Sa Sa Announces Interim Results 2017/18

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Turnover Amounted to HK$3,659.9 Million
Profit for the Period Increased by 14.5% to HK$109.9 Million

(23 November 2017 - 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 2017 (the "period").

During the period, the Group's turnover amounted to HK$3,659.9 million, representing an increase of 1.6% from HK$3,602.1 million over the same period last year. Retail sales in Hong Kong and Macau increased by 2.2% from HK$2,881.9 million to HK$2,945.7 million. The Group's profit for the period was HK$109.9 million, representing an increase of 14.5% from HK$96.0 million for the same period last year. Basic earnings per share were 3.7 HK cents (1H 2016: 3.3 HK cents). The Board resolved to declare an interim dividend of 3.5 HK cents (2016: 9.0 HK cents (interim: 5.0 HK cents and special: 4.0 HK cents)) per share, payable in cash with a scrip dividend alternative. The Group consolidated its retail network and the number of stores remained the same as the previous period at a total 283.

Retail and Wholesale Business

Against a backdrop of a 4% rise in Hong Kong's GDP during the period, the Group's retail sales in **Hong Kong and Macau** increased by 2.2%, with same store sales falling 2.1% in comparison to the previous period. The number of transactions by local and Mainland Chinese customers decreased by 0.8% and 1.6% respectively, mainly due to the comparatively cautious inventory management measure adopted by the Group earlier to facilitate operations during the relocation of the Group's warehouse in the first half of the year, which prevented the Group's sales from capturing the full potential of the market. In addition, competition continued to intensify within the cosmetics industry. Nevertheless, the average sales value per transaction by local and Mainland Chinese customers increased by 4.5% and 3.3% respectively, indicating the strength of consumer purchasing power. In addition, some consumers switched from Korean products to other higher-priced products.

In **Mainland China**, the management team has stabilised and sales have grown due to an improvement in the Group's product offerings. Last year's issue concerning the import of owned brand products is being gradually resolved. The Group therefore began to regain sales and profitability, with overall operational efficiency and effectiveness both improving. Overall turnover for the Mainland China operations increased by 3.9% in local currency terms to HK$138.3 million, while same store sales in local currency increased 5.0% for the period.

The Group further upgraded the store format and provided a premium image and shopping experience through targeted brand and visual merchandising. The upgrade is showing improving results in store productivity and cost efficiency. The Group has continued to optimise the Mainland China store network with the closure of isolated underperforming stores in remote regional cities and by clustering new stores in well-managed provincial capitals. These stores are now contributing increased profitability. Meanwhile, the Group has improved its product offerings by focusing on key performing brands and SKUs and by successfully launching and managing new products.

For other markets, the Group's turnover for its **Singapore** operations was HK$98.7 million, a decrease of 2.1% in local currency terms over the previous period. It was mainly attributable to the Group's key measures of focusing resources on stores with good potential and closing underperforming stores. While this affected the top line, same store sales growth accelerated to 7.0% in local currency, improvements were also shown in gross profit resulting in reduction of losses.

The Group's turnover for its **Malaysia** operations was HK$169.3 million, an increase of 9.2% in local currency terms over the previous period. Same store sales growth rose a modest 1.1% in local currency. The reason for the conspicuous slowdown in same store sales growth was weaker demand and purchasing power of local consumers amid the rising cost of living as a result of inflation. However, the Group maintained its focus on continuous improvement with a readiness to capitalise on market recovery as and when opportunities arise.

Turnover in the Group's **Taiwan** business decreased by 11.5% in local currency terms to HK$92.9 million during the period, while same store sales increased by 0.8% in local currency. The restructuring of management earlier showed some positive results and helped the same store sales performance to improve. The Group maintained its focus on narrowing losses by lowering costs and enhancing operational efficiency.

As for the **e-commerce** business, turnover amounted to HK$177.1 million, representing a drop of 6.0% over the previous period. It was mainly due to the almost doubled minimum spend for free shipping from 1 April 2017 onwards coupled with price increases. The Group has focused on building a base for sustainable growth. One of the major initiatives has been to reduce the cost of the logistics function and to shorten the time of delivery to customers in order to increase long-term competitiveness.

It is the Group's strategy to work with different popular e-commerce platforms to build the awareness of Sa Sa in Mainland China, to broaden the customer base and increase sales. The Group launched its flagship store on Tmall Global on 28 September 2017, strengthening its online presence and marking a milestone in its digital strategy. The Group believes this will become a key element of its evolution towards providing a seamless shopping experience for its customers.

Brand Management

The Group accelerated the launch of new house brand products during the period. Although impacted by the earlier political tension between China and South Korea, Korean products are still an important element of the Group's product offerings. During the period, the Group's sales mix of own brand and exclusively distributed products, collectively referred to as "house brands", increased from 38.8% to 38.9%.

Outlook and Strategies

The Hong Kong retail market showed gradual signs of improvement during the period. Among the positive factors in the Hong Kong and Macau tourism and retail market are the opportunities offered by the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge. The Group will introduce a brand new mobile APP which will enable it to implement customised product recommendations and targeted promotions, realising the Group's vision for a "New Retail" experience.

For online platforms, the Group will proactively explore the opportunities of collaboration with other well-known third-party e-commerce platforms in order to acquire new customers at a relatively lower cost. The Group will improve inventory management by optimising the inventory flow and improving the launching of new products. Moreover, the Group will further optimise the operation of the Free Trade Area Warehouse in the Mainland, thereby reducing logistics costs and improving profitability. The Group will upgrade its mobile app to provide customers with multi-channel access points and a more satisfying shopping experience. The backend infrastructure of the mobile APP will also be enhanced to ensure another effective touch point in the customers' journeys.

For physical stores, the Group will continue to work towards a more comfortable in store shopping environment, with enticing new products. The Group will strengthen its makeup product portfolio and displays, and fill in product opportunity gaps according to function, selling and price point analysis. The Group will also gradually develop a more inter-active customer experience aimed at strengthening purchasing intentions. These initiatives will include a more enjoyable product browsing and trial process, thereby enhancing customers' overall shopping experience.

Dr. Simon Kwok, *SBS, 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 are confident that we can progressively strengthen our competitiveness in the coming years and transform the challenges we meet into opportunities. The flexibility of our business model, our ability to rapidly adapt to new circumstances, markets and trends, and the vision of our leadership team all support our position as a leading provider of beauty products in the Asia Pacific – a position that we believe will continue to strengthen in the years to come."

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