Sa Sa Announces Annual Results 2013/14

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Turnover Rose 14.2% year-on-year to HK$8,756.1 Million
Net Profit Increased by 13.3% year-on-year to HK$935.2 Million
Final Dividend Proposed at 14.5 HK Cents per Share

Group's Annual Results Highlights	For the year ended 31 March		% Change
	2013/14	2012/13	
	HK$ million	HK$ million	
Turnover	8,756.1	7,669.8	+14.2%
Gross profit	4,073.0	3,558.3	+14.5%
EBITDA	1,314.2	1,167.3	+12.6%
Profit for the year	935.2	825.6	+13.3%
Earnings per share	33.0 **HK cents**	29.3 HK cents	+12.8%
Final dividend per share - *basic* - *special*	14.5 **HK cents** 9.0 ***HK cents*** 5.5 ***HK cents***	14.0 HK cents *5.0 HK cents* *9.0 HK cents*	+3.6% +80.0% -38.9%
Total annual dividend per share - *basic* - *special*	23.5 **HK cents** 13.5 ***HK cents*** 10.0 ***HK cents***	21.0 HK cents *7.5 HK cents* *13.5 HK cents*	+11.9% +80.0% -25.9%
Gross profit margin	46.5**%**	46.4%	+0.1 p.p.
Net profit margin	10.7**%**	10.8%	-0.1 p.p.

(26 June 2014 – HONG KONG) – **Sa Sa International Holdings Limited** ("Sa Sa" or the "Group", stock code: 0178), Asia's leading cosmetics retailing group, announced today its annual results for the year ended 31 March 2014 (the "fiscal year").

During the fiscal year, the Group's turnover rose 14.2% to HK$8,756.1 million as compared to HK$7,669.8 million in the previous fiscal year. The Group's performance benefited from the solid performance of its Hong Kong and Macau core markets. Profit for the year was HK$935.2 million, a rise of 13.3% over the HK$825.6 million achieved in the last fiscal year. The Group's gross profit margin for the fiscal year slightly increased from 46.4% last year to 46.5%, and net profit margin slightly decreased to 10.7% from 10.8%.

Basic earnings per share were 33.0 HK cents as compared to 29.3 HK cents in the previous year. The Board of Directors proposed a final dividend of 9.0 HK cents (2012/13: 5.0 HK cents) per share and a special dividend of 5.5 HK cents (2012/13: 9.0 HK cents) per share. Total annual dividend for the fiscal year is 23.5 HK cents per share (2012/13: 21.0 HK cents).

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In 2013, Hong Kong's GDP expanded modestly. Mainland tourist arrivals to Hong Kong increased by

16.7%, compared to 24.2% growth last year. The growth of 16.7% shows strong resilience given the introduction of measures in early 2013 limiting milk powder entry into China and a slowdown in arrivals growth in the fourth quarter of 2013 due to the banning of zero fee tour groups, Same day tourist arrival still managed a growth of 19.5% for 2013 while overnight tourist numbers rose by 13.1%. Growth of Medicines and Cosmetics remained solid and rose by 11.9% in 2013, outperforming the 11.0% growth of the overall retail market.

Retail and Wholesale Business

Sa Sa maintained its leading market position in **Hong Kong and Macau**, which remained the largest contributor to the Group's turnover and profits. Turnover increased by 16.7% year-on-year from HK$6,101.4 million to HK$7,122.1 million and same store sales rose 12.8%. Both the number of transactions and the average value per transaction increased. This performance was largely due to the resilience of cosmetics sales, which outperformed total Hong Kong retail sales. The Group's relative competitiveness allowed Sa Sa to gain market share. Its retail sales maintained a relatively consistent upward trajectory as it continued to benefit from the steady increase in sales to both local residents and Mainland tourists.

Mainland tourist arrivals rose by a relatively healthy 16.7% for 2013. However, Mainland arrivals weakened in the second half of the fiscal year, particularly in the fourth quarter, reflecting the slowdown of outbound Chinese tourist growth during that period. Same-day visitor arrivals were still the primary growth engine with an increase of 19.5%, and boosted sales in the Group's non-tourist areas, particularly in the New Territories near the border with the rest of China. Overnight Mainland visitors increased 13.1% from last year. Sa Sa believes that the overnight tourists originating from lower-tier Mainland cities with less spending power constituted an increasingly higher percentage of that total, which, in turn, resulted in a 2.8% drop in the average ticket size of Mainland customers.

Sa Sa continued with its strategy to introduce more lower-priced items to cater to the needs of the tourist and local consumer market. As the Group engaged in more aggressive promotions to enhance price competitiveness in the second half with a particular focus on low- to mid-priced products, it successfully drove 14.3% growth in transactions during this period, and ended the year with a healthy 13.1% growth. At the same time, this also boosted sales from more price-sensitive local consumers with year-on-year growth of 8.3% in the second half of the fiscal year. Though decline of average ticket size accelerated in the second half of 2014 as a result, Sa Sa managed to continue to grow its customer base amidst the more difficult operating environment. The combined effect is that overall retail sales growth slowed down in the second half to 16.2% from 19.9% in the first half.

The Group continued to broaden its house brand product range. The success of its product development and marketing strategies and initiatives led to a 22.1% increase in sales of house brand products.

During the year, the Group pursued network expansion in a strategic and disciplined manner, taking into account market needs to satisfy its increasing customer base as well as cost considerations. There was a net increase of nine "Sasa" stores during the year. As at 31 March 2014, there were 106 "Sasa" stores (including seven in Macau), one Suisse Programme specialty store and two La Colline specialty stores.

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In **Mainland China**, Sa Sa focused on opening new stores in the boutique size format, and continuously improved in-store and frontline staff productivity. However, the fiscal year witnessed various personnel changes in the purchasing department and a new logistics contractor to counter inefficient inventory management, which led to stock depletion and loss of sales. As a result, the Group's turnover in Mainland China was HK$365.8 million, showing barely flat growth. Same store growth in local currency terms decreased by 3.7%. As at 31 March 2014, the Group had presence in 31 cities across 15 provinces in Mainland China with 61 "Sasa" stores and six Suisse Programme counters in five regional clusters.

Turnover in **Singapore** grew by 2.2% in local currency to HK$256.7 million. Same store sales dropped by 1.8% in local currency. Slower sales growth was mainly due to the challenge of filling vacancies for frontline staff and manpower constraints resulting from tightened foreign worker quotas, adversely affecting store productivity. Moreover, there were fewer atrium sales because of a lack of vacancies in the schedule. The "Sasa" store network increased by one store to 22 as at 31 March 2014.

In **Malaysia**, turnover rose 9.8% in local currency to HK$335.2 million. Same store sales grew 4.6% in local currency. The Group's expansion drive and positive same store sales contributions led to retail sales growth exceeding that of peers as well as the overall retail market. An enhanced Incentive Scheme improved House Brand sales and increased basket size for Private Label brands, which increased House Brand mix from 46.4% to 46.6%. As at 31 March 2014, there were 53 "Sasa" stores in Malaysia.

During the year, turnover for the Group's **Taiwan** business increased by 12.8% in local currency terms to HK$282.3 million. Same store sales grew 5.1% in local currency. Despite weak local consumption sentiment, the Group has enlarged its network in the past year to capture the growth potential from the market. It also enhanced its product portfolio and increased lower-priced product offerings with the objective of increasing traffic and driving sales through cross-selling. Sa Sa added one store during the year and there were 29 "Sasa" stores in Taiwan as at 31 March 2014.

Turnover for **sasa.com** amounted to HK$394.0 million, representing an increase of 2.6% over the previous fiscal year. After successfully opening up new markets in the last fiscal year, the Group continued to penetrate into these diversified markets through localized marketing strategies. The flat turnover was mainly due to a much weaker Australian market, which offset gains in other markets. The decline in sales to Australia was a result of department stores in Australia slashing prices to realign with international prices. This made shopping online overseas less attractive, a situation exacerbated by a significantly weaker Australian Dollar. In order to increase competitiveness in overseas markets, the Group invested more in processes such as the acceptance of local currency payment and local payment gateways, enhancing marketing capability and improved website content management. In 2013, sasa.com was awarded the "Google Hong Kong Partners Awards - Annual Partner Award" and "Google Export Award", and also received the Weibo Star 2013 – "Top 10 Most Influential HK Corporations" award for the very first time.

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Brand Management

The Group's sales of House Brands increased steadily by 19.5%, contributing 44.2% of the Group's total retail sales as compared to 42.5% last year. The Group's strategy of allocating more sales and marketing resources to House Brands with the greatest growth potential, and also to its hero products, successfully drove the sales growth of its own-branded and exclusively distributed products. In view of the rising popularity of Korean skincare and cosmetic products, the Group brought in a number of well-known Korean exclusive brands, such as banila co., BEYOND, CREMORLAB, BRTC and reskin, which saw robust sales growth of 57%. The Group will continue to closely follow market trends by launching timely and trendy new products catering to different customer segments, and seek to cooperate more closely with Korean principals to better realize the potential of their brands. The increase in mid- to low-priced and trendy product offerings helped serve the consumer trend of buying lower price products. The Group will continue to implement a diversification strategy in the product categories as well as to broaden its appeal to segments such as the young people and home DIY sector. New Suisse Programme ambassadors have been appointed and showcased with a series of product promotion campaigns.

Outlook and Strategies

The Group expects the coming fiscal year to be challenging. A slow global economy is likely to be vulnerable to political turmoil and general weak consumption. Growth of Mainland visitors to Hong Kong and Macau has moderated, and the previously upward growth pattern has become more volatile, while Mainland tourists' spending power has also weakened. In addition, a trend of increasing competition and pricing pressure on traditional cosmetic retailers has emerged due to the intensive penetration of e-commerce in Mainland China. The growing anti-Mainland tourist sentiment in Hong Kong is likely to be reflected in new legislative measures to make such flows more sustainable, and hence more profitable in the long run.

Historically, the cosmetic industry has been resilient to changing economic circumstances, proven by the sector's recent outperformance. Continued growth momentum is therefore likely due to the evolving integration of Hong Kong into the Mainland, and the strength of the demand for cosmetics from Mainland visitors.

The Group's scale outside Hong Kong is modest, but this low starting point implies huge potential to grow in all existing markets. Therefore, Sa Sa will devote more resources to drive both turnover and profits contribution from existing markets outside its home base.

Sa Sa will make further efforts to strengthen own labels and brands with storyline and marketing investments. The Group will enhance the strength of its product offerings, target product gaps in its product offering, identify consumers' preferences for new products as well as their ever-changing requirements on product functions, and offer appropriate products to satisfy these demands. Furthermore, the Group will increase its House Brands coverage to boost the sales mix of Owned Brands, enabling it to increase its gross profit margin and offset rising cost pressures. Sa Sa will also make use of effective O2O coordination for the purposes of building its Own Brands and create greater awareness and recognition, thus enhancing sales momentum.

Overall, the Group will continue to pursue network expansion with discipline, taking into account market circumstances and to strengthen its retail brand and product portfolio through closer cooperation with beauty brand owners in order to strengthen our brand position as being the leading cosmetics retailing group in Asia. At the same time, Sa Sa is developing a system to improve the accuracy and reliability of ordering Own Brand products. This system development will help decrease manpower dependence and increase scalability.

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Dr. Simon Kwok, *BBS, JP*, Chairman and Chief Executive Director of the Group, concluded, "The Group has demonstrated we are able to expand and grow in both Hong Kong and overseas markets in all economic climates and facing all kinds of market challenges. We firmly believe that our flexible and well-scaled business model, with its adaptability to adapt and target new brands to new markets and segments, will stand us in good stead whatever the market circumstances. In this sense, the recent issues concerning possible control of Mainland tourist arrivals in Hong Kong is part of a story familiar to all successful businesses. We will continue to adapt and grow, basing our forward confidence on a very strong track record, our leading position in Asia Pacific and our determination to maintain that position through the commitment, expertise, resilience and courage of our staff and management team. In this spirit, we look forward to many more years of sustained, world-class growth."

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