Sa Sa Announces Annual Results 2016/17

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Turnover Amounted to HK$7,746.2 Million

(15 June 2017 - HONG KONG) - **Sa Sa International Holdings Limited** ("Sa Sa" or the "Group", stock code: 0178) announced today its annual results for the year ended 31 March 2017 (the "financial year").

Due to a continued decline in Mainland tourist arrivals in Hong Kong, a weaker Renmimbi and changing consumer preferences, as well as the growing preference of local residents for outbound travel, the Group's overall sales declined. Keener online and offline competition and the evolving nature of the customer journey also played their part.

During the financial year, the Group's turnover slightly decreased by 0.6% from HK$7,791.2 million in the previous year to HK$7,746.2 million. Retail sales in Hong Kong and Macau amounted to HK$6,184.5 million, remaining broadly flat as compared with HK$6,185.8 million in the previous year. The Group's profit for the year was HK$326.7 million, a decrease of 14.8% over the HK$383.5 million achieved in the last financial year. The Group's gross profit margin and net profit margin were 41.7% and 4.2%, respectively.

Basic earnings per share were 11.2 HK cents, as compared to 13.4 HK cents in the previous year. Final dividend proposed is 8.0 HK cents (2016: 14.5 HK cents (final: 9.0 HK cents and special final: 5.5 HK cents)) per share, making a total annual dividend of 17.0 HK cents (2016: 23.5 HK cents) per share for the year ended 31 March 2017, payable in cash with a scrip dividend alternative.

During the year under review, the moderation in the decline of sales was due to a number of proactive measures taken by the Group. In response to changing consumer preferences, the Group added lower-price trendy Asian products to its range of offerings and expedited product purchasing procedures. The time required for product launch was reduced through flexible and effective sourcing procedures. The optimisation of product mix and improved product display also helped to realise the potential of product sales.

Retail and Wholesale Business

In **Hong Kong & Macau**, the Group's turnover amounted to HK$6,266.5 million during the financial year, remaining broadly flat as compared with HK$6,268.9 million in the previous year, while same store sales fell 1.8%. The number of transactions started to pick up at 2.9% while the total average sales value per ticket decreased by 2.8%. The number of transactions of Mainland China tourists and local consumers increased by 5.5% and 0.2% respectively; while average sales value per ticket of Mainland China tourists and local consumers decreased by 4.4% and 2.1% respectively.

The rapid change in consumer preferences led to a decrease in house brand sales mix from 41.9% to 38.5%. Efforts to drive sales in a slower market by launching a continuous programme of promotions also resulted in a decrease in gross profit margin from 43.2% to 41.5%. Actions have been taken to tackle the decreased gross profit in this financial year, with the percentage decrease slowly narrowing. The Group is making its own-label portfolio more comprehensive and launching new lower-price owned brands to raise consumers' purchasing desire, which will assist in driving sales and profits. The Group is also expediting new product launches and reinforcing the promotion of high gross profit house brand and new products.

During the financial year, the Group's retail outlets decreased from 291 to 288, a net decrease of one "Sasa" store and a net decrease of two stores for single-brand counters. As at 31 March 2017, the Group had 115 "Sasa" stores and one single-brand store or counter in Hong Kong and Macau.

Rental costs are also under control. During the year, the Group adjusted its retail network, relocating certain shops. The result has been that the Group has had to pay duplicated rentals after opening nearby stores in better locations during the transitional period. If the Group had not taken advantage of a weaker rental market to improve the positioning of its stores, the result of rental costs' control would have been more pronounced. As the rental adjustment cycle continues, market rentals are expected to progressively decrease. However, the positive effect on the Group's rental costs control will only begin to be reflected in the FY2017/18 results.

In **Mainland China**, the main reason for weaker turnover was the delay of new private label product launches while the respective China Food and Drug Administration registrations were processed. Meanwhile, the issue of the Terminal High Altitude Area Defense ("THAAD") anti-missile system has had an ongoing and significant impact on the market and consumers in Mainland China, with a corresponding negative effect on the Group's sales of Korean products. However, boutique stores of a small size have continued to increase overall profitability, narrowing the overall loss in operations. During the year, overall turnover for the Group's Mainland China operations in local currency decreased by 3.9% to HK$276.5 million, while same store sales in local currency terms decreased by 3.4%. The loss for the year amounted to HK$15.1 million. The Group has adjusted the product mix and promotional focus in the China market by promoting non-Korean products such as those from Taiwan and Japan, and as soon as the registrations are completed in the next few months to complement online to offline promotions in the Group's stores, the competitiveness of the Group's product mix will improve.

For other markets, gross profit in **Singapore** decreased as the total retail space in the Singapore property market has continued to increase over the last two years, coupled with deleveraging as a result of sales contraction, and a decline in the sales of house brand products. The Group restructured the management team in Singapore in the first half of the financial year, and thus the decrease in sales narrowed in the second half as compared to the first half of the financial year. The Group also rationalised the store portfolio during the year. These initiatives helped to improve same store sales performance significantly in the second half of the financial year. During the financial year, turnover for the Singapore market was HK$200.7 million, a decrease of 9.7% in local currency terms, while same store sales dropped by 7.6% in local currency.

In **Malaysia**, turnover was HK$332.1 million, an increase of 12.4% in local currency terms, while same store sales increased 6.2% in local currency. The fundamentals of the Group's business in Malaysia are strong. Driven by a robust retail network and effective marketing campaigns, the Group's sales performance in Malaysia out-performed its competitors and the overall retail market.

Turnover in the Group's **Taiwan** business during the financial year decreased to HK$195.1 million, representing a drop of 24.4% in local currency terms, while same store sales fell by 16.8% in local currency. Sales performance was affected by poor consumption sentiment and the continuous decrease in Mainland Chinese visitors to Taiwan. The earlier restructuring of the management team led to deterioration in sales performance in the first half of the financial year. The current new management team has improved inventory management, which in turn has resulted in slower sales decline.

Turnover for the Group's **e-commerce** business amounted to HK$475.2 million, an increase of 9.5% over the previous financial year. A decrease in sales in the first half of the financial year was the result of the Group switching to a new logistics provider in April 2016. The increased movements of inventory due to order cancellations and the parallel running of two warehouses led to significant extra costs and losses. Compensation was made to customers with cancelled orders because of delivery problems caused by the relocation of the warehouse. The Group is restructuring operational flow to support multi-platforms and warehouses. Automation of processes is being implemented to improve efficiency and reduce costs, thereby enhancing the customer shopping experience. Studies are also underway to install new digital back-end systems and infrastructure to support sustained growth. Towards the end of the second half, measures were taken to address high losses with low product prices being adjusted upwards, minimum spending for free delivery raised, and delivery costs and times reduced.

Brand Management

The Group's sales mix of own-label and exclusively distributed products, collectively referred to as House Brands, decreased from 41.0% to 38.0%. To enhance product competitiveness and attract traffic in a slower market, the Group strategically broadened its product offerings to include more parallel import products that are faster time to market.

Outlook and Strategies

In the FY17/18 quarter-to-date (i.e. the period up to 11th June 2017), retail sales in Hong Kong and Macau increased by 3.6% year-on-year (FY16/17 1st Quarter: -5.3%) while same store sales decreased by 1.4% year-on-year (FY16/17 1st Quarter: -4.9%).

Against a backdrop of ongoing regional economic and political instability, the Group will maintain its conservative approach to the business going forward. As the market continues to gradually stabilise, the Group is working on several fronts to improve gross profit. Measures include expediting new private label product launches and strengthening private labels' sales promotion. In addition, operations at store level are being reviewed so that stores with lagging gross margins can be raised at least to the average level of performance.

Improve Other Markets to Drive Overall Profits

Going forward, the Group will strive to improve the overall profits for markets outside of its core markets in Hong Kong and Macau, with a strategic focus on Mainland China. The Group will continue to optimise Mainland China's store network and productivity as well as developing its O2O capabilities and depth in order to achieve a break-even target. In regard to Taiwan and Singapore, which are operating at a loss, the Group will rationalise their operations and control costs, making them easier to manage and more flexible, with less reliance on the Group. In the profit-making Malaysia market, the foundation will be steadied and widened to contribute more to the Group.

Seize Opportunities from Online Business

To respond to the challenges and seize the opportunities the changing market has generated, the Group is evolving into a multiple platform, multiple warehouse customer oriented business. On the other hand, the Group's Zhengzhou warehouse is undergoing process enhancement, improving coordination between the warehouses in Hong Kong and the Free Trade Zone in Mainland China. This in turn will enhance operational effectiveness and reduce costs. In terms of sales channels, the Group cooperated with Kaola.com, in addition to its existing partner JD.com, during the year under review. The Group will leverage on Mainland China's major online platforms and payment methods to increase its exposure and broaden its customer base.

Building on its existing advantages in physical stores and brand name, the Group will further develop online business and cooperate with external business partners who are keen to explore O2O opportunities, so that customers will have a more comprehensive and convenient shopping experience. O2O also increases interactions and allows Sa Sa to continue serving Mainland tourists after they have left Hong Kong to return home. In addition, it enables the Group's online product mix to complement that of its physical stores. The Group will also integrate its online and offline CRM platform to provide a more tailored shopping experience to customers.

Dr. Simon Kwok, *BBS, JP,* Chairman and Chief Executive Officer of the Group, concluded, "This is not the first year that Sa Sa has experienced a difficult economic environment and the complex challenges of an evolving market. The flexibility and resilience that have stood the Group in good stead in the past have continued into the present, and will enable the Group to focus on its core strengths and sharpen its competitiveness going forward. The Group aims to convert current challenges into opportunities, particularly in its core market of Hong Kong and Macau, and sees significant potential in the development of e-commerce, its integration with physical stores, and offering products that are directly responsive to changing consumer tastes and trends. The Group will therefore maintain its strategic focus on Mainland China and the evolving preferences of Mainland Chinese customers as well as of local and regional customers. This vision will continue to support the Group's position as a leading provider of beauty products in the Asia-Pacific region. The flexibility and resourcefulness of the Group's loyal staff and the long-term vision of its dedicated management team will ensure that Sa Sa continues to deliver sustained growth for many years to come."

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