Sa Sa Announces Interim Results 2015/16

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Group Turnover Amounted to HK $3,777.9 Million

Turning Challenges into Opportunities to Consolidate Market Advantage

Group's Interim Results Highlights	For the six months ended 30 September		% Change
	2015/16	2014/15	
	HK$ million	HK$ million	
Turnover	**3,777.9**	**4,226.0**	-10.6%
Gross profit	**1621.7**	**1,886.9**	-14.1%
EBITDA	**256.4**	**497.1**	-48.4%
Profit for the period	**153.0**	**339.8**	-55.0%
EPS – Basic	**5.4 cents**	**11.9 cents**	-55.0%
Interim dividend per share	**9.0 cents**	**9.0 cents**	-
- *Basic*	**5.0 cents**	**5.0 cents**	-
- *Special*	**4.0 cents**	**4.0 cents**	-
Gross profit margin	**42.9%**	**44.6%**	-1.7p.p.
Net profit margin	**4.1%**	**8.0%**	-3.9p.p.

(24 November 2015 – 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 2015 (the "period").

During the period, the Group's turnover amounted to HK$3,777.9 million, representing a decrease of 10.6% from HK$4,226 million over the same period last year. The Group's performance was under pressure due to a series of negative factors in the retail market of Hong Kong during the first half of the year, among which retail sales in Hong Kong and Macau decreased by 11.1% from HK$3,386.1 million to HK$3,010.4 million. The Group's profit for the period was HK$153.0 million, representing a decrease of 55.0% from HK$339.8 million for the same period last year. Basic earnings per share amounted to 5.4 HK cents as compared to 11.9 HK cents for the same period last year. The Board declared an interim dividend of 5.0 HK cents (2014: 5.0 HK cents) per share and a special dividend of 4.0 HK cents (2014: 4.0 HK cents) per share, amounting to 9.0 HK cents in total. The interim and special dividends will be payable in cash with a scrip dividend alternative. To facilitate shareholders' reinvestment of their dividends into the Company's shares, the Board has resolved to offer a 5% discount on the subscription price for eligible shareholders who elect to receive the dividends in scrip.

The cosmetics market in Hong Kong continues to face strong headwinds due to the slowing of mainland China tourist arrivals, their reduced spending, and weak local consumption sentiment. The one-visit-one-week policy for mainland visitors is gradually taking its toll on the market, while the strength of the Hong Kong dollar and depreciating yuan will continue to make shopping overseas more attractive for both mainland China and local consumers. Intensifying competition within the cosmetic industry is a further challenge, with ongoing discount and promotion programmes having an ongoing impact on profitability. Although rental pressure is expected to moderate in a slowing market, rental reductions still lag behind weak sales performance. In the face of these challenges, The Group rationalised its retail network from 287 to 281, a net decrease of 3 stores each for both "Sasa" stores and single-brand counters.

Retail and Wholesale Business

Regarding the Group's business in **Hong Kong and Macau**, owing to the decrease in average ticket size of mainland tourists and also the drop in their total number of transactions, which was in line with the overall decrease of 3.4% of mainland tourist arrivals during the same period, turnover in Hong Kong and Macau dropped by 11.1% to HK$3,050.9 million, with a decrease of 8.5% in same store sales.

The Occupy Movement and anti-parallel traders incident in Hong Kong damaged Hong Kong's profile and discouraged tourists from visiting. Also, new restrictions placed on the frequency of visits by mainland residents have impacted the flow of mainland tourist arrivals. At the same time, structural changes in Hong Kong tourism arising from the shift in the PRC tourist mix towards tourists arriving from lower-tier cities in China with less spending power also affected the average ticket size. Such tourists tend to have lesser brand awareness than those from higher-tier cities, including their knowledge of Sa Sa.

Hong Kong tourism overall has been losing competitiveness gradually. The substantially strengthened tourist facilities and convenient travel policies offered by other destinations have improved their attraction to mainland tourists. In addition, the strong Hong Kong dollar and depreciating yuan have contributed further to the slowdown of growth in mainland visitors to Hong Kong.

In response to market conditions, the Group has been launching ongoing promotions and discounting to sustain sales in a slower market, leading to a decrease in gross profit margin from 44.6% to 43.0%. Meanwhile, rental costs continued to increase with rental reductions gradually coming into place and only set to be reflected in total rental costs in the next financial year. The frontline staff costs to sales increased as the group strove to maintain its competitiveness in salary system to retain staff in a slower market.

Regarding the Group's business in **Mainland China**, the stores' profitability continued to improve, but weak operational and product management led to a decline in turnover, as well as an increase in the inventory provision. Overall turnover for Mainland China operations decreased to HK$148.9 million, a decrease of 8.7% in local currency terms, while same store sales growth in local currency decreased by 9.8% for the period. Loss for the period amounted to HK$24.5 million. The Group has recognized the need for more management resources to improve management, and is currently using external management resources on a contract basis to allow for more time to develop its own management structure and training. The Group is also seconding experienced staff from Hong Kong to improve attractiveness of product offerings and inventory management.

During the period, turnover for the Group's **Singapore** operations was HK$112.8 million, remaining flat in local currency terms over the same period last year. The Group will continue to build scalability and profit potential by closing inefficient stores and opening stores in new malls with good potential. Turnover for the Group's **Malaysia** operations was HK$141.9 million, an increase of 2.5% in local currency terms over the same period last year. Same store sales decreased 8.5% in local currency. Sales and profit growth were restrained by the implementation of the Goods and Services Tax system, which adversely impacted store productivity during the transitional period. This effect is expected to be normalised in the second half.

Turnover in the Group's **Taiwan** business decreased to HK$130.2 million during the period, representing a drop of 2.2% in local currency terms. Same store sales fell 8.7% in local currency. The number of mainland China consumers in Taiwan is expected to increase in view of the country's enhanced infrastructure and retail space, and 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 increasing in mainland Chinese tourist arrivals.

Turnover for **sasa.com** amounted to HK$193.2 million during the first half of the year, representing a slight decrease of 1.4% over the same period last year. As a result of the shift of our focus in the China market, sales from mainland China continued to increase with a growth of 24.5%. However, this performance was offset by a decrease in sales in other overseas markets. The Group successfully partnered with Alipay in joint promotions to drive traffic and sales in the China market during the period. However, profitability was restrained due to increased investments, as well as advertising and promotion expenses.

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 41.3%. 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 house brand sales mix, underperformed since consumers preferred mid- to low-price products and Korean products. 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 by 28.9% in Hong Kong and Macau.

Outlook and Strategies

The Group expected the retail market of Hong Kong will undoubtedly be challenging in the coming year. In order to ensure that turnover and profitability do not continue to be adversely affected, the Group aims to undertake the following strategic measures:

Diversification

The Group will develop other businesses beyond its traditional operations, including tapping the opportunities of O2O and cross-border e-commerce. The Group's O2O initiatives will initially launch in Hong Kong and gradually extend to mainland China. For the China market, the O2O initiatives will significantly broaden product offerings in its physical stores through online sales and cross border fulfillment. The Group aims to use different channels and to leverage a variety of online partners to increase online exposure, including operating physical stores to promote O2O in Free Trade Zones, and cooperating closely with major China online operators, all with their unique positioning and correspondingly different opportunities.

New store concepts

The Group's strategy for new store concepts includes introducing more trendy and lifestyle concepts to attract young and trend-setting customers, much improved product display, and more emphasis on enhancing the shopping experience.

New shopping experience

The Group aims to place more emphasis on the unique shopping experience with Sa Sa through improved product displays, while changing the mindset of its beauty consultants to one that is more receptive to consumer preferences. In addition, the Group will substantially strengthen its online marketing efforts, including the use of social media channels to improve interactivity.

Dr Simon Kwok, *BBS*, *JP*, Chairman and Chief Executive Officer of the Group, concluded, "Sa Sa has a long track record of delivering outstanding success in all economic climates and in the face of the most severe headwinds and difficulties. We firmly believe that in spite of the current difficult business environment we are now facing, we can still turn challenges into opportunities and further consolidate our competitive advantages. The flexibility of our business model, with an 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, satisfying growth for many years to come ."

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