Sa Sa Announces Interim Results 2016/17

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Turnover Amounted to HK$3,628.0 Million

(23 November 2016 - 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 2016 (the "period").

During the period, the Group's turnover amounted to HK$3,628.0 million, representing a decrease of 4.0% from HK$3,777.9 million over the same period last year. Retail sales in Hong Kong and Macau decreased by 3.6% from HK$3,010.4 million to HK$2,903.2 million. The Group's profit for the period was HK$96.0 million, representing a decrease of 37.3% from HK$153.0 million for the same period last year. Basic earnings per share amounted to 3.3 HK cents. The Board resolved to declare an interim dividend of 5.0 HK cents (2015: 5.0 HK cents) per share and a special dividend of 4.0 HK cents (2015: 4.0 HK cents) per share, totaling 9.0 HK cents per share, payable in cash with a scrip dividend alternative. The Group rationalised its retail network from 291 to 283, a net decrease of 6 "Sasa" stores and a net decrease of 2 single-brand stores/counters.

Retail and Wholesale Business

In **Hong Kong & Macau**, the number of transactions held up despite an ongoing decline in Mainland tourist arrivals. Due to the decline in average sales value per transaction, the Group's retail sales in Hong Kong continued to be weak in comparison to the same period last year. The Group's retail sales in Hong Kong & Macau for the period decreased by 3.6%, with same store sales falling 3.6% in comparison to the same period last year. The number of transactions of local customers and Mainland Chinese customers increased by 0.2% and 4.4% respectively, while their average sales value per transaction decreased by 6.3% and 6.6% respectively for the period. The underlying reasons for the decrease in average sales value per transaction were a change in consumer product preferences, a strong Hong Kong dollar and a depreciating Yuan.

Sales were also supported by strenuous efforts to adapt to new market preferences with faster product launches, adaptation to shorter product cycles and lower priced trendy Asian products. The Group has adopted a more flexible and effective merchandising process with an emphasis on time to market, streamlined product offerings and improved product displays.

In **Mainland China**, boutique stores of a small size continued to contribute to overall profitability, and the recurring loss was narrowed down. However, the relocation of warehouses impacted profitability. During the period, overall turnover for Mainland China operations decreased by 4.3% in local currency terms to HK$135.0 million, while same store sales in local currency decreased by 5.1%. Loss for the period amounted to HK$13.7 million.

For other markets, during the period, the turnover for **Singapore** operations was HK$101.3 million, a decrease of 11.1% in local currency terms over the same period last year. The decrease in sales and profitability was due to weaker store traffic. This in turn reflected a substantial increase in retail space in Singapore over the past two years, with a significant dilution of sales in existing stores. In addition, the Singapore management team recorded high turnover, which created difficulties in retaining the knowledge base. This made operations less effective amid a difficult market. However, a recent restructuring process drawing on the resources of relatively strong Malaysian management team is expected to see cost savings and more effective management.

In **Malaysia**, sales growth benefited from the implementation of the Goods and Sales Tax (GST) system, which had adversely impacted consumption sentiment in the first quarter of 2015. Management continued to strengthen after the restructuring of the previous year. During the period, turnover for Malaysia operations was HK$163.4 million, a significant increase of 19.1% in local currency terms over the same period last year. Same store sales growth rose 11.2% in local currency.

Turnover in the Group's **Taiwan** business decreased by 23.1% in local currency terms to HK$98.3 million during the period, and same store sales fell 19.5% in local currency. Weak local consumption sentiment and the ongoing restructuring of the Group's management team impacted sales performance.

During the period, turnover for **sasa.com** amounted to HK$193.0 million, representing a slight decrease of 0.1% over the same period last year. The Group appointed a new logistics provider in April 2016 with the aim of increasing scalability. However, difficulties in the changeover resulted in cancellation of significant numbers of orders and incurring of further costs by moving inventory back and forth as well as the running of two warehouses in parallel during the period. A change in management added to the logistics pressures.

Building on the growth of mobile internet usage, which has already overtaken desktop internet usage in sales processes, the Group launched a new mobile app during the period. In a further move to broaden sales channels, the Group launched a collaboration with Kaola in addition to its partnership with T-Mall, JD.com and suning.com.

Brand Management

In order to enhance product competitiveness to attract traffic in a slower market, Sa Sa strategically broadened its choices to include more parallel import products that are faster time to market. With Korean products outshining all others, the Group began catering to the higher demand for such products by launching a wider range of Korean product offerings, with the result that their sales rose 51.5% in Hong Kong and Macau. However, sales of non-house brand Korean products continued to outgrow the Group's house brand Korean products. During the period, the Group's sales mix of own brand and exclusively distributed products, collectively referred to as House Brands, decreased from 41.3% to 38.8%.

Outlook and Strategies

The Hong Kong retail market showed gradual signs of improvement during the period. However, the market has not yet fully recovered due to a number of factors. The strength of the US dollar and the linked Hong Kong dollar encouraged a rise in outbound travel by local people while discouraging inbound tourism. Going forward, the Group will continue to implement an effective regime of cost controls.

Cost Controls

In terms of store consolidation, Sa Sa will undertake aggressive rental reductions in tourist areas and reposition its stores in residential areas with good growth prospects, including in the New Territories districts near the Mainland border. With rental pressures expected to moderate in a slower market, the Group will look for opportunities to open stores in prime locations with more reasonable rental levels.

The Group will optimise its store size with an emphasis on increasing penetration and store profitability rather than on the previous strategy of focusing mainly on growth. The Group will centralise and simplify workflows at store level to strengthen productivity and reduce costs, and will also reduce SKUs and clear slow moving stocks to make improved displays of new and productive SKUs.

Driving Sales Forward

Sa Sa is accelerating new product launches and building a VIP database to facilitate its CRM processes, online marketing and O2O development. The emphasis of the enhanced shopping experience is on new products, innovative product displays and interactivity to realise a fresh vision for customer journey. The Group aims to provide a more comfortable shopping environment to upgrade the shopping experience, facilitate browsing and attract impulse purchases.

O2O Strategies

Amid intensifying competition from other shopping websites and mobile apps, the Group will deploy the resources of its online operations for digital marketing and complement its physical stores with extensive online product offerings. Sa Sa's robust efforts in digital marketing and the integration of its online and offline CRM platform will provide an enhanced shopping experience. Further development will allow the Group to maintain better contact with its customers and to continue to serve them even if they are not regular visitors to Hong Kong. Customer acquisition and retention will both improve and drive sales growth through these O2O efforts.

Dr. Simon Kwok, *BBS, JP,* Chairman and Chief Executive Officer of the Group, concluded, "For many years, Sa Sa has been proud to deliver outstanding performance despite changes in the economic environment, stormy waters and market complexity. We therefore remain resolute in our belief that we can further strengthen our competitiveness in the coming years and convert difficult challenges into golden opportunities, such as those offered by O2O, by changing consumer behaviour and by the growing affluence of the less developed regions of Mainland China. Our position as a leading provider of beauty products in the Asia Pacific is underpinned by the resilience of our business model, which can rapidly adapt to new trends, environments and markets. Based on the strength and flexibility of our loyal staff and the forward thinking of our pre-eminent leadership team, our vision is to deliver sustained, world-class growth for many years to come."

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