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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2024

The board (the “Board”) of directors (the “Directors”) of Sun Art Retail Group Limited (the “Company”, together with its subsidiaries, the “Group”) is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 September 2024, together with the comparative figures for the corresponding period in 2023 as below.

HIGHLIGHTS OF INTERIM RESULTS

	For the six months ended 30 September		
	2024 (Unaudited)	2023 (Unaudited)	Change
	<i>RMB million</i>		
Revenue	34,708	35,768	(3.0)%
Gross Profit	8,526	8,889	(4.1)%
Profit from Operations	621	19	3,168.4%
Profit/(Loss) for the Period	186	(378)	149.2%
Profit/(Loss) Attributable to Owners of the Company	206	(359)	157.4%
Earnings/(Loss) Per Share – Basic and diluted ⁽¹⁾	RMB0.02	RMB(0.04)	
	30 September 2024 (Unaudited)	31 March 2024 (Audited)	Change
	<i>RMB million</i>		
Total Assets	62,001	60,715	2.1%
Total Liabilities	40,203	38,921	3.3%
Net Assets	21,798	21,794	0.0%
Net Cash Position ⁽²⁾	14,635	16,504	(11.3)%

Notes:

- (1) As the exercise price of the share option is higher than the average price of the ordinary shares for the period, the share options are not included in the calculation of diluted earnings/(loss) per share. The calculation of basic and diluted earnings/(loss) per share for the six months ended 30 September 2024 and 2023 is based on the weighted average number of 9,539,704,700 ordinary shares in issue during the periods.
- (2) The balance of net cash position is calculated as the sum of cash and cash equivalents, financial assets measured at fair value through profit or loss, time deposits and the aforementioned portions in assets classified as held for sale minus maturity amount of bank loans.

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2024

		Six months ended 30 September	
	Notes	2024 RMB million (Unaudited)	2023 RMB million (Unaudited)
Revenue	3	34,708	35,768
Cost		<u>(26,182)</u>	<u>(26,879)</u>
Gross profit		8,526	8,889
Selling and marketing expenses		(7,667)	(8,718)
Administrative expenses		(859)	(898)
Other income and other gains, net	4	<u>621</u>	<u>746</u>
Operating profit		621	19
Finance costs	6	<u>(211)</u>	<u>(213)</u>
Profit/(loss) before income tax		410	(194)
Income tax expense	7	<u>(224)</u>	<u>(184)</u>
Profit/(loss) for the period		<u>186</u>	<u>(378)</u>
Other comprehensive income for the period		<u>–</u>	<u>–</u>
Total comprehensive income/(loss) for the period		<u>186</u>	<u>(378)</u>
Profit/(loss) is attributable to:			
Owners of the Company		206	(359)
Non-controlling interests		<u>(20)</u>	<u>(19)</u>
Profit/(loss) for the period		<u>186</u>	<u>(378)</u>
Total comprehensive income/(loss) attributable to:			
Owners of the Company		206	(359)
Non-controlling interests		<u>(20)</u>	<u>(19)</u>
Total comprehensive income/(loss) for the period		<u>186</u>	<u>(378)</u>
Earnings/(loss) per share for profit/(loss) attributable to the owners of the Company:			
Basic and diluted earnings/(loss) per share	8	<u>RMB0.02</u>	<u>RMB(0.04)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2024

		30 September 2024	31 March 2024
	Notes	RMB million (Unaudited)	RMB million (Audited)
ASSETS			
Non-current assets			
Investment properties	10	5,246	5,302
Other property, plant and equipment	10	20,058	20,969
Intangible assets	11	59	55
Deferred tax assets		1,240	1,438
Trade and other receivables	12	82	51
Time deposits	13(a)	2,130	1,830
Restricted deposits	13(b)	710	710
Total non-current assets		29,525	30,355
Current assets			
Inventories		8,065	7,691
Trade and other receivables	12	1,867	2,133
Time deposits	13(a)	1,238	1,040
Financial assets at fair value through profit or loss ("Financial assets at FVPL")	14	4,741	3,474
Restricted deposits	13(b)	6,953	3,985
Cash and cash equivalents	15	9,500	11,908
Assets of disposal groups classified as held for sale	16	112	129
Total current assets		32,476	30,360
Total assets		62,001	60,715
LIABILITIES			
Non-current liabilities			
Trade and other payables	17	23	28
Lease liabilities	18	4,873	4,950
Deferred tax liabilities		450	443
Total non-current liabilities		5,346	5,421

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2024

		30 September 2024	31 March 2024
	<i>Notes</i>	RMB million (Unaudited)	<i>RMB million (Audited)</i>
Current liabilities			
Trade and other payables	<i>17</i>	17,654	16,812
Lease liabilities	<i>18</i>	1,517	1,678
Contract liabilities	<i>19</i>	12,218	12,675
Borrowings	<i>20</i>	2,983	1,749
Current tax liabilities		5	79
Liabilities directly associated with assets of disposal groups classified as held for sale	<i>16</i>	480	507
Total current liabilities		34,857	33,500
Total liabilities		40,203	38,921
Net assets		21,798	21,794
EQUITY			
Share capital		10,020	10,020
Reserves		11,411	11,383
Capital and reserves attributable to the owners of the Company		21,431	21,403
Non-controlling interests		367	391
Total equity		21,798	21,794

NOTES

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

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The preparation of the interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this interim financial report, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual report for the year ended 31 March 2024.

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

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 March 2024 and any public announcements made by the Company during the interim reporting period.

The financial information relating to the year ended 31 March 2024 that is included in the condensed consolidated interim financial information for the six months ended 30 September 2024 as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 March 2024 to the Registrar of Companies as required by section 622(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

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

2. CHANGE IN ACCOUNTING POLICIES

The Group has applied the following new and amended standards for the first time for their annual reporting period commencing 1 April 2024:

- Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants – Amendments to HKAS 1.
- Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause – Hong Kong Interpretation 5 (Revised).
- Lease Liability in Sale and Leaseback – Amendments to HKFRS 16.
- Supplier Finance Arrangements – Amendments to HKAS 7 and HKFRS 7.

The adoption of the new and amended standards listed above did not have any significant financial impact on these condensed consolidated financial statements.

Other than the above amendments, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. SEGMENT AND REVENUE INFORMATION

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

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

Revenue mainly represents the sales of goods to customers, membership fee and rental from leasing areas in the hypermarket buildings. Disaggregation of revenue from contracts with customers by major products or services is as follows:

	Six months ended 30 September	
	2024	2023
	RMB million	RMB million
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
– recognised at a point in time	33,186	34,225
– recognised over time	14	–
Revenue from other sources – rental income from tenants	1,508	1,543
Total revenue	34,708	35,768

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

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

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

4. OTHER INCOME AND OTHER GAINS, NET

	Six months ended 30 September	
	2024	2023
	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Unaudited)
Interest income on financial assets measured at amortised cost	207	246
Miscellaneous income	162	236
Net gain on disposal and reassessment of investment properties and other property, plant and equipment	80	27
Government grants	68	124
Gain on financial assets measured at FVPL	61	63
Gain on disposal of packaging material	43	50
	621	746
	621	746

5. DETAIL OF COST OF SALES AND EXPENSES

(a) Employee benefit expense

	Six months ended 30 September	
	2024	2023
	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Unaudited)
Salaries, wages and other benefits	3,653	4,119
Contributions to defined contribution retirement plans	415	505
Expenses related to Employee Trust Benefit Schemes (i)	29	–
Share-based compensation expenses (ii)	9	10
	4,106	4,634
	4,106	4,634

(i) Expenses related to Employee Trust Benefit Schemes

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

For the six months ended 30 September 2024, the Group recognised total expenses of RMB29 million related to Employee Trust Benefit Schemes (for the six months ended 30 September 2023: nil).

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

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

(ii) Share-based compensation expenses

a) Share options

On 18 August 2023, the Company granted a total of 60,000,000 share options with an exercise price of HKD2.18 per share to three grantees in accordance with the terms of the Share Option Scheme.

On 27 March 2024, the Company granted a total of 25,000,000 share options with an exercise price of HKD1.54 per share to one grantee in accordance with the terms of the Share Option Scheme.

During the year ended 31 March 2024, a total of 40,000,000 share options were forfeited.

As at 31 March 2024 and 30 September 2024, the outstanding number of share options granted by the Company was 45,000,000.

Share options granted will expire in 10 years from the grant date. The share options have graded vesting terms, and vest in tranches from the grant date over the vesting period, on condition that employees remain in service without any performance requirements.

For the six months ended 30 September 2024, the Group recognised total expenses of RMB6 million in respect of the share options granted by the Company (for the six months ended 30 September 2023: RMB2 million).

b) Share-based payments plans of Alibaba Group Holding Limited and its subsidiaries excluding the Group (together, “Alibaba Group”)

Alibaba Group operates a number of share-based payments plans (including share options and restricted share units) covering certain employees of the Group. For the six months ended 30 September 2024, the Group recognised total expenses of RMB3 million in respect of the share-based payments plans of Alibaba Group (for the six months ended 30 September 2023: RMB8 million).

The Group is obligated to pay a cash consideration to Alibaba Group for such employees’ service period at the Group on a pro rata basis when these share-based awards were vested. As at 30 September 2024, a payable of RMB14 million was recognised to be reimbursed by the Group to Alibaba Group (31 March 2024: nil).

(b) Other items

The major items of cost of sales and expenses are listed below.

	Six months ended 30 September	
	2024	2023
	RMB million	RMB million
	(Unaudited)	(Unaudited)
Cost of sales	26,140	26,836
Depreciation of investment properties and other property, plant and equipment	1,574	1,753
Operating lease charges	383	427
Impairment losses on investment properties and other property, plant and equipment (<i>note 10 (c)</i>)	5	146
Amortisation of intangible assets (<i>note 11</i>)	4	3
Provision for/(reversal of) allowance related to trade receivables and other debtors	2	(62)

6. FINANCE COSTS

	Six months ended 30 September	
	2024	2023
	RMB million	RMB million
	(Unaudited)	(Unaudited)
Interest expenses on lease liabilities	178	207
Interest expense on borrowings	32	5
Interest expenses on other financial liabilities	1	1
	<u>211</u>	<u>213</u>

7. INCOME TAX EXPENSE

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

	Six months ended 30 September	
	2024	2023
	RMB million	RMB million
	(Unaudited)	(Unaudited)
Current tax-Hong Kong profits tax		
Current tax on profits for the period (i)	—	—
Current tax-PRC income tax		
Current tax on profits for the period	10	98
Withholding tax	9	23
Adjustments for current tax of prior periods	—*	(19)
Total current tax expense	<u>19</u>	<u>102</u>
Deferred income tax		
Decrease in deferred tax assets	198	88
Increase/(decrease) in deferred tax liabilities	7	(6)
Total deferred tax benefit	<u>205</u>	<u>82</u>
Income tax expense	<u>224</u>	<u>184</u>

* The amount is less than a million.

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

- (ii) PRC subsidiaries are subject to income tax at 25% for the six months ended 30 September 2024 (for the six months ended 30 September 2023: 25%) under the Enterprise Income Tax law (“EIT law”).

Pursuant to the relevant regulations in respect of Announcement on Implementing Preferential Income Tax Policy for Small and Micro Enterprises and Individual Businesses (Cai Shui [2023] No.6) and Announcement on Further Implementing Preferential Income Tax Policy for Small and Micro Enterprises (Cai Shui [2022] No.13, Cai Shui [2023] No.12) jointly issued by the Ministry of Finance and the State Administration of Taxation in the PRC, qualified Small and Micro Enterprises meeting the criteria of employee number less than 300, total assets less than RMB50 million and annual taxable income less than RMB3 million are entitled to preferential tax treatment. More specifically, for the portion of annual taxable income which does not exceed RMB1 million, income tax shall be calculated at 25% of the annual taxable income using the tax rate of 20% from 1 January 2023 to 31 December 2027; for the portion of annual taxable income from RMB1 million to RMB3 million (inclusive), income tax shall be calculated at 25% of the annual taxable income using the tax rate of 20% from 1 January 2022 to 31 December 2027. Approximately 41% of PRC subsidiaries of the Group enjoyed this preferential income tax treatment during the 2023 annual tax filing (during the 2022 annual tax filing: approximately 35%).

A subsidiary of the Group in the Mainland of China was approved as High and New Technology Enterprise and it was subject to a preferential corporate income tax rate of 15% for the six months ended 30 September 2024 (for the six months ended 30 September 2023: 15%).

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

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

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

During the six months ended 30 September 2024 and 2023, no deferred tax expenses have been recognised in respect of the withholding tax payable on the retained profits of the Group’s PRC subsidiaries generated subsequent to 1 January 2008.

As at 30 September 2024, no deferred tax liabilities were provided on post-2007 undistributed profits of the Group’s PRC subsidiaries amounted to RMB6,644 million for which the Group has no plan to distribute them outside the PRC in the foreseeable future (31 March 2024: RMB6,446 million).

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

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to owners of the Company of RMB206 million (six months ended 30 September 2023: loss attributable to owners of the Company of RMB359 million) and the weighted average of 9,539,704,700 ordinary shares (six months ended 30 September 2023: 9,539,704,700 ordinary shares) in issue during the interim period.

For the six months ended 30 September 2024 and 2023, the share options granted by the Company are considered to be potential ordinary shares. As the exercise price of the share option is higher than the average price of the ordinary shares for the periods, the share options are not included in the calculation of diluted earnings/(loss) per share. The diluted earnings/(loss) per share is equivalent to basic earnings/(loss) per share during the six months ended 30 September 2024 and 2023.

9. DIVIDENDS

As at 12 November 2024, no interim dividend has been declared in respect of the six months ended 30 September 2024 (six months ended 30 September 2023: nil).

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

(a) Right-of-use assets

During the six months ended 30 September 2024, the Group recognised the additions to right-of-use assets of RMB275 million (six months ended 30 September 2023: RMB787 million).

The leases of hypermarket buildings contain variable lease payment terms that are based on sales generated from the hypermarkets and minimum annual lease payment terms that are fixed. At 30 September 2024, it is estimated that an increase/decrease in sales generated from these retail stores by 5% would have increased/decreased the lease payments by RMB15 million (31 March 2024: RMB31 million).

(b) Acquisitions and disposals

During the six months ended 30 September 2024, the Group incurred capital expenditure of RMB419 million (six months ended 30 September 2023: RMB440 million), primarily in respect of new store developments and store remodelling and digitalisation. Items of building and leasehold improvements and equipment with a net book value of RMB50 million were disposed during the six months ended 30 September 2024 (six months ended 30 September 2023: RMB57 million), resulting in a loss on disposal of RMB22 million (six months ended 30 September 2023: RMB29 million).

(c) Impairment provision

For the six months period ended 30 September 2024, impairment losses were made against the carrying amount of building and leasehold improvements, equipment and right-of-use assets in certain stores of the Group. The impairment losses of RMB5 million (six months ended 30 September 2023: RMB146 million) were recognised in "Selling and marketing expenses" (Note 5(b)).

11. INTANGIBLE ASSETS

	Software RMB million
At 31 March 2024 (Audited)	
Cost	266
Accumulated amortisation and impairment	(211)
Net book amount	<u>55</u>
Six months ended 30 September 2024	
Opening net book amount	55
Addition	9
Amortisation charge (Note 5(b))	(4)
Disposals	(1)
Closing net book amount	<u>59</u>
At 30 September 2024 (Unaudited)	
Cost	272
Accumulated amortisation and impairment	(213)
Net book amount	<u>59</u>

12. TRADE AND OTHER RECEIVABLES

	As at 30 September 2024 RMB million (Unaudited)	As at 31 March 2024 RMB million (Audited)
Trade receivables		
Amounts due from third parties	433	541
Amounts due from related parties	163	306
Less: provision for impairment	(45)	(200)
Subtotal	<u>551</u>	<u>647</u>
Other receivables		
Prepayments of rentals	378	619
Value-added tax receivables	296	325
Amounts due from related parties	104	–
Other debtors	755	726
Less: provision for impairment	(135)	(133)
Subtotal	<u>1,398</u>	<u>1,537</u>
Total trade and other receivables	<u>1,949</u>	<u>2,184</u>
Less: non-current portion	(82)	(51)
Current portion	<u>1,867</u>	<u>2,133</u>

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

Rental prepayments mainly represent prepayments for short-term leases that have a lease term of 12 months or less, leases of low-value assets and variable leases that are based on sales generated from the leased brick-and-mortar stores as well as deposits which may be offset against future rentals of aforementioned leases in accordance with the related lease agreements. The lease payments associated with these leases are not capitalised and are recognised as an expense on a systematic basis over the lease term.

Except for interests receivables of non-current time deposits and non-current restricted time deposits which will be recovered after one year, all of the trade and other receivables classified as current assets are expected to be recovered within one year.

13. TIME DEPOSITS AND RESTRICTED DEPOSITS

(a) Time deposits

	As at 30 September 2024 <i>RMB million</i> (Unaudited)	As at 31 March 2024 <i>RMB million</i> (Audited)
Included in non-current assets:		
RMB time deposits	<u>2,130</u>	<u>1,830</u>
Included in current assets:		
RMB time deposits	<u>1,238</u>	<u>1,040</u>

Non-current time deposits are bank deposits with maturity over twelve months and redeemable on maturity. Current time deposits are bank deposits with maturity over three months, under twelve months and redeemable on maturity.

Time deposits with initial terms of over three months were neither past due nor impaired. As at 30 September 2024 and 31 March 2024, the carrying amounts of the time deposits with initial terms of over three months approximated their fair values.

(b) Restricted deposits

	As at 30 September 2024 RMB million (Unaudited)	As at 31 March 2024 RMB million (Audited)
Included in non-current assets:		
Restricted time deposits	<u>710</u>	<u>710</u>
Included in current assets:		
Restricted time deposits	109	59
Restricted deposits in bank	<u>6,844</u>	<u>3,926</u>
	<u>6,953</u>	<u>3,985</u>

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

14. FINANCIAL ASSETS AT FVPL

	As at 30 September 2024 RMB million (Unaudited)	As at 31 March 2024 RMB million (Audited)
Structured deposits	3,472	3,023
Money market funds	811	–
Certificates of deposit (i)	<u>458</u>	<u>451</u>
	<u>4,741</u>	<u>3,474</u>

- (i) The balance represents certain large-denomination negotiable certificates of deposit. As the objective of the Group is selling these financial assets, their contractual cash flows did not qualify for solely payments of principal and interest. Therefore, they are classified as financial assets at FVPL.

15. CASH AND CASH EQUIVALENTS

	As at 30 September 2024 RMB million (Unaudited)	As at 31 March 2024 RMB million (Audited)
Cash at bank and in hand	9,311	10,367
Deposits with banks within three months of maturity	56	1,414
Other financial assets and cash equivalents	<u>133</u>	<u>127</u>
	<u>9,500</u>	<u>11,908</u>

16. ASSETS AND LIABILITIES OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

In March 2024, the Board of Directors decided to sell certain brick-and-mortar stores. The sale is expected to be completed within 1 year. The associated assets and liabilities were consequently presented as held for sale.

As at 30 September 2024, the Group completed the sale of one of the stores mentioned above and the sale of the remaining stores is still in progress.

The following assets and liabilities were reclassified as held for sale as at 30 September 2024 and 31 March 2024:

	As at 30 September 2024 RMB million (Unaudited)	As at 31 March 2024 RMB million (Audited)
Assets of disposal groups classified as held for sale		
Investment properties	18	18
Other property, plant and equipment	58	61
Trade and other receivables	18	34
Restricted deposits	-*	-*
Cash and cash equivalents	18	16
	<hr/>	<hr/>
Total assets of disposal groups classified as held for sale	112	129
	<hr/>	<hr/>
Liabilities directly associated with assets of disposal groups classified as held for sale		
Trade and other payables	47	62
Lease liabilities	355	356
Contract liabilities	78	88
Current tax liabilities	-*	1
	<hr/>	<hr/>
Total liabilities directly associated with assets of disposal groups classified as held for sale	480	507
	<hr/> <hr/>	<hr/> <hr/>

* The amount is less than a million.

17. TRADE AND OTHER PAYABLES

	As at 30 September 2024 <i>RMB million</i> (Unaudited)	As at 31 March 2024 <i>RMB million</i> (Audited)
Current liabilities		
Trade payables	11,618	10,312
Construction costs payable	693	798
Amounts due to related parties	559	691
Dividends payable to non-controlling interests	11	11
Accruals and other payables	4,773	5,000
	<u>17,654</u>	<u>16,812</u>
Non-current liabilities		
Other financial liabilities	<u>23</u>	<u>28</u>

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

	As at 30 September 2024 <i>RMB million</i> (Unaudited)	As at 31 March 2024 <i>RMB million</i> (Audited)
Within six months	10,241	8,578
Over six months	1,377	1,734
	<u>11,618</u>	<u>10,312</u>

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

18. LEASE LIABILITIES

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

	As at 30 September 2024		As at 31 March 2024	
	Present value of the minimum lease payments <i>RMB million</i> (Unaudited)	Total minimum lease payments <i>RMB million</i> (Unaudited)	Present value of the minimum lease payments <i>RMB million</i> (Audited)	Total minimum lease payments <i>RMB million</i> (Audited)
Within 1 year	1,517	1,812	1,678	2,003
1-2 years	1,106	1,343	1,121	1,381
2-5 years	1,880	2,334	1,974	2,464
Over 5 years	1,887	2,318	1,855	2,332
	4,873	5,995	4,950	6,177
	6,390	7,807	6,628	8,180
Less: Total future interest expenses	–	(1,417)	–	(1,552)
Present value of lease liabilities	6,390	6,390	6,628	6,628

19. CONTRACT LIABILITIES

	As at 30 September 2024 <i>RMB million</i> (Unaudited)	As at 31 March 2024 <i>RMB million</i> (Audited)
Prepaid cards	11,733	12,195
Advance receipts from customers for sales	332	215
Customer loyalty program points liability	121	244
Membership fee	32	21
	12,218	12,675

20. BORROWINGS

	As at 30 September 2024 <i>RMB million</i> (Unaudited)	As at 31 March 2024 <i>RMB million</i> (Audited)
Current liabilities		
Bank borrowings, unsecured – maturity amount	2,925	1,725
Bank borrowings, secured – maturity amount	67	39
Less: unamortised discount	(9)	(15)
	<u>2,983</u>	<u>1,749</u>

- (a) The carrying amount of short-term borrowings approximated its fair value and was denominated in RMB.
- (b) As at 30 September 2024, the effective interest rates per annum on borrowings was 2.209% (31 March 2024: 2.145%).
- (c) As at 30 September 2024, the carrying amount of land use rights pledged as security for borrowings were RMB164 million (31 March 2024: 167 million).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

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

For the six months ended 30 September 2024, revenue from sales of goods was RMB33,186 million, representing a decrease of RMB1,039 million, or 3.0%, from RMB34,225 million for the corresponding period ended 30 September 2023. The decrease was mainly driven by (i) the closing down of the long-term loss-making stores; and (ii) the scaling down of supply chain business, which includes Taocaicai (“TCC”) and Tmall Shared Inventory business.

For the six months ended 30 September 2024, the Same Store Sales Growth⁽¹⁾ (“SSSG”) calculated based on sales of goods excluding supply chain business was 0.3%. The growth of same store sales mainly came from the increase in ticket size. The low-price strategy and product strategy enhanced user’s mentality, driving an increase in average purchase pieces per order and enhancing user stickiness. The offline revenue was gradually recovering and stabilising, with new online channels and own APP becoming key drive for the SSSG.

For the six months ended 30 September 2024, revenue from membership fee, a new revenue generator, was RMB14 million.

For the six months ended 30 September 2024, revenue from rental income was RMB1,508 million, representing a decrease of RMB35 million, or 2.3%, from RMB1,543 million for the corresponding period ended 30 September 2023, mainly due to the reduction of gallery areas caused by the store closures during the last fiscal year and the adjustment of tenant mixture.

Note:

- (1) Same store sales growth: the growth rate of sales of the stores opened before 30 September 2023. It is calculated by comparing the sales derived from those stores during their operating periods in the six months ended 30 September 2024 with sales during the corresponding periods ended 30 September 2023.

Gross Profit

For the six months ended 30 September 2024, gross profit was RMB8,526 million, representing a decrease of RMB363 million, or 4.1%, from RMB8,889 million for the corresponding period ended 30 September 2023.

The gross profit margin for the six months ended 30 September 2024 was 24.6%, representing a decrease of 0.3 percentage points from 24.9% for the six months ended 30 September 2023.

The Group accelerated the investments and facilitated the implementation of low-price strategy to drive customers gradually return and business performance continued to improve. In the future, the Group will focus on revenue growth to drive sustained gross profit growth.

Other Income and Other Gains, net

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

For the six months ended 30 September 2024, other income and other gains, net was RMB621 million, representing a decrease of RMB125 million, or 16.8%, from RMB746 million for the corresponding period ended 30 September 2023. The decrease was mainly attributed to the reduction of government grants, interest income and gain on disposal of packaging material, while the increase of one-off net gain on the disposal and reassessment of investment properties and other property, plant and equipment partially offset the aforementioned reductions.

Selling and Marketing Expenses

Selling and marketing expenses represent the expenses attributable to the operations of the stores and online business. Selling and marketing expenses primarily consist of personnel expenses, operating lease charges, expenses for utilities, maintenance, advertising, packing and delivery, platform expense, together with the depreciation of property, plant and equipment.

For the six months ended 30 September 2024, selling and marketing expenses were RMB7,667 million, representing a decrease of RMB1,051 million, or 12.1%, from RMB8,718 million for the corresponding period ended 30 September 2023.

The decrease was mainly due to (i) a decrease of RMB456 million savings on personal costs which was benefited from the optimisation of the personnel structure and pattern of stores, (ii) a decrease of RMB141 million impairment loss accrued for the stores with negative cash flows; and (iii) the management's effort to improve the investment efficiency of marketing expenses and intensify negotiation efforts for rental cost reduction. The savings of the expenses partially offset the decrease of gross profit.

The amount of selling and marketing expenses for the six months ended 30 September 2024 as a percentage of total revenue was 22.1%, representing a decrease of 2.3 percentage points from 24.4% for the corresponding period ended 30 September 2023.

Administrative Expenses

Administrative expenses primarily consist of personnel expenses, travelling expenses, depreciation of property, plant and equipment and other expenses for the administrative departments.

For the six months ended 30 September 2024, administrative expenses were RMB859 million, representing a decrease of RMB39 million, or 4.3%, from RMB898 million for the corresponding period ended 30 September 2023.

The decrease was mainly related to the management's efforts to streamline the headquarter organisation and savings on cost control.

The amount of administrative expenses for the six months ended 30 September 2024 as a percentage of total revenue was 2.5%, which kept flat with the corresponding period ended 30 September 2023.

Operating Profit

For the six months ended 30 September 2024, the operating profit was RMB621 million, representing an increase of RMB602 million, or 3,168.4%, from RMB19 million for the corresponding period ended 30 September 2023.

The operating margin during the six months ended 30 September 2024 was 1.8%, an increase of 1.7 percentage points, from 0.1% for the corresponding period ended 30 September 2023.

Finance Costs

Finance costs primarily consist of the interest expenses on borrowings, other financial liabilities and lease liabilities. For the six months ended 30 September 2024, the finance costs were RMB211 million, representing a slight decrease of RMB2 million, or 0.9%, from RMB213 million for the corresponding period ended 30 September 2023. The decrease of amortised interest expenses on lease liabilities offset the increase of interest expenses on borrowings.

Income Tax Expense

For the six months ended 30 September 2024, income tax expense was RMB224 million, representing an increase of RMB40 million, or 21.7%, from RMB184 million for the corresponding period ended 30 September 2023.

The related effective tax rate for the six months ended 30 September 2024 was 54.6%, which was caused by the unrecognised deferred tax on losses generated in several entities since the recoverability of those losses before their expiry was not certain.

Profit/(Loss) for the Period

For the six months ended 30 September 2024, profit for the period was RMB186 million, representing a turnaround increase of RMB564 million, or 149.2%, from a loss of RMB378 million for the corresponding period ended 30 September 2023.

The net profit margin for the six months ended 30 September 2024 was 0.5%, increasing by 1.6 percentage points, from a net loss margin of 1.1% of the corresponding period ended 30 September 2023. The increase was primarily attributable to the increase in operating margin.

Profit/(Loss) Attributable to Owners of the Company

For the six months ended 30 September 2024, the profit attributable to owners of the Company was RMB206 million, representing a turnaround increase of RMB565 million, or 157.4%, from a loss of RMB359 million for the corresponding period ended 30 September 2023.

Loss Attributable to Non-Controlling Interests

For the six months ended 30 September 2024, the loss attributable to non-controlling interests was RMB20 million, representing a decrease of RMB1 million, or 5.3%, from a loss of RMB19 million for the corresponding period ended 30 September 2023.

The loss attributable to non-controlling interests represented (i) interests in ACI and CIC from the Auchan Scheme and RT-Mart Scheme (as defined above); (ii) the interest held by independent third parties in two of the subsidiaries, namely, People's RT-Mart Limited Jinan and Fields Hong Kong Limited (“**Fields HK**”); and (iii) the interest held by Hema (China) Co., Ltd. in Shanghai Run He Internet Technology Co., Ltd.

Liquidity, Financial Resources and Gearing Ratio

For the six months ended 30 September 2024, net cash outflow from operating activities was RMB641 million, representing a decrease of RMB3,442 million, or 122.9%, from net cash inflow of RMB2,801 million for the six months ended 30 September 2023. The decrease was mainly due to (i) an increase of restricted deposits of RMB2,918 million related to the unutilised prepaid cards balances which were stipulated by the PRC authorities; and (ii) the decrease in contract liabilities.

As at 30 September 2024, the net current liabilities decreased to RMB2,381 million from RMB3,140 million as at 31 March 2024. The decrease of the net current liabilities was primarily attributed to (i) an increase in the current assets of RMB2,116 million, which mainly resulted from the increase in the combined balance of restricted deposits, financial assets at FVPL, time deposits and inventories; and (ii) an increase in the current liabilities of RMB1,357 million mainly attributed to the increased balance of trade and other payables and borrowings. The increase in current assets was greater than the increase in current liabilities, which resulted in a decrease in the net current liabilities.

For the six months ended 30 September 2024, the inventory turnover days and trade payable turnover days, calculated on average balances of inventories and trade payables, together with the cost of inventories during the past six months, were 54 days and 76 days, respectively, compared to 58 days and 81 days for the corresponding period ended 30 September 2023.

As at 30 September 2024, the net cash position of the Group was RMB14,635 million as compared to RMB16,504 million as at 31 March 2024. The gearing ratio, calculated by dividing net cash position by the total equity was 0.67 as at 30 September 2024 as compared to 0.76 as at 31 March 2024.

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

Investing Activities

For the six months ended 30 September 2024, net cash outflow from investing activities was RMB2,125 million, representing a decrease of RMB2,388 million, or 908.0%, from net cash inflow of RMB263 million for the six months ended 30 September 2023. The decrease was mainly attributable to the increase in the net proceeds used in investment in financial assets measured at FVPL and time deposits.

The net cash outflow from investing activities was mainly reflected in (i) the capital expenditure of RMB534 million paid in respect of the development of new stores and the remodelling and digitalisation of existing stores; (ii) the net proceeds used in investment in financial instruments measured at FVPL of RMB1,206 million; and (iii) the net proceeds used in investment in time deposits with maturity over three months of RMB550 million.

Financing Activities

For the six months ended 30 September 2024, net cash inflow from financing activities was RMB360 million, with an increase of RMB1,023 million, or 154.3%, from net cash outflow of RMB663 million for the six months ended 30 September 2023. The increase was mainly attributable to (i) the increase in the net proceeds generated from borrowings; and (ii) the decrease in the dividend paid.

Material Acquisitions and Disposals

The Group did not have any material acquisitions or disposals in relation to subsidiaries, associates and joint ventures during the six months ended 30 September 2024.

The Group contemplated to dispose certain non-performing assets in order to reduce losses and the costs of store closures. The associated assets and liabilities were consequently classified as held for sale in the consolidated statement of financial position as at 30 September and 31 March 2024.

As of 30 September 2024, the Group has completed the sale of one of the stores mentioned above and the sale of the remaining stores is still in progress.

Foreign Exchange Risks

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

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

Pledged Assets

As at 30 September 2024, the Group has pledged the land use rights with a net carrying amount of approximately RMB164 million to secure the specific bank loan.

BUSINESS REVIEW

Operating Environment

In the first three calendar quarters of 2024, China's gross domestic product (“GDP”) grew by 4.8% year-on-year to about RMB94,974.6 billion. In terms of the growth rate per calendar quarter, the year-on-year growth rate was 5.3% in the first quarter, 4.7% in the second quarter and 4.6% in the third quarter.

In the first three calendar quarters of 2024, the overall consumer price index (“CPI”) increased by 0.3% compared to the same period last year, and the food CPI decreased by 1.2%, of which the pork CPI increased by 5.8% year-on-year. In April 2024, the pork CPI increased by 1.4% compared to the same period last year and the growth rate continued to expand in June and July, reaching 18.1% and 20.4% respectively. In August and September, the growth rate fell back to 16.1% and 16.2%.

In the first three calendar quarters of 2024, China's total retail sales of consumer goods amounted to RMB35,356.4 billion, representing a year-on-year increase of 3.3%. Divided by consumption types, the retail sales of commodities reached RMB31,414.9 billion, a year-on-year increase of 3.0%, and catering revenue reached RMB3,941.5 billion, a year-on-year increase of 6.2%. The national online retail sales amounted to RMB10,892.8 billion for the first three calendar quarters of 2024, representing a year-on-year increase of 8.6%. The online retail sales of physical goods reached RMB9,072.1 billion, representing a year-on-year increase of 7.9% and accounting for 25.7% of the total retail sales of social consumer goods.

BUSINESS PERFORMANCE

Return to price competitiveness and product power

The Group has actively reshaped its price competitiveness, and accelerated the adjustment of product selection with different price quartiles, and strengthening bastion products. The Group recently launched the “Super Saver” series (「超省」系列). It was developed specifically by the private label team to meet customers' needs while benchmarking competitors' lowest-priced products in each category. In addition, the Group also introduced more than 1,100 SKUs across several series such as “Must-Buy” (「必買」系列), “Bonus Pack” (「加量不加價」系列), and “Every Day Low Price” (「天天便宜」系列) to establish a reputation for low prices and shape customer pricing perceptions. The Group also focused on developing more series of products with sales exceeding one hundred million.

The Group focused on offline traffic growth. With the Group's steady implementation of its low-price and product strategies in the first half of the fiscal year contributed to the gradually stabilised offline traffic of comparable stores, stable ticket size, and a slight increase in average number of items purchased per order.

Through continuous optimisation of product structure and improvements in price competitiveness within its B2C online business, the increase in average number of items purchased per order led to a high-single-digit growth in ticket size. The Group also actively developed new online channels, achieving a mid-single-digit growth in the same store sales of B2C online business during the first half of the fiscal year.

RT-Super

During the reporting period, RT-Super (“**Superstore**”) operated 30 stores across Shanghai, Jiangsu, Anhui, Zhejiang, Shandong, Jilin, Hubei, Gansu, Sichuan, and Guangdong. Leveraging product resources and improving operational standardisation in hypermarkets, the performance of superstores significantly improved, resulting in a mid-to-high-single-digit SSSG and the feasible business model.

RT-Super utilised the supply chain resources of hypermarkets and selected products from their product pool, with SKUs ranging from 5,000 to approximately 8,000 to cover RT-Super sales areas from 1,500 square meters to over 3,000 square meters respectively. RT-Super introduced a series of products such as “Super Saver”, “Every Day Low Price”, “Bonus Pack” and “Must-Buy” offering more than a thousand long-term low-price products. Additionally, RT-Super actively developed “Community Canteen” to provide affordable fast food for community residents, which has become a key business feature.

RT-Super has adopted ultimate efficiency as its core strategy and has achieved standardisation in store expansion, products, labor and operation. RT-Super will become a significant driving force for the Group’s future expansion, and also presents an opportunity for the Group to return to top-tier cities. Its proactive and rapid expansion will serve as the second growth curve for Sun Art Retail.

M-Club

During the reporting period, the Group has opened six membership stores in Yangzhou, Changzhou, Nanjing, Changshu, Jiaxing and Wuxi. The Jiangyin store is also opened in November 2024. The total number of M-Club members has exceeded 360,000.

M-Club offers over 4,000 SKUs from nearly 30 countries and regions, launching more than 200 new products each month. The private label products contributed over 30% of total sales. M-Club has recently launched “Global Buy” service, covering approximately 600 SKUs in categories such as beauty and skincare, personal care, baby care, and health supplements. Members can place orders online with shipments dispatch directly from cross-border warehouses to all regions of the country. M-Club also provided home delivery service with the fastest delivery within one hour. There remains potential for increasing the proportion of online orders. Half-day delivery is now available in Yangzhou and Changzhou. M-Club always adheres to “Member Value Comes First”, and endeavors to become a membership store that better understands Chinese consumers.

Expansion Status

During the six months ended 30 September 2024, the Group opened one hypermarket and three membership stores, M-Club. Among the new hypermarket and membership stores, M-Club, the hypermarket is located in Western China, and all membership stores, M-Club are located in Eastern China. During the reporting period, the Group closed seven hypermarkets, of which one closed hypermarket located in Eastern China will be converted into membership stores. Among the other six closed hypermarkets, one was located in Northern China, one was located in Northeastern China, two were located in Southern China, and two were located in Central China.

As of 30 September 2024, the Group had a total of 466 hypermarkets, 30 superstores, and six membership stores, M-Club. The total gross floor area (“GFA”) of hypermarkets and superstores is approximately 13.26 million square meters, of which about 66.0% of the GFA was in leased properties, and 34.0% of the GFA was in self-owned properties. The GFA of membership store, M-Club, is approximately 222,912 square meters, of which four are self-owned properties. Please refer to note 1 below for definitions of regional zones.

As of 30 September 2024, approximately 6.4% of the Group’s hypermarkets and superstores were located in first-tier cities, 18.1% in second-tier cities, 48.6% in third-tier cities, 19.2% in fourth-tier cities and 7.7% in fifth-tier cities. Please refer to note 2 below for definitions of city tiers.

As of 30 September 2024, through the execution of lease contracts or acquisition of land plots, the Group identified and secured three sites to open hypermarkets, of which none of them are under construction. At the same time, there were four superstores which the Group has signed contracts, of which one is under construction.

Region	Number of Brick-and-Mortar Stores (As of 30 September 2024)					Total GFA of Brick-and-Mortar Stores (sq.m.) (As of 30 September 2024)				
	Hypermarket	Superstore	Membership Store	Total	Percentage	Hyper market	Super store	Membership Store	Total	Percentage
Eastern China	179	10	6	195	39%	5,223,693	81,491	222,912	5,528,096	41%
Northern China	49	4	0	53	11%	1,308,922	31,123	0	1,340,045	10%
Northeastern China	49	7	0	56	11%	1,629,079	54,550	0	1,683,629	12%
Southern China	97	4	0	101	20%	2,429,080	18,444	0	2,447,524	18%
Central China	69	3	0	72	14%	1,816,732	18,595	0	1,835,327	14%
Western China	23	2	0	25	5%	636,737	14,940	0	651,677	5%
Total	466	30	6	502	100%	13,044,243	219,143	222,912	13,486,298	100%

Notes:

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

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

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

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

Human Resources and Remuneration Policies

As of 30 September 2024, the Group had 85,778 employees (102,101 as of 30 September 2023). The total employee benefit expense was RMB4,106 million (RMB4,634 million as of 30 September 2023).

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

In addition to salary, the Group also makes contributions to defined contribution retirement plans, share option scheme and Employee Trust Benefit Schemes (“**ETBS**”), respectively. The Group has adopted a share option scheme and the amended ETBS as approved by the shareholders of the Company on 16 August 2023 for the purpose of, among other things, recognising employees' contribution to the Group's continuous growth and success; and attracting and retaining high-calibre personnel to strive for the long term development of the Group. Further details in relation to the options or awards granted under share option scheme and the amended ETBS during the six months ended 30 September 2024 are set out in the section headed “Share Schemes” of the interim report.

Continuous trainings are provided to the employees.

Outlook

After half-year of restoration and adjustment, Sun Art Retail has gradually gotten on the right track. Customers are aware that the prices are lower, and employees' moral has been boosted. The Group is gradually returning to organic growth.

Product and pricing are the foundations of a retail business. The goal of the Group is to become the leader of the business district and its mission is to save every penny for customers. The Group will actively uphold the values of caring colleagues, serving customers and striving for excellence. The Group aims to provide customers with a fresh, convenient, comfortable and affordable shopping environment, while working diligently to achieve the business goals of this fiscal year.

OTHER INFORMATION

Corporate Governance

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

The Company recognises that a good corporate culture is essential to support and complement its corporate governance efforts and corporate image, and has developed a corporate culture emphasising on lawful, ethical and responsible business conduct over the years, which has been reflected in the overall operations and management of the Group. In order to promote open communication in the workplace and high ethical standards among staff and management of the Group, the Group has established anti-corruption and whistle-blowing policies and training, to provide guidance on identifying potential breaches or improper behaviour, reporting procedures and consequences of violations of such policies. For further details on the Group's anti-corruption and whistle-blowing policies, please see the environmental, social and governance report of the Company.

The Company has devised its own Corporate Governance and Compliance Manual which incorporates all the principles and practices as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix C1 to the Listing Rules.

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

In the opinion of the Directors, the Company has complied with all the code provisions as set out in the CG Code for the six months ended 30 September 2024 and up to the date of this announcement.

Further information of the corporate governance practice of the Company were set out in the corporate governance report included in the annual report of the Company for the year ended 31 March 2024.

Audit Committee

The Audit Committee has reviewed and discussed the unaudited condensed consolidated interim financial statements for the six months ended 30 September 2024 with the external auditors, PricewaterhouseCoopers, who have reviewed the interim financial information in accordance with Hong Kong Standard on Review Engagements 2410.

Securities Transactions by Directors

The Company has adopted its own code of conduct regarding Directors' and relevant employees' dealings in the Company's securities (the “**Company Code**”) on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix C3 to the Listing Rules.

Specific enquiry has been made of all the Directors and the relevant employees and they have confirmed that they have complied with the Model Code and the Company Code throughout the six months ended 30 September 2024.

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

During the six months ended 30 September 2024, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Dividend

On the Board meeting held on 12 November 2024, while the Directors noted the Group's turnaround from loss to profit for the six months ended 30 September 2024, the Directors noted that the Company is currently in the offer period which commenced from 15 October 2024 following the publication of the announcement made pursuant to Rule 3.7 of the Hong Kong Code on Takeovers and Mergers, the Directors consider that they would require additional information to assess the implications of the proposed declaration of interim dividends and continue to evaluate all relevant matters (including but not limited to the potential progress of any offers) and therefore resolved to postpone the decision on whether to declare an interim dividend to the next board meeting.

Publication of Interim Results and Interim Report for the six months ended 30 September 2024 of the Company

The interim results announcement of the Company is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sunartretail.com). The Interim Report of the Company for the six months ended 30 September 2024 will be dispatched (if requested) to the shareholders of the Company and made available for review on the aforesaid websites in due course.

Events Occurring After the Reporting Period

Possible Voluntary Conditional Offer

On 15 October 2024, the Company announced that on 27 September 2024, the Board received an approach letter from a potential offeror who expressed an intention to make a pre-conditional voluntary conditional offer for all the issued shares of, and an option offer to cancel all outstanding share options issued by, the Company, subject to various matters. For details, please refer to the Company's announcement dated 15 October 2024.

Proposed Amendments to the Employee Trust Benefit Schemes

On 18 October 2024, the Company announced its proposal to make certain amendments to the Auchan Scheme and the RT-Mart Scheme in order to give ACI and its subsidiaries (“**ACI Group**”) and CIC and its subsidiaries (“**CIC Group**”) more flexibility to make their relevant contributions to the trust, and to reward the employees of the ACI Group and the CIC Group. The Auchan Scheme and the RT-Mart Scheme shall not take effect until the approval of the shareholders of the Company in general meeting on 12 November 2024. For details, please refer to the Company's announcement dated 18 October 2024 and the Company's circular dated 23 October 2024.

Save as disclosed in this announcement, no important event or transaction affecting the Group and which is required to be disclosed by the Company to its Shareholders has taken place since 30 September 2024 and up to the date of this announcement.

By Order of the Board
Sun Art Retail Group Limited
SHEN Hui
Executive Director and Chief Executive Officer

Hong Kong, 12 November 2024

As at the date of this announcement, the Directors are:

Executive Director:

SHEN Hui (*Chief Executive Officer*)

Non-Executive Directors:

HUANG Ming-Tuan (*Chairman*)

HAN Liu

QIN Yuehong

Independent Non-Executive Directors:

Karen Yifen CHANG

Charles Sheung Wai CHAN

Dieter YIH