Sa Sa Announces Interim Results 2014/15

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Group Turnover Increased by 8.4% to HK $4,226.0 Million

Group's Interim Results Highlights	For the six months ended 30 September		% Change +/-
	2014/15	2013/14	
	HK$ million	HK$ million	
Turnover	**4,226.0**	3,899.1	+8.4%
Gross profit	**1,886.9**	1,830.7	+3.1%
EBITDA	**497.1**	518.9	-4.2%
Profit for the period	**339.8**	357.4	-4.9%
EPS – Basic	**11.9 cents**	12.6 cents	-5.6%
Interim dividend	**9.0 cents**	9.0 cents	-
- *Basic*	**5.0 cents**	4.5 cents	+11.1%
- *Special*	**4.0 cents**	4.5 cents	-11.1%
Gross profit margin	**44.6%**	47.0%	-2.4 p.p.
Net profit margin	**8.0%**	9.2%	-1.2 p.p.

(18 November 2014 – HONG KONG) – **Sa Sa International Holdings Limited** ("Sa Sa" or the "Group", stock code: 0178) announced today its interim results for the six months ended 30 September 2014 (the "period").

During the period, the Group's turnover amounted to HK$4,226.0 million, representing an increase of 8.4% from HK$3,899.1 million for the six months ended 30 September 2013 (the "previous period"). The Group's performance benefited from the continuing steady performance of our core market, Hong Kong and Macau. Retail sales in Hong Kong and Macau increased by 10.2% from HK$3,073.8 million to HK$3,386.1 million. The Group's gross profit margin slid from 47.0% to 44.6%. The Group's profit for the period was HK$339.8 million, representing a decrease of 4.9% from HK$357.4 million for the previous period. Basic earnings per share amounted to 11.9 HK cents as compared to 12.6 HK cents for the previous period. The Board resolved to declare an interim dividend of 5.0 HK cents (1H 2013/14: 4.5 HK cents) per share and a special dividend of 4.0 HK cents (1H 2013/14: 4.5 HK cents) per share, amounting to 9.0 HK cents (1H 2013/14: 9.0 HK cents) per share in aggregate.

In the first half of 2014, the Hong Kong economy continued to grow at a rate of 2.2% and the resilient domestic sector as well as the sustained growth in inbound tourism continued to support the cosmetics markets. In the first nine months of 2014, Mainland tourist arrivals increased by 15.2% on a year-on-year basis. The growth rate of day return tourists was 17.9% while that of overnight tourist arrivals increased by 11.5%.

Although total retail sales in Hong Kong dropped slightly by 0.4% in the first nine months of 2014, there were still other positives for the retail sector, as demonstrated by the 10.0% rise in retail sales of medicines and cosmetics.

Retail and Wholesale Business

Turnover in **Hong Kong and Macau** increased 9.8% to HK$3,433.3 million, with same store sales and same store number of transactions rising 6.9% and 7.2% in the period respectively. The total average sales value per ticket remained flat, which was attributable to a lower average spending from Mainland customers who have weaker spending power as well as a 5.7% increase in spending from local customers. Profit after tax declined from HK$374.8 million to HK$371.9 million.

The Group's retail sales in Hong Kong for the period grew albeit at a slower pace than in the corresponding period last year. This performance was driven by an increase in the total number of transactions by Mainland tourists, which in turn reflected the steady 15.2% increase in Mainland tourist arrivals.

However, there was a 6.7% decrease in average ticket size of Mainland customers, which was attributable to the faster growth of tourists originating from lower tier cities in China with less spending power as well as the increasing demand for lower price point products (for example, Korean products) and the central government's anti-corruption drive. In addition, same day visitor arrivals have grown at a faster rate than overnight ones while these visitors tend to spend less per transaction. This has contributed to a lower ticket size for Mainland customers.

Profitability was restrained due to gross margin pressures. Gross profit margins dropped by 2.4 percentage points, as a result of the need to sustain high growth in a slower market, which in turn led to ongoing promotions and discounting to stimulate volume. In order to further strengthen our competitiveness in product offerings, the Group adjusted to a higher non-House Brand mix in some popular product categories, for instance, in Korean products. However, broadening House Brand products remains Sa Sa's long-term goal. Sales of House Brand products rose by 7.3%.

During the period, the Group continued to rationalise the network in a strategic and disciplined manner, taking into account market needs and cost considerations, in order to capture potential in both tourist and non-tourist areas. There was a net decrease of one "Sasa" store during the period. As at 30 September 2014, there were 105 "Sasa" stores (including eight in Macau), one Suisse Programme specialty store and two La Colline specialty stores.

Overall turnover for the Group's **Mainland China** operations decreased by 0.9% in local currency terms to HK$166.0 million, while same store sales in local currency decreased 3.5% for the period. The Group continued to roll out its boutique stores in the first half of the year, which resulted in relatively steady profitability and contributions. However, due to a change of importer and the performance of logistics support, the overall performance was affected by a general tendency to be out of stock on own-labels, which in turn resulted in loss of sales and lowering of the gross profit margin. During the period, the Group opened more stores in Southern China where Sa Sa has stronger brand awareness and better support from landlords. This has resulted in improved store performance. As at 30 September 2014, the Group had a presence in 32 cities across 16 provinces in Mainland China with 61 "Sasa" stores and three Suisse Programme counters in five regional clusters.

The Group has appointed a Senior Vice-President to head its markets in **Singapore**, **Malaysia** and **Taiwan**. This very positive move signifies the vision of Sa Sa's senior management in this sector.

During the period, the turnover for the Group's **Singapore** operations was HK$123.3 million, a slight decrease of 1.2% in local currency terms over the previous period. Although more aggressive atrium sales were recorded for August and September 2014, there was a decrease in same store sales of 7.0% due to substantial increases in overall Singapore retail space over the last two years. These resulted in a significant dilution of sales in existing stores. Another challenge was filling vacancies for frontline staff as well as manpower constraints due to tightened foreign worker quotas. High vacancy rates and high staff turnover adversely affected the Group's store productivity. As at 30 September 2014, the "Sasa" store network in Singapore remained unchanged at 22 stores.

The turnover for Sa Sa's **Malaysia** operations was HK$168.4 million, an increase of 4.4% in local currency terms over the previous period. Same store sales decreased 0.4% in local currency. The Group's retail sales growth sustained due to its strong retail network and effective marketing campaigns. As at 30 September 2014, there were 55 "Sasa" stores in Malaysia.

During the period, the turnover in the Group's **Taiwan** business increased by 8.2% in local currency terms to HK$139.1 million, and same store sales rose 4.1% in local currency. Despite local consumption sentiment remaining weak, the Group's sales was strategically boosted by the enhanced House Brand product mix and lower priced product offerings, which were aimed at increasing traffic and driving sales through cross-selling. As at 30 September 2014, there were 30 "Sasa" stores in Taiwan.

Turnover for **sasa.com** amounted to HK$195.9 million, representing an increase of 5.5% over the previous period. As a result of the shift of the Group's focus in the China market last year, sales from Mainland China continued to register a faster growth. However, this performance was partly offset by a decrease in sales to other markets such as Australia and the United States. Sales in the Mainland China market were boosted by flash sales and linked sales; enhanced marketing capability and channel advertisement optimisation (social buys plus word of mouth); and localised payment gateways.

Brand Management
The rising trend of House Brand mix was reversed in the first half of 2014. The Group's sales of House Brand, including own-label and exclusively distributed products, increased steadily by 6.0%. However, the House Brand mix decreased to 43.3% of the Group's total retail sales due to the curtailed growth of agent products. The relative inflexibility in the pricing of these products in a price competitive environment curtailed the growth of this product source and lowered its sales mix. In addition, Sa Sa deliberately broadened its product offerings, especially highly popular but lower margin products, to enhance product competitiveness and attract traffic in a slower market. Although Korean skincare and cosmetic products still prevailed, the Group sought to cooperate more closely with Korean principals to better realise the potential of their brands.

Outlook and Strategies
The coming year will undoubtedly be challenging because of the growth of political unrest in Hong Kong, a relatively weak global economy and pricing competition adding pressure in a slower market. In response to the pressures, the Group's long-term goal is to increase contribution from markets outside Hong Kong and from e-commerce. The Group will make further efforts to strengthen its own labels, support its brands with storyline and marketing investments, and improve the strength of its product offerings. In addition, the Group will identify consumers' preferences for new products as well as their ever-changing requirements in regard to product functions, so as to offer appropriate products to satisfy these demands.

Hong Kong and Macau
In Hong Kong, the cosmetics market faces increasing near-term headwinds due to the slowdown in Mainland China tourist arrivals and their weaker spending. There is an increasing competition to attract Mainland China tourists from other countries in the region, and the more affluent travelers from tier-1 and tier-2 cities are increasingly choosing destinations other than Hong Kong. In addition, tourist arrivals' growth in face of political instability in Hong Kong may be affected by the central government or individual consumer decisions.

However, the Group remains cautiously optimistic about the longer term growth outlook of Hong Kong retail sales because more and more Mainland China residents will have higher disposable income, especially those from lower tier cities. Moreover, the integration of Hong Kong into Mainland China will be enhanced by shortened travel times on improved transportation links, such as the high-speed rail link and the Hong Kong-Zhuhai-Macau bridge.

The Group believes that its cost flexibility should help to mitigate the impact of less positive factors on its sales. For example, in Sa Sa's network rationalisation, the Group is closing some stores in tourist districts where new leases were signed up during a stronger retail environment in anticipation of losing old leases that were about to expire. Due to slower growth in the areas that rely on overnight Mainland China tourists than in residential areas, the Group is not renewing the old leases.

As a result of the ongoing occupy movement in Hong Kong, Sa Sa's FY2014/15 quarter-to-date (i.e. period up to 16 November 2014) retail sales growth of Hong Kong and Macau has slowed to 0.4%* year-on-year (FY2013/14 third quarter: +18.9%*) while same store sales dropped by 2.4%* year-on-year (FY2013/14 third quarter: +15.8%*).

** Exclude adjustments according to Hong Kong International Financial Reporting Interpretation Committee – Interpretation 13 on the bonus points scheme.*

Mainland China
The Mainland China market remains challenging. The competition in the cosmetics market is intensifying at the low end to mid price brackets due to the rise of local and Korean brands. As an example, increasing competition has led to the exit of some foreign brands from the Mainland China market in recent years.

The overall dynamics for the cosmetics market are also rapidly changing. Internet retailing is accelerating, which means that more efforts are required to draw attention to products. In general, cheaper products are attracting more attention online while more expensive products have to work harder to compete. Discounted prices from e-commerce companies on premium products also make it more difficult for premium brands to compete.

The Group has been strengthening its network in the Southern cluster, especially in prime locations in large-scale shopping malls, where we enjoy more competitive edge and better brand awareness. In addition to increasing market penetration, this strategy has also driven significant sales growth in the Southern region.

Sa Sa has adopted a lower cost and more efficient smaller store format for the majority of new store openings to enhance cost efficiency and profitability and to accelerate the pace of expansion. The operating loss will improve gradually as the Group's successful revitalised store format increasingly bears fruit. The Group will continue to speed up expansion but the pace will depend on overall operational readiness, including supply chain readiness.

In addition, 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. These measures will allow Sa Sa to improve product offerings and to better leverage on the competitive edge of its products. They will also enable the Group to build its retail network to gain market share.

The Group's investment in business process regeneration and system automation will also allow it to improve operational efficiency and execution capability to reduce the impact of staff turnover. This is needed to improve scalability. Sa Sa has adopted a localised product strategy to enhance product appeal, which will also lay emphasis on the best-selling products and House Brands to enhance cost efficiency.

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 allow 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 pre-term closures and investing in outlets with better return on capital and human resources. It is in the process of exploring collaboration with online vendors to enhance retail marketing and Sa Sa is enhancing the attractiveness of VIP deals to create impulse purchases. Further measures include bringing in more quality and higher value lines/assortment for atrium sales and increasing the basket size for atriums. The Group will also explore exclusive brands with higher profit margins, thereby reducing risk levels on stock inventory and marketing investment.

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 will be implemented in April 2015, the launch of Sa Sa's bonus points programme in the second half of this financial 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 as infrastructure and retail space further develop to receive more Mainland tourists. The Group has been opening stores in tourist locations to tap the potential of the increasing Mainland Chinese tourist arrivals and it will continue to improve its network in this aspect with the aim of having a "Sasa" store presence in each county. Storewide, Sa Sa will increase traffic and product competitiveness through the launch of a bonus point programme.

In its e-commerce business, the Group will invest in infrastructure to enhance competitiveness. The Group will develop its O2O online platform 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. In additional to enhancing platform synchronisation, the Group will adapt and cater to consumers' shopping habits, especially mobile users, and match offerings efficiently to new devices that consumers currently use. In terms of user experience, the Group will enhance its search engine, create customers' personal purchasing history and recommendations, as well as optimise channel advertisements to increase traffic and conversion rates.

Dr Simon Kwok, *BBS*, *JP*, Chairman and Chief Executive Officer of the Group, concluded, "Sa Sa has sustained an outstanding level of success during the years in economic circumstances that have been both highly favourable or sometimes less favourable. It is our intention to continue to build our competitiveness in the years to come as well as to maintain a steady trajectory of sustainability and scalability. Notwithstanding moderation in Mainland China's economic growth, as well as changing circumstances in the environment of our other markets, it is the Group's firm belief that our tried and tested strategies and methods of execution, our devotion to the value of continuous improvement, our forward vision and our proven ability to adapt will ensure that Sa Sa delivers sustained growth for the fiscal year and beyond."

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