controlled corporation	480,369,231(L) <sup>(8)</sup>	5.04%
Alibaba Holding <sup>(6)</sup>	Interest in a controlled corporation	7,507,666,581(L)	78.70%

Notes:

- The letter “L” denotes a long position in the shares.
- A-RT Retail Holding Limited is directly owned by Taobao China as to 100% interest, therefore Taobao China is deemed to be interested in all the shares in which A-RT is interested in by virtue of Part XV of the SFO.
- Taobao China Holding Limited is a company incorporated in Hong Kong with limited liability, and is directly wholly-owned by Taobao Holding, which is in turn owned by Alibaba Holding. As at the Latest Practicable Date, Taobao Holding held an aggregated long interest of 73.66% in the Company, of which Taobao China directly held 2,607,565,384 shares, constituting 27.33% interest in the Company.

4. Taobao Holding is a company incorporated in Cayman Islands, which is wholly-owned by Alibaba Holding. Taobao China is wholly-owned by Taobao Holding, therefore Taobao Holding is deemed to be interested in all the shares in which Taobao China is interested in by virtue of Part XV of the SFO.
5. New Retail Strategic Opportunities GP Limited is the general partner of New Retail Strategic Opportunities Fund GP, L.P., which in turn is the general partner of New Retail Strategic Opportunities Fund, L.P. New Retail is an investment vehicle wholly-owned by New Retail Strategic Opportunities Fund, L.P. Therefore, New Retail Strategic Opportunities GP Limited is deemed to be interested in all the shares in which New Retail is interested by virtue of Part XV of the SFO. New Retail Strategic Opportunities GP Limited is directly wholly-owned by Alibaba Investment Limited (which in turn is directly wholly-owned by Alibaba Holding). Therefore, Alibaba Investment Limited is deemed to be interested in all the shares in which New Retail is interested by virtue of Part XV of the SFO.
6. Alibaba Holding is a company incorporated in the Cayman Islands and its American depository shares and ordinary shares are listed on the New York Stock Exchange and The Stock Exchange of Hong Kong Limited, respectively. Each of Taobao Holding and Alibaba Investment Limited is directly wholly-owned by Alibaba Holding, therefore Alibaba Holding is deemed to be interested in all the shares in which Taobao China and New Retail are interested in by virtue of Part XV of the SFO.
7. Such 4,419,731,966 shares belong to the same batch of shares.
8. Such 480,369,231 shares belong to the same batch of shares.

Save as disclosed above, as at the Latest Practicable Date, there was no other person so far as is known to the Directors and chief executives of the Company (other than the Directors and chief executives of the Company) who had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

#### **4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

#### **5. LITIGATION**

As at the Latest Practicable Date, as far as the Directors were aware, neither the Company nor any member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

**6. DIRECTORS' INTEREST IN COMPETING BUSINESS**

As at the Latest Practicable Date, Mr. Huang Ming-Tuan was a director and the chairman of the board of directors of Suning.com Co., Ltd., a company principally operates franchised retail shops of electronics appliances in China and its shares are listed on the Shenzhen Stock Exchange (stock code: 002024.SZ), which is considered likely to compete, either directly or indirectly with the Group. Save as disclosed above, so far as the Directors were aware, none of the Directors or their respective associate(s) had any interests in a business which competes or is likely to compete, either directly or indirectly with the business of the Group.

**7. DIRECTORS' INTERESTS IN CONTRACT, ASSETS AND ARRANGEMENT OF SIGNIFICANCE**

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 March 2021 (being the date of the latest published audited financial statements of the Company).

**8. MATERIAL ADVERSE CHANGES**

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any other material adverse change in the financial or trading position of the Group since 31 March 2021, being the date of the latest published audited financial statements of the Group.

**9. EXPERT AND CONSENT**

The following is the qualification of the expert who has given an opinion or advice, which is contained or referred to in this circular:

<b>Name</b>	<b>Qualification</b>
Alliance Capital Partners Limited	a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO

As at the Latest Practicable Date, Alliance Capital has given and confirmed that it has not withdrawn its written consent to the issue of this circular, with the inclusion therein of its letter, report, advice, opinion and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Alliance Capital did not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities which carry voting rights in any member of the Group.

As at the Latest Practicable Date, Alliance Capital did not have any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group since 31 March 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

#### **10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be made available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. on Monday to Friday (other than public holidays) at the branch office of the Company in Hong Kong at 25/F, Tower 1, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong from the date of this circular up to and including the date of the EGM:

- (i) the 2021 Master Supply Agreement and the 2021 Master Business Cooperation Agreement;
- (ii) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in this circular;
- (iii) the letter from Alliance Capital, the text of which is set out in this circular;
- (iv) the written consent from Alliance Capital referred to in the section headed “Expert and Consent” in this appendix; and
- (v) this circular.

In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

The full text of the Proposed Amendment to the Articles of Association is set out below.

	<b>Existing article</b>	<b>Amended article (Proposed amendment being underlined)</b>
Article 115	The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. The quorum for the transaction of business of the Board shall be three-fifth of the Board, two of whom shall be independent non-executive Directors. For the purpose of this Article an alternate Director shall be counted in a quorum and if an alternate Director is also a Director or is an alternate for more than one Director, he shall for quorum purposes count for as many Directors as he can vote for. Matters arising at any meeting shall be decided by a majority of votes by Directors present and voting. A Director or the Secretary may, at any time, summon a meeting of the Directors. At the request of any Director, a meeting of the Board or any committee of the Board shall be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and participation in such a meeting shall constitute presence in person at such meeting.	The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. The quorum for the transaction of business of the Board shall be <u>two Directors</u> . For the purpose of this Article an alternate Director shall be counted in a quorum and if an alternate Director is also a Director or is an alternate for more than one Director, he shall for quorum purposes count for as many Directors as he can vote for. Matters arising at any meeting shall be decided by a majority of votes by Directors present and voting. A Director or the Secretary may, at any time, summon a meeting of the Directors. At the request of any Director, a meeting of the Board or any committee of the Board shall be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and participation in such a meeting shall constitute presence in person at such meeting.



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## NOTICE OF EGM

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# SUN ART

## *Retail Group Limited*

### SUN ART RETAIL GROUP LIMITED

### 高鑫零售有限公司

*(Incorporated in Hong Kong with limited liability)*  
(Stock code: 06808)

#### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the extraordinary general meeting (the “EGM”) of Sun Art Retail Group Limited (the “Company”) will be held at 24/F., Admiralty Centre 1, 18 Harcourt Road, Admiralty, Hong Kong on Friday, 24 September 2021 at 9:30 a.m. to consider and, if thought fit, passing, with or without modifications, the following resolutions. Unless otherwise defined, capitalised terms defined in the circular dated 7 September 2021 shall have the same meanings when used in this notice.

#### ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the form and substance of the 2021 Master Supply Agreement dated 22 June 2021 and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified in all respects;
- (b) the proposed annual caps for the transactions contemplated under the category of the “Sale of Goods and Services by the Group to Alibaba Affiliates” for the years ending 31 March 2022, 31 March 2023 and 31 March 2024 be and are hereby approved, confirmed and ratified;
- (c) any one Director of the Company be and is hereby authorised to do all such acts and things and execute and deliver all such documents, deeds, instruments (including affixing the common seal of the Company thereon) and take all such steps and execute such other documents as the Director in his or her opinion and absolute direction may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with (a) and (b) above.”

2. “**THAT**

- (a) the form and substance of the 2021 Master Business Cooperation Agreement dated 22 June 2021 and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified in all respects;

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## NOTICE OF EGM

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- (b) the proposed annual caps for the transactions contemplated under the category of the “Business Cooperation between the Group and Alibaba Affiliates” for the years ending 31 March 2022, 31 March 2023 and 31 March 2024 be and are hereby approved, confirmed and ratified;
- (c) any one Director of the Company be and is hereby authorised to do all such acts and things and execute and deliver all such documents, deeds, instruments (including affixing the common seal of the Company thereon) and take all such steps and execute such other documents as the Director in his or her opinion and absolute direction may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with (a) and (b) above.”

### SPECIAL RESOLUTION

3. “**THAT** the Proposed Amendment to the Articles of Association of the Company be and are hereby approved and that the Directors be and are hereby authorised to do all things necessary to implement the said proposed amendment to the articles of association of the Company.”

By Order of the Board  
**Sun Art Retail Group Limited**  
**Mr. LIN Xiaohai**  
*Executive Director and  
Chief Executive Officer*

Hong Kong, 7 September 2021

*Registered office:*

Level 54, Hopewell Centre  
183 Queen’s Road East  
Hong Kong

*Notes:*

1. All resolutions at the meeting will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
2. Any shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him/her. A proxy need not be a shareholder of the Company. If more than one proxy is appointed, the number of shares in respect of which each such proxy so appointed must be specified in the relevant form of proxy. Every shareholder present in person or by proxy shall be entitled to one vote for each share held by him/her.
3. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company’s share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the EGM (i.e. not later than 9:30 am on Wednesday, 22 September 2021 (Hong Kong time)) or the adjourned meeting (as the

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## NOTICE OF EGM

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case may be). Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked. Please note that 22 September 2021 is a public holiday in Hong Kong and Computershare Hong Kong Investor Services Limited's offices will not be open on that day for physical delivery of the proxy form. To be effective, all proxy appointments must be lodged with Computershare Hong Kong Investor Services Limited before the deadline.

4. For determining the entitlement to attend and vote at the above meeting, the Register of Members of the Company will be closed from Monday, 20 September 2021 to Friday, 24 September 2021, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 17 September 2021.
5. A circular containing further details concerning items 1 to 3 set out in the above notice will be sent to all shareholders of the Company.
6. References to time and dates in this notice are to Hong Kong time and dates.
7. **BAD WEATHER ARRANGEMENTS:**

The EGM will be held on Friday, 24 September 2021 as scheduled regardless of whether or not any rainstorm warning signal or tropical cyclone signal is in force in Hong Kong at any time on that day. Shareholders may visit the website of the Company at [www.sunartretail.com](http://www.sunartretail.com) for details of the alternative meeting arrangements. Shareholders should make their own decision as to whether they would attend the EGM under bad weather conditions having regard to their own situation and if they should choose to do so, they are advised to exercise care and caution.

8. **Precautionary measures for the EGM**

Please see cover page of the circular of the Company dated 7 September 2021 for measures being taken for the prevention of the spreading of the coronavirus disease (COVID-19) at the EGM; including: (i) compulsory body temperature check; (ii) submission of health and travel declaration form; (iii) wearing of surgical face mask; and (iv) limit the number of attendees at the EGM as may be necessary in order to maintain appropriate distancing and spacing in compliance with the guidance issued by Hong Kong Government from time to time.

Attendees who do not comply with the precautionary measures may be denied entry to the venue for the EGM, at the absolute discretion of the Company as permitted by law. Shareholders are encouraged to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their forms of proxy by the time specified above, instead of attending the EGM in person.

*As at the date of this notice, the board of Directors of the Company comprises of six Directors, Mr. LIN Xiaohai (Chief Executive Officer) being the executive Director, Mr. HUANG Ming-Tuan (Chairman), and Mr. XU Hong being the non-executive Directors; and Ms. Karen Yifen CHANG, Mr. Dieter YIH and Mr. Charles Sheung Wai CHAN being the independent non-executive Directors.*