Sa Sa Announces Annual Results 2014/15

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Turnover Rose 2.7% year-on-year to HK$8,992.8 Million

Group's Annual Results Highlights	For the year ended 31 March		% Change
	2014/15	2013/14	
	HK$ million	HK$ million	
Turnover	**8,992.8**	8,756.1	+2.7%
Gross profit	**4,039.2**	4,073.0	-0.8%
EBITDA	**1,172.5**	1,314.2	-10.8%
Profit for the year	**838.8**	935.2	-10.3%
Earnings per share	**29.5 HK cents**	33.0 HK cents	-10.6%
Final dividend per share	**14.5 HK cents**	14.5 HK cents	–
- *basic*	***9.0 HK cents***	9.0 *HK cents*	–
- *special*	***5.5 HK cents***	5.5 *HK cents*	–
Total annual dividend per share	**23.5 HK cents**	23.5 HK cents	–
- *basic*	***14.0 HK cents***	13.5 *HK cents*	+3.7%
- *special*	***9.5 HK cents***	10.0 *HK cents*	-5.0%
Gross profit margin	**44.9 %**	46.5%	-1.6 p.p.
Net profit margin	**9.3 %**	10.7%	-1.4 p.p.

(25 June 2015 – HONG KONG) – **Sa Sa International Holdings Limited** ("Sa Sa" or the "Group", stock code: 0178) announced today its annual results for the year ended 31 March 2015 (the "fiscal year").

During the fiscal year, the Group's turnover rose 2.7% to HK$8,992.8 million from HK$8,756.1 million in the previous year. Retail sales in Hong Kong and Macau increased by 3.3% year-on-year from HK$7,026.5 million to HK$7,259.4 million. Profit for the year was HK$838.8 million, a decrease of 10.3% over the HK$935.2 million achieved in the last fiscal year. The Group's gross profit margin for the fiscal year decreased from 46.5% last year to 44.9% this year. The Group's net profit margin decreased to 9.3% from 10.7%.

Basic earnings per share were 29.5 HK cents, as compared to 33.0 HK cents in the previous year. The Board of Directors proposed a final dividend of 9.0 HK cents per share (2013/14: 9.0 HK cents) and a special dividend of 5.5 HK cents per share (2013/14: 5.5 HK cents). Total annual dividend for the fiscal year is 23.5 HK cents per share (2013/14: 23.5 HK cents).

Retail and Wholesale Business

Sa Sa continued to uphold its leading market position in **Hong Kong and Macau**, which were the primary contributor to the Group's turnover and profits. Turnover in Hong Kong and Macau increased by 3.3% year-on-year from HK$7,122.1 million to HK$7,356.7 million and same store sales rose 2.2%. The number of transactions rose 6.8% while the total average sales value per ticket decreased by 3.3%.

The Group's overall performance was impacted by a number of positive as well as less helpful factors. The Group's retail sales remained on a relatively consistent upward path as it continued to benefit from the steady increase in sales to both local residents and Mainland tourists.

Although the Group's Hong Kong and Macau operations reported 10.2% retail sales growth in the first half of the fiscal year, sales were dragged by weaker consumer sentiment in the second half. Sales growth slowed in the third quarter and further deteriorated in the fourth quarter with March 2015 being especially weak because of anti-parallel goods traders incidents in residential areas, turning an otherwise positive January to February two months' period into negative territory for the fourth quarter. In addition, the appreciation of the US dollar and the relative strength of the Renminbi and Hong Kong dollar encouraged more Mainland tourists to travel to markets with weaker currencies such as Europe and South Korea. The relaxation of visa policies by other countries strengthened their attractiveness to Mainland tourists, while strong outbound travelling led to weaker local spending. The Occupy Movement and anti-parallel goods traders incidents in Hong Kong damaged Hong Kong's profile and discouraged tourists while also causing a drop in sales to local customers.

Overall, profitability was pulled lower by margin pressures. The Group's gross profit margin in its Hong Kong and Macau operations dropped from 46.6% to 44.8% due to more promotions being launched to drive sales in a slower market. Moreover, the Group introduced a higher non-house brand mix in some popular product categories, such as Korean products, in order to more rapidly respond to changes in consumer preferences. However, broadening its own house brand mix remains the Group's strategy for the long term. Further positive factors were the effectiveness of the Group's operating costs' controls, which offset some of the margin pressures, and the overall consistent and disciplined management of the Group's rental costs.

There was a net increase of only one "Sasa" store during the year, which is clear evidence of the Group's efforts to optimize the productivity of its store portfolio as well as its stringent rental costs management. As at 31 March 2015, there were 107 "Sasa" stores in Hong Kong and Macau (including eight in Macau), one Suisse Programme specialty store and two La Colline specialty stores.

There was a decrease in overall sales growth for the Group's **Mainland China** operations due to the management's focus on rolling out boutique stores that make a higher profit contribution at the store level. Ten inefficient larger stores with operating losses were closed while 12 boutique stores were opened. The Group's turnover in Mainland China decreased by 4.6% to HK$347.0 million, and same store growth decreased by 5.6% in local currency. As at 31 March 2015, the Group had a presence in 33 cities and across 16 provinces in Mainland China with 62 "Sasa" stores and three Suisse Programme counters in five regional clusters, 15 "Sasa" store new openings and 14 closures, and three Suisse Programme counters closed.

Turnover for the **Singapore** market decreased by 2.6% in local currency to HK$243.7 million. Same store sales dropped by 5.9% in local currency. The slower sales growth was mainly due to slower domestic income growth, resulting in weaker retail sentiment. Tourism was also affected by the tragedy of the missing Malaysian Airlines passenger plane, with the top two tourist originating countries of Indonesia and China both seeing shrinkage in arrivals during the year. The challenge of filling vacancies for frontline staff and Singapore's acute manpower constraints adversely affected the Group's store productivity. Moreover, persistent high rental costs and dilution of sales due to the excessive increase in overall Singapore retail space contributed to the losses. The "Sasa" store network decreased by one store to 21 as at 31 March 2015.

Turnover in the **Malaysia** market increased 6.1% in local currency to HK$340.3 million. Same store sales decreased 0.2% in local currency. The Group's retail sales and profit growth were impacted by changes in the management team, which adversely affected store productivity and the Group's performance during the transitional period. The missing Malaysian Airlines plane tragedy also caused a drop in tourism numbers. The Group continued to expand its store network to provide enhanced service to customers and to increase its competitiveness. As at 31 March 2015, there were 59 "Sasa" stores in Malaysia.

Turnover in the **Taiwan** market during the year was HK$289.2 million, a rise of 5.7% in local currency. Same store sales grew by 1.6% in local currency. Sales were boosted by enhanced house brand product mix and introduction of lower priced products and promotions, which drove traffic and sales through cross-selling. The Group's strategic store expansion plan began to bear fruit and it was able to capture the growth potential of increasing numbers of Mainland Chinese visitors. As at 31 March 2015, there were 32 “Sasa” stores in Taiwan.

Turnover for **sasa.com** amounted to HK$416.0 million, a rise of 5.6% over the previous fiscal year. The Group’s performance in the Mainland China market was boosted by more focus on flash sales and their associated purchases, enhanced marketing capability and optimization of channel advertisements, as well as localized payment gateways. These positive factors were partially offset by declining sales in other markets due to resource re-allocation. The Group optimized current marketing vehicles to drive sales, such as email marketing, search engine marketing, affiliate marketing and social media platforms. However, profitability was eroded due to increased investment and advertising and promotion expenses. The Group enhanced brand awareness through a number of successful campaigns during the year. It launched an iPad app, which quickly attained a high sales participation and conversion rate and received the “Best Retail Mobile Application” Award in the MobileWebAwards 2014. The Group further developed its social media platform partnerships with WeChat, Weibo and YouTube, with the number of its Weibo fans increasing from 1.4 million to 2.1 million. sasa.com was awarded “Weibo Star – Top 10 Most Influential Hong Kong Corporations” by Sina Hong Kong for the second consecutive year. In 2014, the Group was ranked in first place for the same award.

Brand Management

The Group’s sales mix of House Brands decreased from 44.2% to 43.3%. In order to enhance product competitiveness to attract traffic in a slower market, the Group strategically broadened its choices to include more parallel import products that are faster time to market. High-price house brand products, which make up a larger percentage of the Group’s house brand sales mix, underperformed due to consumers preferring mid- to low-price products and Korean products. The transitional change of management in the Group’s product development team adversely affected the timeliness of the Group’s response to this fast changing market. With Korean products outshining all others, the Group began to cater to the higher demand for Korean products by launching a wider range of Korean product offerings, with the result that their sales rose 46.8%. However, sales of non-house brand Korean products continued to outgrow the Group’s house brand Korean products.

Outlook and Strategies

The Group expects the coming fiscal year will continue to be challenging, while some of these challenges may offer opportunities, such as cross-border e-commerce facilitated by Free Trade Zones. The Group expects the pace of Mainland China tourist arrivals will continue to slow and that local consumption sentiment will remain weak. A strong Hong Kong dollar will continue to make shopping overseas more attractive for Mainland Chinese and local consumers, while price competition will add pressures to a slower market. The social and political situation in Hong Kong, possible policy revisions on cross border e-commerce and the ongoing pace of change in consumer preferences may add further uncertainties to the slower retail market environment.

The Group will focus on tapping the opportunities of O2O and cross-border e-commerce. Its O2O initiatives will initially launch in Hong Kong and gradually extend to its markets outside Hong Kong, with a long-term e-commerce goal to allocate more resources to drive the Group’s O2O operating capabilities, thereby benefiting both the turnover and profit contribution from all existing markets including the Group’s online business. The Group will make further efforts to strengthen its own labels, enhance its brands with storyline and marketing investments, and improve the appeal of its product offerings. Initiatives will include targeting product gaps in its offering, and identifying consumers’ preferences for new products as well as their ever-changing requirements in regard to product functions, with the aim of providing appropriate products to satisfy these demands.

Hong Kong and Macau

In the short term, the Group expects strong headwinds due to the slowdown of Mainland Chinese tourist arrivals in Hong Kong and their weaker spending patterns. However, the Group believes there are several positive factors to counter the headwinds. The Group’s gross profit margin pressure is expected to ease somewhat since it has experienced a complete cycle of price adjustments since 2013. Rental pressure is also expected to moderate in a slower market, which will mean relatively less pressure to drive sales to contain the

Group's cost structure. Furthermore, the Group has proven that it is possible to manage rental costs by rationalizing its store portfolio and the Group believes that there is further scope to act in this manner.

Overall, the Group is still cautiously optimistic about the long-term growth outlook of Hong Kong retail sales. It believes that Mainland Chinese residents, especially those in lower tier cities, will have higher disposable income in the coming years. Further integration into China by enhanced transportation, such as the high-speed rail link and the Hong Kong-Zhuhai-Macau bridge, will mean shorter travel times for Mainland visitors, while the Free Trade Zone in Guangdong will more closely integrate Guangdong and Hong Kong so that both cities can enjoy mutual benefits. The Hong Kong SAR Government's initiatives to boost local spending, such as the "Happy@Hong Kong Super JETSO" campaign, as well as higher budgets for tourism promotion overseas, will also stimulate the market.

Going forward, the Group will develop the O2O business model and digitize the personal services of its beauty consultants. It aims to capture the potential of sales to Mainland customers after their return to the Mainland by optimizing its cross border e-commerce operations and using social media to promote and project its business into the Mainland, thereby strengthening customer loyalty, driving development of the Group's online business, and improving its online gross profit margins. Other initiatives include introducing more good value products to cater for the change in customer needs towards lower priced products; strengthening the visual merchandizing of Korean products in the Group's shops; rolling out more attractive promotions to tap both tourist and local customer demand; enhancing the incentive programmes for frontline staff and improving training.

Mainland China

Competition in the Mainland China cosmetics market is intensifying at the low end to mid price brackets due to the rise of local and Korean brands. Meanwhile, the dynamics of the cosmetics market are also changing, with internet retailing growing at a rapid pace. In response to these challenges, the Group has been strengthening the network in its Southern cluster, especially in prime locations in large-scale shopping malls, where the Group enjoys a higher competitive edge and better brand awareness. In addition to increasing market penetration, this strategy has also driven significant operational efficiency in the Southern cluster.

The Group is gradually adopting a lower cost and more efficient smaller store format with new store openings to enhance cost efficiency and profitability and gear up its scope of expansion. It believes operating losses will be improved gradually as the Group's successful store refurbishment increasingly bears fruit. The Group will continue to expand its store network to focus on profit making regions and cities but the rate of expansion will depend on overall operational readiness including supply chain readiness.

Going forward, the Group will strengthen its management structure and training, re-designate purchasing department job functions and change work processes to increase effectiveness and coordination, automate systems, and improve departmental coordination to increase operational effectiveness and scalability. This will allow the Group to execute its next most important strategy: to improve its product offerings and to better leverage on the competitive edge of its products and build its retail network to gain market share. The Group will also strengthen the morale of frontline staff by upgrading its store classification mechanism. In order to drive targeted sales, the Group will optimize its shop supervisors' commission scheme, as well as implement an annual KPI assessment for its operational managers. The Group's investment in business process regeneration and system automation will allow it to improve operational efficiency and execution capability, thereby reducing the impact of staff turnover and improving scalability.

Other Markets: Singapore, Malaysia and Taiwan

The new Senior Vice-President appointed to head these three markets is devoting more expertise and management resources to further drive Sa Sa's business. This will enable improvements in overall strategic development as well as execution power.

In Singapore, given a more difficult operating environment with weak local spending and falling tourist arrivals, in particular Mainland Chinese arrivals, the Group will be reviewing its store portfolio and rationalising its underperforming stores with the objective of implementing pre-term closures and investing in outlets with a better return on capital and human resources. The Group will review its product mix and product categories in order to enhance product assortment for new stores and refitted stores, and aims to explore exclusive brands with higher margins to minimize inventory risk and marketing investment. It will also tap its local sales market share via close collaboration with local vendors, and focus on better advance planning for new launches and exclusive promotions. The Group will also close inefficient stores, and open stores in new malls with good potential to rationalize its store network. Further measures include enhancing staff product knowledge and monitoring staff productivity, working on staff retention to minimize the loss of experienced sales staff and converting more job scopes into automation so that employees can concentrate on analytical and quality enhancement.

In order to further build its retail network in Malaysia, Sa Sa will identify high traffic locations for new stores and expand into new regions. It will improve professional training for staff and enhance product portfolio by introducing new brands and products with strong potential. Further measures include streamlining and reviewing brand performance, the nationwide launch of concurrent brands, and sourcing new and exclusive products across all product categories. Against the backdrop of the Goods and Services Tax, which was implemented in April 2015, the launch of Sa Sa's bonus points programme in the second half of the new fiscal year will help strengthen its customer base and enhance competiveness, thereby reducing any negative impact.

In Taiwan, the Group expects that the Mainland consumers mix will continue to increase in view of its enhanced infrastructure and retail space, as well as the introduction of unlimited visa quotas for high-end Mainland Chinese tourists who have greater spending capacity. The Group has already opened stores in tourist locations to tap the potential of the increasing Mainland Chinese tourist arrivals and it will continue to improve its network with the aim of introducing "Sasa" stores in each county of Taiwan.

In its e-commerce business, the Group will launch fresh initiatives to grow its customer base in order to maximize revenue. For overseas markets, it will devote further efforts to enhancing market share, especially in regard to new customer acquisition. The Group will develop its O2O online platform to strengthen cooperation with physical stores and to leverage the capability of its beauty consultants and online marketing expertise to highlight the attractive product offerings of its online and offline stores. In additional to enhancing platform synchronisation, the Group will adapt and cater to consumers' shopping habits, especially mobile users, and enhance the efficiency of all new devices that modern consumers use. The Group has launched a new Mainland China shopping site, mobile site and app to better target the Prime Revenue Driving Country and to offer a better user experience. The Group will also refine its product strategy in order to tap the opportunities of market trends, with Korean products being the major area of focus; continue to optimize current marketing channels including search engine marketing, affiliate marketing, email marketing and social media to increase traffic and conversion rates; develop a new Customer Relationship Management programme to increase repeat purchases and customer retention; and continue to explore potential partnerships and alliances.

Dr. Simon Kwok, *BBS, JP*, Chairman and Chief Executive Director of the Group, concluded, "Sa Sa has a long track record of delivering outstanding success in all economic climates and in the face of contrary headwinds and difficulties. We continue to have faith that we can progressively build our competitiveness in the years to come and turn challenges into opportunities, such as those offered by O2O, by evolving consumer patterns and by the long-term growth of the less affluent parts of Mainland China. It is our belief that the inherent flexibility and scalability of our business model, with its ability to rapidly adapt to new circumstances, markets and trends, will continue to support our position as a leading provider of beauty products in the Asia Pacific. We also believe that the resilience and adaptability of our loyal staff and the forward vision of our outstanding management team will ensure that we deliver sustained, world-class growth for many years to come."

– End –

About Sa Sa International Holdings Limited (莎莎國際控股有限公司)

Sa Sa is a leading cosmetics retailing group in Asia. The Group currently operates over 280 stores and counters in Asia that sell more than 600 brands of make-up, skin care, fragrance and hair care products including its own-brands and other exclusive international brands. The Group employs over 5,000 staff in Asia Pacific. Sa Sa has been selected as a constituent stock of the Hang Seng Composite MidCap Index for four consecutive years. It is also an eligible stock for Shanghai-Hong Kong Stock Connect, and is currently selected as a constituent stock of the Hang Seng High Dividend Yield Index.