Sa Sa Announces Interim Results 2013/14

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Group Turnover Increased by 15.4% to HK$3,899.1 Million

Net Profit Rose by 26.7% to HK$357.4 Million

Group's Interim Results Highlights	For the six months ended 30 September		% Change +/-
	2013/14	2012/13	
	HK$ million	HK$ million	
Turnover	3,899.1	3,377.5	+15.4%
Gross profit	1,830.7	1,543.6	+18.6%
EBITDA	518.9	430.2	+20.6%
Profit for the period	357.4	282.1	+26.7%
EPS – Basic	12.6 cents	10.0 cents	+26.2%
Interim dividend	9.0 cents	7.0 cents	+29%
- *Basic*	4.5 cents	2.5 cents	+80%
- *Special*	4.5 cents	4.5 cents	-
Gross profit margin	47.0%	45.7%	+1.3 p.p.
Net profit margin	9.2%	8.4%	+0.8 p.p.

(18 November 2013 – HONG KONG) – **Sa Sa International Holdings Limited** ("Sa Sa" or the "Group", stock code: 0178), Asia's leading cosmetics retailing group, announced today its interim results for the six months ended 30 September 2013 (the "period").

During the period, the Group's consolidated turnover amounted to HK$3,899.1 million, representing an increase of 15.4% from HK$3,377.5 million for the six months ended 30 September 2012 (the "previous period"). The ongoing robust performance of the core market Hong Kong and Macau benefited the Group's performance. Retail sales in Hong Kong and Macau increased by 19.9% from HK$2,564.1 million to HK$3,073.8 million. The Group's gross profit margin rose from 45.7% to 47.0%. The Group's profit for the period was HK$357.4 million, representing an increase of 26.7% from HK$282.1 million for the previous period. Basic earnings per share amounted to 12.6 HK cents as compared to 10.0 HK cents for the previous period. The Board resolved to declare an interim dividend of 4.5 HK cents (1H2012: 2.5 HK cents) per share and a special dividend of 4.5 HK cents (1H 2012: 4.5 HK cents) per share.

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Retail and Wholesale Business
As testimony to the resilience of the cosmetics sector, the Group's retail sales growth in Hong Kong for the period outperformed the overall retail market and cosmetics sector. Retail sales growth momentum in **Hong Kong and Macau** remained strong. Turnover in Hong Kong and Macau increased 18.9% to HK$3,128.2 million, with same store sales increased 13.0%. Same store number of transactions and total average sales value per ticket also recorded growth.

Mainland tourist arrivals in Hong Kong rose 18.9% while day return visitors continued to be the primary growth engine. The growth of overnight visitors increased from last year but visitors originating from second- and third-tier cities represented a growing percentage of the total. Although more visitors from these urban centres are coming to Hong Kong, their spending power is clearly less than visitors from first-tier cities.

Leveraging on its successful strategy of penetration into non-tourist areas in Hong Kong, the Group continued to benefit from local and Mainland China tourist demand in these areas, particularly in the New Territories. Due to the successful broadening of product development and marketing strategies and initiatives, sales of House Brand products rose by 26.3%.

During the period, the Group continued to implement network expansion in a strategic and disciplined manner, taking into account market needs and cost considerations, in order to increase market share and capture potential in both tourist and non-tourist areas. The Group added a net six "Sasa" stores during the period. As at 30 September 2013, there were 103 "Sasa" stores (including seven in Macau), one Suisse Programme standalone store and two La Colline standalone stores. Sa Sa Supreme, the Group's first-in-Asia lifestyle concept store, was unveiled during the period. It has invited a number of prestigious international brands, as well as young and trendy brands to cooperate in building Hong Kong's first beauty hot spot.

Overall turnover for **Mainland China** operations decreased by 3.3% in local currency terms to HK$167.2 million. The Group has adopted a strategy with more focus on House Brand products in Mainland China operations, but the execution was hampered by the constrain of the relative inexperience of new staff, weaker execution abilities and changes in management, which led to a loss of sales. The Group consciously fine-tuned its strategies and adopted a lower-cost and more efficient boutique store format for some of the new store openings in the first half of 2013. This will help to increase store level profitability, accelerate store expansion and solidify the Group's presence in Mainland China.

During the period, the Group set up a new representative office in Guangzhou to support the training and marketing functions, as well as to improve the support and supervision of own label sales in the Mainland. The aim is to enhance operational efficiency in the Southern and Central Clusters. As at 30 September 2013, the Group had a presence in 28 cities and across 17 provinces in Mainland China with 58 "Sasa" stores and six Suisse Programme counters.

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In **Singapore**, during the period, turnover for Singapore operations was HK$124.4 million, a slight decrease of 0.5% in local currency terms over the previous period. Due to the tightened foreign worker quotas, manpower was constrained which adversely affected store productivity. Moreover, there were fewer atrium sales as compared to the previous period because of a lack of vacancies in the schedule. As at 30 September 2013, there were 21 “Sasa” stores in Singapore.

Turnover for **Malaysia** operation was HK$162.9 million, an increase of 14.4% in local currency terms over the previous period. The retail sales growth in Malaysia exceeded that of peers as well as the overall retail market due to the Group’s strong retail network and effective marketing campaigns. As at 30 September 2013, there were 52 “Sasa” stores in Malaysia.

During the period, turnover for the Group’s **Taiwan** business increased by 6.2% in local currency terms to HK$130.9 million. The Group continued to enhance product portfolio and strengthened lower-priced product offerings with the objective of increasing traffic and driving sales through cross-selling. Despite weak local consumption sentiment, the Group has enlarged the network over the past years, particularly in the tourist areas, to capture the growth potential from Mainland tourists. As at 30 September 2013, there were 28 “Sasa” stores in Taiwan.

Turnover for **sasa.com** amounted to HK$185.6 million, representing an increase of 1.3% over the previous period. The decrease in sales growth was mainly due to more players with a strong financial background competing in the Australia market and focusing on acquiring as many customers as possible rather than making profits, thereby fuelling competition and increasing price pressure. Department stores in Australia also slashed prices to realign with international prices, making shopping online overseas less attractive. A significantly weaker Australian Dollar heightened the negative effect. In response to the intense competition, the Group devoted more efforts to promote its brand and platform via email marketing, search engine marketing and affiliate marketing. sasa.com remained widely recognized in the industry, receiving the “Annual Partner Award” in the Google Hong Kong Partners Awards 2013, and “Search Engine Marketing Award” in the Google Best Overseas Brand Communications Awards during the period.

Brand Management

The Group’s sales of House Brands increased steadily by 22.9%, and the House Brand mix increased to 44.2% of the Group’s total retail sales. 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. The Group placed emphasis on closely following market trends by launching timely and trendy new products catering to different customer segments, which helped to drive the growth of House Brands. 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. The period witnessed the launch of new Suisse Programme ambassadors with a series of product promotion campaigns.

Outlook and Strategies

The coming year will undoubtedly be challenging because of the uncertain global economy and relatively weak consumption sentiment. The Group expects to experience continued growth momentum due to the continuing integration of Hong Kong with the Mainland and the strength of the demand for cosmetics from Mainland visitors, making its cosmetics business relatively resilient to changing economic circumstances. In addition, our increasing presence in residential areas will allow us to better serve the local consumers with suitable product selection supported by our professional services. To enhance Sa Sa’s position as the leading cosmetics retailing group in Asia, the Group will continue to expand its network in the region in a disciplined manner, and strengthen its retail brand and product portfolio through closer cooperation with beauty brand owners.

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As for the **Hong Kong and Macau** market, the profile of Mainland tourists to Hong Kong is changing as the more affluent first-tier city residents travel further afield while lower-tier city residents take their place. Major infrastructural projects that are currently underway in Hong Kong will significantly enhance Hong Kong's connectivity with the fast-growing Pearl River Delta region and beyond. The completion of the high-speed rail link would increase ease of travel for day trippers from Southern China should buttress the long-term growth of retail sales in Hong Kong as it will ease the travel for day trippers from Southern China. At the same time, rental growth in Hong Kong has been moderating, which is allowing Sa Sa to expand steadily both in tourist and non-tourist locations.

Following intensive efforts to expand the Group's footprint in **Mainland China**, Sa Sa will continue to develop its business in this challenging but fast-growing cosmetics market. The Group will strengthen its management structure and training programmes to improve effectiveness and coordination and to improve cost management. The Group is confident that investing in business process regeneration, comprehensive reporting and system automation will allow the Group to improve its operational efficiency and execution capability to reduce the impact of staff turnover.

The Group has adopted a lower cost and more efficient smaller store format for some of the new store openings to enhance cost efficiency and profitability and accelerate the pace of expansion. To strengthen the brand building of private labels, the Group will continue to invest in fresh initiatives, and organize more public relations events and social media marketing. The Group aims to improve its product offerings by strengthening close relationships with local suppliers, as well as with major global and regional beauty groups to secure more renowned international beauty brands. The Group will add more exclusive and owned label products to increase the diversity of its brand portfolio.

In **Singapore**, the Group will continue to build scalability and profit potential through enlargement of its store size and integrating new lifestyle concept into the stores. In response to staffing issues, we will participate in job fairs to promote employer profile and recruitment awareness and we will redesign job scopes to attract short-hour/part time locals. We will also adopt employee programmes specifically tailored to retain staff. In **Malaysia**, the Group will continue to strengthen the local team, identify high traffic locations for new stores and expand into new regions, and enhance its product portfolio by introducing new brands and products with strong potential. In **Taiwan**, the Group will maintain its efforts to expand and improve the network in order to strengthen its presence and future growth potential. In addition, we have been opening stores in tourist locations to tap the potential of the Mainland Chinese tourists and we will continue to improve our network in this respect.

The Group's new key strategy for **sasa.com** is to strengthen cooperation with physical stores and to leverage on the capability of its online marketing to highlight the attractive product offerings of its online and offline stores. The Group will increase product offerings to tap its existing and new customers and enhance customer retention through the Customer Relationship Management programme. The Group will explore potential partnerships with top online shopping sites, give added channel exposure to its own brands and leverage on other media to enhance branding of its own labels. Moreover, The Group will continue to increase social media presence and further integrate social media with its marketing.

Dr. Simon Kwok, *BBS*, *JP*, Chairman and Chief Executive Director of the Group, concluded, "Sa Sa has an enviable record of sustainable success over the years in all economic circumstances. We aim to continue to enhance our competitiveness and to build sustainability and scalability in the years to come. We are confident that our proven strategies and execution, our commitment to continuous improvements, forward planning and our inherent flexibility will enable the Group to continue to deliver sound results in the future."

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