Sa Sa Announces Annual Results 2015/16

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Group Turnover Amounted to HK$7,845.9 Million

(23 June 2016 – 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 2016 (the "fiscal year").

There has been a continuous drop in mainland China tourist arrivals. Meanwhile, the substantially strengthened tourist facilities and convenient travel policies offered by other countries have improved their attraction to mainland tourists. In addition, the strong Hong Kong dollar and depreciating Renminbi have contributed further to the slowdown in mainland visitors to Hong Kong while stimulating outbound travel by local consumers, all of which have affected the general retail market in Hong Kong. Sa Sa's results in the fiscal year were therefore dragged.

On the other front, Sa Sa has traditionally relied on high price products with long product life cycles that derive mainly from Europe and the US. However, the rise of cross-border e-commerce has given further impetus to the change in tourist flows and in their consumption patterns, and has facilitated much faster market penetration of cheaper and fast-to-market Korean products with concepts that are well liked by Asians, and in particular by the Chinese consumers.

During the fiscal year 2015/16, the Group's turnover was HK$7,845.9 million, decreased by 12.8% from HK$8,992.8 million in the previous year. Retail sales in Hong Kong and Macau decreased by 14.2% year-on-year to HK$6,231.6 million. Profit for the year was HK$383.5 million, a decrease of 54.3% over HK$838.8 million achieved in the last fiscal year. The Group's gross profit margin and net profit margin were 42.6% and 4.9%, respectively.

Basic earnings per share were 13.4 HK cents, as compared to 29.5 HK cents in the previous year. Final and special final dividends per share proposed by the Board are 14.5 HK cents (2015: 14.5 HK cents), making a total annual dividend of 23.5 HK cents per share (2015: 23.5 HK cents), payable in cash with a scrip dividend alternative.

Sa Sa has been actively addressing the market in the face of these challenges. The Group had improved the cost effectiveness of stores by repositioning and rationalising store portfolio, optimising store sizes, and centralising operations. The Group had also improved the management of stores in the markets beyond Hong Kong to improve competitiveness and profitability.

Retail and Wholesale Business

Regarding the Group's business in **Hong Kong and Macau**, the Group's turnover in Hong Kong and Macau decreased by 14.2% year-on-year from HK$7,356.7 million to HK$6,315.6 million while same store sales fell 11.8% during the fiscal year. The number of transactions dropped by 4.4% while the total average sales value per ticket decreased by 10.2%. The number of transactions of Mainland China tourists decreased by 7.1% while average sales value per ticket decreased by 11.2%. The number of transactions by local consumers decreased by 1.2% with an average spending decrease of 3.5%.

Due to continuing promotions and discounting to support sales in a slower market as well as a lower house brand mix, the Group's profitability was dragged due to margin pressures. Gross profit margin decreased from 44.8% last year to 42.6% this year. Net profit margin decreased to 7.4% from 11.9%. In order to further strengthen the competitiveness of its product offerings, the Group adjusted its non-house brand mix in some popular product categories to make faster adaptation to changing consumer preferences for Korean and lower price products.

During the fiscal year, there was a net increase of 4 "Sasa" stores. As at 31 March 2016, the Group had 111 "Sasa" stores and two single-brand stores or counters in Hong Kong and Macau.

Rental costs in Hong Kong continued to rise with rental reductions expected to be reflected in total rental costs only over an extended time span of several financial years. For the Macau front, as the Central Government has listed Macau tourism as a key sector for economic growth, the Group is optimistic about the retail sector growth in Macau. The frontline staff costs to sales increased as the Group strove to maintain its competitiveness in the salary system to retain staff in a slower market.

Regarding the Group's business in **Mainland China**, boutique stores of a smaller size continued to contribute to overall profitability, but a change of management in the Group's operations team led to a slight decrease in turnover as well as an increase in the inventory provision. Overall turnover for the Group's Mainland China operations decreased to HK$303.8 million during the year, a decrease of 9.6% in local currency terms, while same store sales decreased by 9.9% in local currency. Loss for the year amounted to HK$39.6 million. The Group launched O2O stores with new store format in Shenzhen (Qianhai) and Shanghai, broadening the Group's product selections through online offerings, while also increasing exposure for the sasa.com brand.

In terms of other markets, turnover for the **Singapore** market was HK$222.5 million during the fiscal year, representing a decrease of 2.0% in local currency terms, while same store sales dropped by 4.8% in local currency. This was mainly affected by Singapore's acute manpower constraints which had led to vacancies for frontline staff, as well as the overall tourism industry being impacted by the strength of the Singapore dollar.

The Group's turnover in its **Malaysia** market was HK$307.4 million, an increase of 9.1% in local currency terms, while same store sales dropped by 3.2% in local currency. The Group has consistently outperformed the market and is profitable, even though its performance was briefly impacted by the introduction of the Goods and Services Tax (GST) at the beginning of the year. However, this impact, began to even out in the second half of the year.

Turnover in the Group's **Taiwan** business during the year decreased to HK$254.6 million, representing a drop of 7.8% in local currency terms while same store sales fell by 10.1% in local currency. It was mainly impacted by changes in management, weak local consumer sentiment, and a drop in mainland tourist arrivals to the region.

Turnover for **sasa.com** amounted to HK$442.0 million during the fiscal year, a rise of 6.2% over the previous fiscal year. The Group launched a new Mainland China site and Mainland China mobile site during the year, which enhanced the traffic and conversion rate. Also, the Group's performance was strengthened by more focus on flash sales and their associated purchases. During the fiscal year, sales to the Mainland China market continued to increase with 25.9% growth. However, the limitation on the system's scalability and logistics functions, together with inadequate consumer awareness of sasa.com and its small customer base hindered faster growth of sasa.com. Moreover, its performance was also partly offset by a decrease in sales to other overseas markets.

Brand Management
The Group's sales mix of own-label and exclusively distributed products, collectively referred to as House Brands, decreased from 43.3% to 41.0%. During the fiscal year, the Group aimed at expanding its choices to offer a wider range of parallel import products that are faster time to market, thereby strengthening its competitiveness in a slower market. In response to the popularity of Korean products, the Group began to offer a broader range of Korean products, which saw sales of such products rising by 25.8% in Hong Kong and Macau.

Outlook and Strategies
The Group's fiscal year 2016/17 quarter-to-date (i.e. period up to 19 June 2016) retail sales and same store sales in Hong Kong and Macau declined by 5.1% (FY15/16 first quarter: -8.8%) and 4.6% (FY15/16 first quarter: -6.8%) year-on-year respectively.

The Group expects the Hong Kong retail market will continue to face a number of challenges. In response to these challenges, the Group has improved the management of its stores in various markets, and has also begun to operate an O2O business model to enhance the shopping experience and to tap the potential of cross-border e-commerce opportunities.

Consolidate Store Network
In order to implement effective cost controls, the Group will continue its policy of store consolidation in Hong Kong with aggressive rental cuts targeted at tourist stores or through complete closures, and reposition its stores more in residential areas with better growth prospects and returns, as well as locating them in the New Territories districts near the Mainland border. The Group will optimise its store network to maximise store profitability, and will simplify and centralise workflows at store level to increase productivity and reduce costs.

In terms of stock management, the Group will clear slow moving stocks more aggressively to better display new and productive SKUs. In addition, the Group will develop more lifestyle and trendy offerings to capture young and male customers, and accelerate new product launches to capture new customer segments.

Seize Opportunities from O2O
Leveraging the customer base of its physical stores and strong product offerings, Sa Sa has been actively tapping the potential of its increasingly important online marketing operations. In light of the continuous change in dynamics of the cosmetics market in Mainland China, with Internet retailing growing at a rapid pace, the Group recognises the need to improve its management resources in the Mainland market, and has appointed a new management team and recruited new staff to serve a revitalised structure while also seconding experienced staff from Hong Kong to improve the attractiveness of the Group's product offerings and inventory management.

The Group believes that a new Free Trade Zone warehouse in China will help it overcome high delivery costs and long fulfillment lead times, which will allow the Group to serve customers with a small basket size while marketing returns will increase due to a broader target audience.

Going forward, the Group will place more emphasis on e-commerce and also begin to gradually integrate its online and offline operations to increase competitiveness. The Group will offer an improved O2O shopping experience to customers and will be able to better serve Mainland tourists who visited its stores in Hong Kong after they have returned home.

Dr. Simon Kwok, *BBS*, *JP*, Chairman and Chief Executive Officer of the Group, concluded, "For many years, Sa Sa has continued to strengthen performance and profits despite many difficult economic environments and cross-currents. We believe we can continue to sharpen our competitiveness in the future and convert challenges into opportunities, such as those offered by O2O, by adapting to new consumer patterns and by leveraging on our proximity to southern China. We remain committed to a vision that builds on the flexibility and scalability of our business model, with its ability to rapidly respond to new markets, situations and trends—a vision that will continue to support our position as a leading provider of beauty products in the Asia-Pacific region. We believe that the flexibility and resourcefulness of our loyal staff and the long-term vision of our dedicated management team will ensure that we continue to deliver sustained, world-class growth for many years to come."

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