Sa Sa Announces Interim Results 2018/19

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Profit for the Period Surges by 84.5% to HK$202.9 Million

Highlights

- Turnover for the continuing operations increased by 16.3% to HK$4,147.2 million
- Taking into account the discontinued operation in Taiwan, profit for the period significantly increased by 84.5% to HK$202.9 million
- Retail sales in Hong Kong and Macau increased by 18.5% to HK$3,489.9 million, with same store sales growth of 15.8%
- The Group's retail outlets for the continuing operations increased to 273, a net increase of 11 as compared to the previous period
- Basic earnings per share amounted to 6.7 HK cents (1H 2017: 3.7 HK cents)
- Proposed an interim dividend of 7.0 HK cents (1H 2017: 3.5 HK cents) per share, with dividend payout ratio of about 107%

(21 November 2018 - HONG KONG) - **Sa Sa International Holdings Limited** ("Sa Sa" or the "Group", stock code: 0178) announced its interim results for the six months ended 30 September 2018 (the "period").

With the early positive benefits of the Greater Bay Area development driving the continuous growth of same-day Mainland tourist arrivals during the period, the Group's turnover for the continuing operations increased by 16.3% year on year to HK$4,147.2 million. Taking into account the discontinued operation, the Group's profit for the period was HK$202.9 million, representing an increase of 84.5% from the previous period. Basic earnings per share amounted to 6.7 HK cents (1H 2017: 3.7 HK cents). The Board resolved to declare an interim dividend of 7.0 HK cents (1H 2017: 3.5 HK cents) per share, payable in cash with a scrip dividend alternative. As of 30 September 2018, the Group's total number of retail outlets for the continuing operations increased to 273, a net increase of 11 compared to the previous period.

Retail and Wholesale Business

The Group's retail sales in **Hong Kong and Macau** increased by 18.5% to HK$3,489.9 million, with same store sales growth of 15.8%, mainly attributable to the strong performance of retail sales driven by the growth of same-day Mainland tourist arrivals and the stronger sentiment over spending by local customers. During the period, the total number of transactions increased by 10.7%. With customers buying less quantity but more expensive items in each transaction, average sales value per transaction increased overall by 7.0%.

Effective product strategy was one of the key winning factors for the Group's strong performance in the first quarter. Sa Sa enjoyed early competitive advantage for the launch of new products. Since it was among the first to sell these brands in the region, the increasing popularity of those products with consumers in Hong Kong and Mainland China significantly boosted sales. However, sales-boosting trendy products demonstrated stronger sales performance over house brands, leading to the decrease in the sales mix of house brands from 39.8% to 35.8%. Despite the gross profit margin declining year-on-year to approximately 39.9%, operating leverage was realised on the strength of higher sales growth to deliver a drop in the rental to sales and frontline staff cost to sales ratio, which led to an improvement of 1.8 percentage points in the net profit margin over the period.

Due to the uncertainties generated by the Sino-US trade war in the second quarter, coupled with the attention given to the 2018 FIFA World Cup in June and July, sales growth in the second quarter was slowed. Nevertheless, the Hong Kong Section of Guangzhou-Shenzhen-Hong Kong Express Railway Link ("XRL") was launched on 23 September to facilitate the flow of people within the Greater Bay Area. The Group captured this business opportunity by opening a new shop in the Hong Kong West Kowloon station of XRL to attract customers, who are also served by more than 20 Sa Sa outlets in the neighbourhood. Following the launch of XRL, encouraging business growth was recorded for the Sa Sa retail outlets in Tsim Sha Tsui district.

In regard to shop strategy, the Group recorded a net increase of 2 store openings during the period, making a total of 120 shops as of 30 September 2018. Cost control was good during the period, with rental renewals for 32 shops leading to a modest 0.8% increment in rentals.

In **Mainland China**, total turnover in local currency terms slightly decreased by 1.8% to HK$138.4 million, while same store sales decreased by 2.0%. Owing to weakness in the sales of house brand products during the period, gross profit margin dipped 2.8 percentage points to 49.0%, resulting in a loss of HK$15.9 million for the business in Mainland China. In the second half of the year, the Group has actively improved the management of house brand products, thereby increasing the sales of products with higher gross profit margins. The Group saw favourable results since October. Further improvements on gross profit margin are expected to come through in the second half in order to narrow the losses. Meanwhile, the Group continued to optimise its retail network, with a total of 54 shops as of 30 September 2018, including 16 shops operated in 7 Mainland cities within the Greater Bay Area.

Turnover for the Group's **e-commerce** business amounted to HK$185.3 million, representing an increase of 4.6% over the previous period, mainly attributable to the sales from third party platforms including Tmall, Kaola, Xiaohongshu and JD.com etc. Additional cost benefits also accrued from the change of warehouse partner in early 2018. The logistics to sales ratio reduced to around 12.9% from 16.6% last year, with delivery time to Mainland China shortening to 6.0 days. Sa Sa's website and mobile app will continue to serve the Group's customers as one of a number of touch points across different regions, strengthening the Group's customer engagement and cross-channel sales.

In overseas markets, the Group continues to strengthen its shop strategies and local management teams in **Singapore** and **Malaysia**, enhancing its customer relationship management and actively expanding its customer base. Turnover for operations in Singapore and Malaysia during the period was HK$105.8 million and HK$192.3 million, up 5.4% and 6.9% in local currency terms respectively.

Outlook and Strategies

The Greater Bay Area national plan will bring vast opportunities to support the Group's long-term development. The early benefits from the Greater Bay Area development on the Group's operations can be seen in the first half of the year. The Group is studying the feasibility to open new shops in tourist areas and cross-border areas near XRL station and Hong Kong-Zhuhai-Macau ("HZM") bridge. Although consumption sentiment is likely to continue to be impacted by the Sino-US trade war, the Renminbi (RMB) fluctuations and stock market volatility in near terms, the Group is aiming at faster product rollout, along with boosting traffic and sales through high volume trendy products to offset the short-term negative impacts.

For Mainland China, given the uncertainty generated by the recent Sino-US trade war, while the associated depreciation of RMB may translate into higher import costs to the Group, and impact the consumption sentiment of Mainland customers; the Group will expand its retail network with caution. A new store will be opened in Dongguan by the end of the current financial year, covering 8 out of 9 Mainland cities in the Greater Bay Area.

Embracing the era of New Retail, the Group is committed to integrating its customer database, with customer data uploading to a large and consolidated database. Solid foundations will be laid for targeted promotions, cross-selling and loyalty enhancement initiatives after integration of the databases, enabling customers to enjoy a seamless shopping experience spanning online and offline operations within Greater China. In addition, the Group plans to launch the new Point of Sale ("POS") system, Internet of Things ("IoT") and real-time inventory management to enhance customers' shopping experience while also keeping Sa Sa up to date with the latest customer trends. The Group will also continue to enhance its logistic operations through warehouse automation and higher degree of digitalisation. It will also focus on the strategic development of its warehouses across various regions in Mainland China to improve cost and delivery time, with an aim of improving the overall efficiency of its logistics function and mitigate labour shortages.

Dr Simon Kwok, *SBS, JP,* Chairman and Chief Executive Officer of the Group, concluded, "Sa Sa has a proven track record of remaining resilient in the face of market changes over the years. The Group foresees the long-term potential of the Greater Bay Area national plan, with the launch of the high-speed railway connecting Hong Kong and Mainland China, together with the opening of the HZM Bridge. The Group believes that the favourable policies and infrastructure development of the Greater Bay Area will drive foot traffic and economic prosperity within the region while nurturing further growth of the retail industry. In the era of New Retail, the ongoing integration of online and offline business will strengthen Sa Sa's relationship and interactions with its customers. The Group will create multiple touch points to serve customers with the integrated customer database, thereby offering a more comprehensive and seamless online-to-offline shopping experience to customers in the long term to foster sustainable growth."

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