Sa Sa Announces Interim Results 2019/20

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Primary Goal: Restore Store Profit Contribution in Hong Kong and Macau

(21 November 2019 - 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 2019 (the "period").

During the period, the Group's turnover for the continuing operations amounted to HK$3,494.1 million, representing a year-on-year decrease of 15.7%. The Group's loss for the period was HK$36.5 million. Excluding the impact from the adoption of Hong Kong Financial Reporting Standards 16 ("HKFRS 16"), the Group's loss for the period was HK$34.9 million, compared to a profit of HK$202.9 million recorded in the same period last year. Basic loss per share amounted to 1.2 HK cents (2018: basic earnings per share of 6.7 HK cents). In view of the challenging and uncertain operating environment in our core market in Hong Kong, the Board does not propose an interim dividend for this reporting period in accordance with the Group's policy to pay dividends out of profits and for reasons of responsible risk management in the current operating environment.

Business Review

In **Hong Kong and Macau**, the Sino-US trade war and Renminbi depreciation affected consumption sentiment along with Sa Sa's sales performance in the first quarter. The Hong Kong market weakened further from July onwards when a drastic decline in Mainland tourists was recorded in Hong Kong. Retail and wholesale turnover of the Hong Kong and Macau markets therefore declined further in the second quarter. The number of transactions contributed by Mainland tourists in the Group's Hong Kong stores decreased significantly by 51.2% year-on-year from July to September 2019. As Mainland tourists contribute a much larger proportion of revenue in this market, the Group's overall retail sales performance in the second quarter decreased by 35.4% in Hong Kong.

Retail sales in Hong Kong and Macau markets decreased by 19.4% to HK$2,813.9 million in the six-month period. The decrease was mainly due to a 24.8% sales decline in Hong Kong market, offsetting the 3.6% increase of sales in Macau market. The decline in sales combined with a weaker gross profit margin resulting from inventory reduction initiatives through aggressive promotions and wholesale activities led to a loss of HK$3.3 million in the interim period for Hong Kong and Macau markets. Excluding the impact from the adoption of HKFRS 16, the loss was HK$1.4 million, compared to a profit of HK$240.2 million in the last corresponding period.

The Group placed more emphasis on premium brands to cater to customer preferences during the period. The resulting link sales of house brands brought about improvements in their sales performance. The proportion of house brand mix bottomed out in May and starting to recover thereafter. This partly offset the downward pressure on gross profit margin arising from aggressive store promotions and wholesale activities, which decreased by 2.9 percentage points to 37.0% year-on-year.

Some landlords have agreed to offer short-term rental reductions. However, the current rental reductions are far from adequate and without much impact for the Group. In view of the extremely difficult operating environment in Hong Kong, the Group strived to reduce rental expenses for reasons of survival, including cutting down the number of stores (especially the most affected stores in tourist area) and persisting in asking landlords for rental reductions. The primary goal is to restore store profit contribution promptly, and to safeguard the livelihood of staff to the fullest extent.

In addition to rental reduction, the Group has taken aggressive measures to manage and reduce costs, in order to improve the Group's cost structure. These measures will strengthen the Group's productivity and competitiveness, and benefit Sa Sa's long-term development.

For the **Mainland China** operations, overall turnover slightly increased by 0.2% in local currency terms to HK$132.3 million. Following the restructuring of the local product sourcing team, the Group introduced more trendy products in its Mainland China retail shops to attract traffic and boost the average spending of customers. Same store sales in local currency rose by 9.4%, boosting the store level contribution by 39.8%. The total loss narrowed by 18.8% to around HK$12.9 million.

Turnover of the Group's **e-commerce** business amounted to HK$170.0 million during the period. Mainland China consumers generated more than 90% of revenue. As a major source of revenue, third party platforms reported 15.1% sales growth year-on-year in the interim period, contributing to 67% of sales in the e-commerce segment. The integration of the Hong Kong warehouses for retail and e-commerce operations boosted the Group's operating efficiency for logistics. The logistics expense to sales ratio was reduced to 9.4% this year from 12.9% in the last corresponding period. The loss narrowed slightly by 2.0% year-on-year.

As for the overseas markets, due to lower consumer sentiment and tightened consumer spending in **Singapore**, the Group's turnover for the Singapore operations was HK$99.4 million in the period, a decline of 4.6% on a year-on-year basis in local currency terms. In **Malaysia**, the Group continued to penetrate into the local Malay market and the number of stores increased by three year-on-year. The VIP system was successful in attracting new customers, boosting the average ticket size of VIP by 10.0%. The turnover for the Group's Malaysia operations in the period was HK$201.9 million, an increase of 8.2% in local currency terms.

Outlook and Strategies

The market appears extremely challenging. The Sino-US trade war still affects consumer sentiment in many markets. The Group's core market of Hong Kong is not expected to return to its original levels in the near future, despite the government's efforts to stimulate the economy and tourism.

In the current circumstances, rental costs are the key element for sustainable operation of any stores. So far only short-term rental reductions have been obtained by the Group in some high street stores in Hong Kong. The Group will continuously review market conditions and strive for a corresponding reduction in rentals based on the sales and profitability of each store. Reduction in store area, relocation of stores to neighbouring areas with lower costs, replacement of long-term leases with short-term leases when contracts expire and closure of underperforming stores will all be considered. In addition, the Group will continue to optimise its store network by reducing number of shops in tourist areas.

The Group has begun a comprehensive review of its cost structure to implement cost-saving measures in all aspects. The Group also plan to utilise information technology to streamline work processes and increase overall productivity, beginning with changes in the POS system in the second half of the year.

In addition, the Group will continue to eliminate low productivity SKUs and reduce the excessive stockholding level of other products in order to reduce the overall level of inventory, thereby preserving cash and creating room for popular or products with high sales volume, in order to adapt to rapidly changing customer preferences. This strategy will boost revenue growth and drive profit contribution. In October 2019, the group pilot launched a WeChat mini-programme in Hong Kong market to enable Sa Sa beauty consultants to engage more fully with customers and allow them to buy products without visiting Sa Sa's physical stores. The above O2O operation will lay the foundation of the new retail model for the Group's future development.

Although it is uncertain when the recovery of tourist arrivals in Hong Kong will take place, the Group has recognised that the store network expansion in Mainland China needs to be urgently accelerated. The Group aims to open more shops on the Mainland, especially in the Southern China. As for other markets, the Group will closely monitor the market conditions and adjust our strategies accordingly. The Group will rationalise its unprofitable non-core businesses and focus resources on the development of core businesses and businesses with higher growth potential, with the ultimate aim to enhance the profitability of the Group.

Dr. Simon Kwok, *SBS, JP,* Chairman and Chief Executive Officer of the Group, concluded, “Although the Hong Kong government has launched various relief measures to support the industry, the retail market is expected to remain challenging in the near term as the worsening economic outlook continues to weigh on consumer sentiment and inbound tourism. The top priority of the Group is to protect profitability and to safeguard the livelihood of its employees. Stringent cost controls remain an ongoing endeavour for Sa Sa, while the Group has been aggressively reducing rental costs with the aim of resuming profitability for its stores. It has also stepped up measures for overall cost reduction and streamlined work processes to improve operational and cost effectiveness as well as to enhance overall productivity. Although the road to recovery is full of challenges, the Group believes that, with the management and entire staff working closely together, Sa Sa will achieve a common goal of restoring profitability and delivering long-term value. "

<u>Q3 operational sales data</u>

For the third quarter from 1 October to 18 November 2019, the Group's turnover decreased by 31.6% compared to the same period last year. The year-on-year changes of retail sales and same store sales are shown below:

In local currencies	YoY Change (%)	
	Retail Sales	Same Store Sales
Hong Kong & Macau	-39.4%	-39.1%
Mainland China	-0.3%	13.0%
Singapore	-11.8%	-11.0%
Malaysia	9.5%	1.8%
E-commerce	-12.8%	[redacted]
Group turnover	-31.6%	

Remarks: The above data includes the impact of Deferred Income Adjustment for VIP bonus points and has not been reviewed nor audited by the auditors of the Company.

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