CHAIRMAN'S STATEMENT

"We firmly believe that the Group's remarkable brand position in the regions, our responsiveness, our timely strategies for expansion and our cost management will enable us to seize fresh opportunities and reach new heights."

Dr Simon Kwok, *SBS, JP*
Chairman and Chief Executive Officer

I hereby report that Sa Sa International Holdings delivered sales and profit growth for the year ended 31 March 2018 (the "financial year"), benefitting from China's domestic policies and various favourable economic factors.

Driven by the ongoing recovery of local consumption and the robust growth of Mainland customers' spending, turnover reached HK$8,017.6 million, an increase of 6.2% over the previous year for the continuing operations. The Group continued to rationalise our store network by decisively closing our loss-making shops in the Taiwan. Excluding the Taiwan network, the number of retail outlets for our continuing operations increased from 263 to 265 as at 31 March 2018. Taking into account of the net loss of HK$25.1 million from discontinued retail operation in Taiwan, the Group's profit for the year was HK$440.1 million, an increase of 34.7% over the HK$326.7 million achieved in the last financial year.

The Group is committed to generating sustained and consistent returns to our shareholders. The Board of Directors proposed a final dividend of 11.0 HK cents (2017: 8.0 HK cents) per share, together with a special dividend of 3.0 HK cents per share (2017: Nil) to commemorate the 40th anniversary of the Group, payable in cash with a scrip dividend alternative, subject to shareholders' approval. Total annual dividend amounted to 17.5 HK cents (2017: 17.0 HK cents) per share after taking into account the interim dividend of 3.5 HK cents (2017: 9.0 HK cents) per share.

Our Past Efforts Begin to Pay Off as Hong Kong & Macau Markets Improve

Hong Kong and Macau

In our core market of Hong Kong and Macau, the favourable local consumption environment and the completion of several large-scale infrastructure projects are expected to drive sustained economic development and the ongoing recovery of the retail market. According to a survey conducted by Mastercard of Hong Kong consumer confidence in the second half of 2017, the relevant index increased by 15.2 to 62.1 in comparison to 47.0 in the first half of 2017. This performance was the strongest increment in terms of consumer confidence in the APAC region, indicating the strength of consumer sentiment in Hong Kong.

The higher employment rate, a gradual increase in residents' income and the wealth effect of rising home prices in the third- and fourth-tier cities of Mainland China, continue to drive up consumer sentiment. At the same time, e-commerce activities are rapidly evolving into New Retail practices, accelerating the demand for cosmetics from Mainland tourists. The weakness of the US Dollar exchange rate and the strength of the Renminbi ("RMB") have further encouraged the outbound travel and consumption of Mainland tourists.

During the financial year, the overall retail market increased by 6.3% while medicine and cosmetics sales in Hong Kong grew by a robust 9.4%. During the same period, cosmetics and sanitary articles sales in Macau rose by 14.9%. The cosmetics industry performed reasonably well in comparison to the overall retail market performance.

The Group's sales and profits both recorded a significant increase with a growth rate of 7.9% for sales in Hong Kong and Macau. More importantly, the Group's performance in these markets gathered momentum towards the end of the fiscal year. Retail sales rose a dynamic 18.6% in the fourth quarter, the highest quarterly growth rate within the financial year. We aim to maintain this upward momentum, keeping pace with the times while continuously improving to maintain our dominant position.

The Group has implemented an effective store strategy by relocating to new stores at premium locations in tourist districts and away from second line locations. This strategy is aimed at adjusting rents and enhancing brand exposure and sales growth. Overlapping rentals for the full year amounted to HK$41.3 million. However, the Group's rental-to-sales ratio dropped remarkably due to the closure of low-productivity stores, the impact of rental reductions gradually taking effect, and faster sales growth in the second half year.

In terms of inventory management, we successfully expedited new product launches through adopting a more flexible and effective sourcing procedure. We also streamlined our product offerings while our newly consolidated warehouse improved overall logistical efficiency and product shipments. Through enhancing our product auto-replenishment mechanism and continuously optimising inventory management and in-store safety stock, the Group managed to improve in-store stock availability and reduce out-of-stock incidences. This enabled the Group to improve sales and achieve more effective cost management.

The sales mix of House Brand products in Hong Kong and Macau strengthened in the first half, driving up gross profit margin and allowing us to partly offset operating cost pressures. In the second half, the replenishment of inventory to a healthier level following the completion of our warehouse relocation and the introduction of more trendy products at different price levels with good value and functionality resulted in enhanced product competitiveness and sales growth. This compromised gross profit margin within an acceptable level in the second half while gross profit improved more satisfactorily.

The Group strengthened our information technology system to enhance overall operational efficiency. Measures taken included improving the Point of Sale ("POS") system to improve process automation, simplifying the workflow, and standardising promotions for optimising the checkout process. This resulted in reduced checkout time and offered customers an improved shopping experience.

Beyond Hong Kong and Macau

The Group is dedicated to expanding our markets beyond Hong Kong and Macau as well as to developing our e-commerce business. We have strategically adjusted our business, including closing the loss-making retail shops in Taiwan, in order to strengthen our efforts to enhance operations in Mainland China, Hong Kong, Macau, Singapore and Malaysia markets as well as our e-commerce business, for improved market share and sales growth. We have also continued to integrate our online and offline operations to increase competitiveness, as well as to provide a more satisfying and seamless shopping experience to our customers.

We are heartened by the ongoing improvements in our non-Hong Kong and Macau markets, and we will work extremely hard to sustain the momentum. The Group is committed to enhancing our business operations and efficiency, including continuously improving our product portfolio.

Mainland China and E-commerce

In Mainland China, we have stabilised and enhanced the local management team while boosting overall operational efficiency and functionality. To strengthen store and cost management, we have closed non-performing stores and those in isolated locations, while at the same time opening new stores in key city clusters within close proximity.

The rapid development of e-commerce has presented us with a unique opportunity to exploit the weakness in the rental cycle. We are leveraging this opportunity to target expansion of our store network and retail spaces. Although we will expand our store network cautiously, we are optimising logistics and warehouse operations while adopting new operational measures, reducing inventory, improving warehouse operations, and enhancing efficiency.

As we continue to improve our product portfolio and marketing promotion strategies, we have begun to prepare for the launch of initiatives in the era of "New Retail" to drive consumption growth.

The Group is partnering with various renowned e-commerce platforms in Mainland China and exploring new potential channels and partners, with the aim of expanding our customer base, promoting the Group's brand name, and driving sales.

We are merging the online team of the Category Management and Product Development ("CMPD") function with that of the main team running our Hong Kong and Macau physical stores. This will allow us to strengthen coordination, reduce costs, and enhance team communication and operational efficiency.

The relocation of our warehouse has strengthened effective inventory management, greatly reducing delivery time and logistics costs as well as inventory costs. Through various logistical methods including the successful introduction of the cross-border e-commerce B2C direct mailing services, we have increased delivery efficiency and improved the Group's competitiveness and profitability.

The Group has also adopted a broad spectrum of measures to enhance sales and customer shopping experience, including the launch of our new mobile app with optimised stability and various innovative functions.

Singapore and Malaysia

In Singapore, the Group's management structure has stabilised following the re-organisation. Localisation strategies have also proved effective. The closure of underperforming stores and the consolidation of our existing store network has enhanced management and cost-effectiveness. Building on this base, we will expand our store network to increase market foothold, improve profitability, and increase contributions for the Group.

Over the financial year, we strategically implemented an effective marketing strategy, offering a diversified product portfolio and enhancing our staff's selling skills to drive sales and improve store profitability.

In Malaysia, the more traditional brick and motor retail industry has been impacted by the rapid development of e-commerce. Many shopping malls have also opened, diluting the traffic to our existing stores, especially in the capital Kuala Lumpur, and indirectly affecting our stores' turnover. However, supported by a robust retail network and effective marketing campaigns, the Group's sales performance in Malaysia remained steady. The Group will capture further business opportunities by establishing online elements in Malaysia so as to create synergies with our offline business.

The political climate in Malaysia was uncertain before the General Election this May. Since then, the new government has rolled out major reform initiatives, including the cancellation of the Goods and Service Tax (GST) on 1 June, and the introduction of a new form of consumption tax in the coming months. These policy changes have aggravated the burden on retailers, and the consumer sentiment of the general public has also weakened.

Highway to the Future

The Hong Kong Retail Management Association forecasts that sales for the whole 2018 calendar year in Hong Kong could break the record HK$500 billion set in 2013. When the Hong Kong-Zhuhai-Macau Bridge and Guangzhou-Shenzhen-Hong Kong Express Rail Link are formally opened, the Greater Bay Area will form a "one-hour living circle" in close proximity to each other. This circle will generate an abundant flow of people and considerable consumption potential.

Market integration will facilitate the flow of people, logistics, capital and information in the Greater Bay Area, while also strengthening the freedom and convenience of service trades in the region. This ever-closer integration will undoubtedly drive further economic development as well as the expansion of the retail market. The Group's expansion of retail outlets is in full swing. In the next financial year, the Group plans to open approximately four new stores in the cities within the Greater Bay Area, that have been initially confirmed in Dongguan, Zhuhai and Jiangmen.

During the year, the buoyant local and regional economy benefited property sales and investment, while stimulating the momentum of local consumption. The satisfactory employment situation and continuous growth in the number of visitors to Hong Kong also brought strong support to the retail industry. We expect these factors to unleash new consumption potential in the Greater Bay Area and to expand the scale of the retail market.

Marching towards the Era of "New Retail"

The Group is confident of the long-term sustainability of our business, not only in our Hong Kong and Macau stores, but also in the offline and online environments and throughout the regions. We strongly believe that the ongoing integration of online and offline business will strengthen our interaction with customers, provide customers with better service, and deliver a more intimate shopping experience.

Jack Ma, the founder of Alibaba, has remarked that "New Retail" is "the integration of online, offline, logistics and data across a single value chain". As the world enters the digital era, big data, social media and artificial intelligence are being widely applied to improve the everyday lives of citizens and to expand businesses. We will increasingly synchronise our physical stores, online stores, and logistics as well as our marketing efforts with the ultimate aim of providing a seamless shopping experience to our customers.

As a first step, the Group will consolidate online and offline customer data, establish an integrated VIP database, collect and analyse consumer behaviour, and try to better understand consumer needs and preferences. We will also strive to provide customers with one-stop personalised product recommendations and targeted promotions to enhance sales and the customer experience.

Further ground-breaking innovations include a more comfortable in-store shopping environment, the launch of enticing new products, enhanced product displays, and a proposed in-store Internet Of Things (IOT) – an interactive customer experience to deepen enjoyment of product browsing and the product trial process.

Customer centricity is the driving force for "New Retail". On this front, service excellence has always been Sa Sa's premier core value, which has placed us in an advantageous position for leveraging this transformation. Our service has helped us to build long-term relationships and trust with local and overseas customers while also strengthening Sa Sa as a top-of-the-mind brand in the market. To respond to rapid changes in the market environment, our training, services and incentives are all adjusting to deliver a more personalised shopping experience to our customers.

Optimised Product Strategy, Logistics and Inventory Management

In terms of product strategy, the Group will strategically optimise our product portfolio, improve our management of the product life cycle, and eliminate low productivity SKUs. We will fill product gaps according to function and price points and upgrade store displays, while also accelerating the launch of high volume trendy products to attract traffic and meet market demand. At the same time, the Group will strengthen our brand position and marketing promotion measures, increase brand awareness and market recognition, and strive to achieve a better balance between sales growth against gross profit margin to maximise contributions to the Group's turnover and profits.

In the middle of the fiscal year, the Group consolidated and relocated our Hong Kong warehouses, which has gradually improved our logistics and inventory management. We will continue to strengthen warehouse management and automation, speed up delivery time and reduce the logistics cost of online and offline business in Mainland China, Hong Kong and Macau, while promoting overall logistics efficiency.

Conclusion

I would like to take this opportunity to express my heartfelt gratitude to my loyal and committed Sa Sa colleagues and management team for their hard work and contributions towards achieving the Group's sustainable development goals and vision. Our financial strength and professional management support the Group's long-term competitive advantage, enabling us to create sustainable value for our shareholders. No matter what challenges the future may bring, I firmly believe that the Group's remarkable brand position in the regions, our responsiveness, our timely strategies for expansion and our cost management will enable us to seize fresh opportunities and reach new heights.

Finally, as a responsible corporate citizen, we are proud to take up the responsibility of serving our local society. The Group will continue to uphold our belief in "from the community, for the community", expanding and growing whilst actively giving back and moving forward with the community.

Dr Simon Kwok, *SBS, JP*
Chairman and Chief Executive Officer
Hong Kong, 21 June 2018


Timeless
SUISSE
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- ADVANCED -
CELLULAR
CLEANSING GEL
GEL DEMAQUILLANT
CELLULAIRE
SUISSE
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REVITALIZING TONER
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- ADVANCED -
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