Sa Sa Announces Annual Results 2018/19

* * *

Profit for the Year Increased by 7.0% to HK$470.8 Million

Highlights

- Turnover for the continuing operations increased by 4.5% to HK$8,375.9 million
- Taking into account the discontinued retail business in Taiwan, profit for the year was HK$470.8 million, up 7.0% year-on-year
- Turnover in Hong Kong and Macau markets increased by 4.9% to HK$7,091.8 million, with same store sales growth of 3.0%
- Retail outlets for the continuing operations increased from 265 last year to 274
- Basic earnings per share were 15.4 HK cents (2018: 14.6 HK cents)
- Proposed a final dividend of 9 HK cents (2018: 11.0[1] HK cents) per share. Total annual dividend amounted to 16 HK cents (2018: 14.5[1] HK cents) per share

(20 June 2019 - HONG KONG) - **Sa Sa International Holdings Limited** ("Sa Sa" or the "Group", stock code: 0178) announced its final results for the year ended 31 March 2019 (the "financial year" or "the year").

The external environment was impacted by headwinds during the year under review. To cope with challenges including depreciation of the Renminbi ("RMB") triggered by the Sino-US trade war, changing consumer preferences and intensifying competition in the industry, the Group proactively adjusted its strategies to better adapt to the market. The Group's turnover for the continuing operations increased by 4.5% year on year to HK$8,375.9 million. Profit for the year was HK$470.8 million, up by 7.0% compared with that in the last financial year. Excluding the discontinued retail business in Taiwan, profit for the year from the continuing operations increased by 1.5% to HK$472.1 million. Basic earnings per share amounted to 15.4 HK cents (2018: 14.6 HK cents). The board of directors proposed a final dividend of 9 HK cents (2018:11.0[1] HK cents) per share, payable in cash with a scrip dividend alternative. Total annual dividend amounted to 16 HK cents (2018: 14.5[1] HK cents) per share. As of 31 March 2019, the Group's total number of retail outlets for the continuing operations increased from 265 to 274.

Retail and Wholesale Business

During the year under review, the Group's sales of retail and wholesale in **Hong Kong and Macau** increased by 4.9% to HK$7,091.8 million, with same store sales growth of 3.0%. Reflecting the influx

[1] Excluding the special dividend of 3.0 HK cents per share in commemoration of 40th anniversary of the Group.

of Mainland tourists, the total number of transactions increased by 3.5% for the full financial year. Average sales per transaction recorded a modest increase of 1.4% for the year. Retail sales increased at a faster pace by 18.5% in the first half of the year, with the first quarter recording the strongest growth of 27.9%. The Group's effective product strategy was the key contributor to the first quarter's steady sales performance. Meanwhile, the development of the Greater Bay Area boosted the number of transactions from Mainland customers. In addition, the vibrant appeal from trendy products and robust consumption by local customers supported the Group's sales performance in Hong Kong and Macau in the first half.

However, consumer sentiment was affected by RMB depreciation due to the Sino-US trade war as well as a decline in both the stock and property markets in the second half. The success of trendy products in the early part of 2018 created a high base for sales growth, whereas the new E-commerce Law implemented by the Chinese government at the beginning of 2019 combined with the Sino-US trade war dampened the sales in the second half of the year. As a number of pharmacies selling skincare and cosmetic products aggressively opened new stores in tourist hot spots and thereby intensified competition, the number of transactions from both Mainland and local customers dropped in the second half. Although the launch of the Hong Kong Section of the Express Railway Link and the Hong Kong-Zhuhai-Macau Bridge has brought in a large number of Mainland tourists, they consisted mainly of sightseeing trippers with limited spending power and have not stimulated the Group's overall sales. Operating leverage was realised as rental and front-line staff costs to turnover ratios declined, which in turn led to an improvement of 1.8 percentage points in net profit margin in the first half. In the second half, the weaker sole agent sales, especially for some trendy brands, led to a slight decline in gross profit margin. Gross profit margin for the financial year dropped from 41.7% to 40.4%, while gross profit in the Hong Kong and Macau market increased by 1.6% to HK$2,862.0 million. The Group is adjusting its product portfolio by taking a more balanced approach to product offerings while also becoming more sensitive to product trends when exploring new products across different categories. These efforts on high-end products and other categories are generating improvements.

The Group opened new stores located in tourist hot spots such as Hong Kong West Kowloon station, Tsim Sha Tsui, Sheung Shui and Tuen Mun while closing underperforming stores during the year in order to optimise its store network. As of 31 March 2019, the Group's total number of stores in Hong Kong and Macau was 118. In line with effective rental costs control, the Group renewed the contracts of 38 stores with modest rental growth of 0.5%.

For **Mainland China** operations, total turnover was HK$287.8 million in local currency terms. The Group continued to optimise its retail network, with 7 new stores opened and 8 other underperforming stores closed during the year. The new stores were mainly clustered within the Greater Bay area in Zhuhai, Dongguan and Jiangmen, along with a first store in Huizhou. A new store was also opened in Nanjing. As of 31 March 2019, the total number of stores was 54 with a total of 16 shops currently operated in 8 Mainland cities in the Greater Bay Area. Since the Wuhan warehouse began operations in November 2018, the Group has registered a steady improvement in logistics costs and delivery time and as a result, the entire warehouse network of the Group became more efficient in terms of cost and distribution.

Turnover of **e-commerce** increased by 2.2% to HK$391.8 million, of which Mainland China contributed over 90% of sales in the segment, demonstrating a growth rate of 10.6% over the previous year. Third party platforms were the key contributor to the sales of this segment, accounting for nearly 60% of sales. On the logistics front, the Group began to operate a cross-border e-commerce mailing service in August 2018 to avoid stock provision and delivery delays due to detention of goods at Mainland China customs. The logistics cost to sales ratio was lowered by 4.4 percentage points to 10.9%, owing to the lower shipping costs of this newly adopted delivery channel, with delivery time expected to be further shortened.

In overseas markets, the Group continued to strengthen its store strategies in **Singapore** and **Malaysia**. Turnover for operations in Singapore and Malaysia during the year was HK$219.3 million and HK$385.2 million, up 4.0% and 4.6% in local currency terms respectively. In Malaysia, the Group has strategically expanded its target customer base to local Malays since last year, and has also introduced more affordable cosmetics products, adopted a more suitable customer relationship management programme for local Malays, organised regular marketing campaigns and recruited more local Malay employees. These initiatives extended the Group's penetration into the local Malay market and drove sales.

Outlook and Strategies

The Hong Kong and Macau retail markets are full of challenges in 2019, given the high base effect in the first half of 2019 and the potential impact of the on-going Sino-US trade war. However, the Group is cautiously optimistic that the opportunities offered by the Greater Bay Area will bear fruit in the medium to long term. The Group will also improve its competitiveness in different aspects to respond to the various market challenges.

In regard to retail stores, the Group will take into account evolving demographics, changes in visitors via different entry points and the competitive landscape. Stores will be opened in target areas to fill gaps and to improve catchment in others while the Group will capture reasonable rental opportunities where possible. This will strengthen its overall network competitiveness at a reasonable overall rental cost. The Group understands that product portfolio improvement is a key to success. The Group will continue to leverage on and further build its long-standing network and relationship with suppliers while using big data to continuously manage its product portfolio. In view of the strong growth of European, US and high-end brands across the industry, the Group began to rebalance its high-end product portfolio at the end of the fourth quarter. The Group endeavours to introduce new and trendy products with high sales volume to boost store traffic and better adapt to changing consumer preferences.

In Mainland China, the Chinese government has introduced a number of measures to maintain economic stability, along with other in-depth measures to promote the development of the Greater Bay Area. The Group will continue to capture the opportunities generated by the development of the area, closely monitor the market and expand its business with caution in areas with high strategic value and advantages, with the aim of improving competitiveness, operational efficiency and store contribution.

The development of “New Retail” is a major new trend and has become the Group’s core development strategy in medium to long term. The Group is currently integrating all 3 individual customer databases from its retail stores in Hong Kong, Macau and Mainland China as well as e-commerce business, and uploading them onto a single centralised cloud database. The objective is to allow the three business units to create synergy and offer multiple complementary customer touch points. This will enable the Group to continue to provide services to Mainland customers who have purchased in Hong Kong and Macau, either through Sa Sa’s online or physical stores, with the aim of converting them into long-term customers. This integration will greatly strengthen the Group’s customer relationship management. By conducting big data analysis on customer behaviour, strategies that cater for customers’ preferences can be formulated, thereby increasing the frequency of purchases as well as the basket size. In addition, the Group plans to launch a new Point of Sale (POS) system by the end of the financial year of 2020 in its physical stores in Hong Kong in order to fully enhance customer shopping experience. Based on its “customer-centric” principle, the Group aims to understand customers better and to interact more closely with them, moving towards the long term goal of providing a seamless online-to-offline shopping experience to its customers.

Dr. Simon Kwok, *SBS, JP,* Chairman and Chief Executive Officer of the Group, concluded, “The retail market in 2019 is full of challenges, especially the Sino-US trade conflict may lead to a slowdown in global economic growth. The Group will adjust its strategy accordingly to prepare for the situation and adjust its product portfolio in a more balanced approach to boost profitability. In the medium to long term, given the state policy of fostering the development of the Greater Bay Area and completing the mega infrastructures, the local retail industry will benefit from vast market opportunities, which in the long run will boost the consumption power of both local customers and tourists. The Group will fully capitalise on the state policy and seize the opportunities offered by the region’s potential. The Group is committed to embracing the Era of New Retail and to becoming increasingly customer-centric for its future development. In line with this, the Group will integrate the customer database of both its physical stores in Hong Kong, Macau and Mainland China with that of its e-commerce business with the aim of using this extensive customer database for cross-selling and enhancement of customer loyalty. Meanwhile, by using big data for business and product analysis, the Group continues to formulate strategies to cater to the changing patterns in consumer behaviour, preferences and expectations and to provide a seamless online-to-offline shopping experience for its customers.”

– END –