
FUTURE
Méthode SWISS
BEAUTY CARE
EDELWEISS
HYDRATING SERUM
SERUM HYDRATANT
EDELWEISS
Méthode SWISS
BEAUTY CARE
EDELWEISS
HYDRATING EMULSION
EMULSION HYDRATANTE
EDELWEISS
BEAUTIFUL FUTURE
EDELWEISS MOISTURIZING CREAM
CREME HYDRATANTE EDELWEISS

We are committed to embracing the New Retail era, and to becoming increasingly customer-centric for our future development.

Chairman's Statement

> "Our long-term competitive advantage is built on the Group's financial strength and rigorous management, which support us in our goal of generating long-term value for our shareholders."

Dr KWOK Siu Ming Simon, *SBS, JP*
Chairman and Chief Executive Officer

I hereby report that Sa Sa International Holdings Limited delivered modest sales and profit growth for the year ended 31 March 2019 (the "financial year"), against a backdrop of fast evolving customer preferences, a rapidly changing macro environment and an increasingly competitive landscape.

Our successful product strategy delivered an encouraging performance in the first half of the financial year. However, the second half was affected by multiple factors that significantly offset the achievements of the Group in the first half. As a result, annual turnover increased modestly by 4.5% to HK$8,375.9 million for the continuing operations. The Group continued to prudently expand its retail outlets from 265 last year to 274 as of 31 March 2019. Excluding the loss making retail business in Taiwan, which was discontinued in the last financial year, profit for the year from continuing operations was HK$472.1 million, a mild increase of 1.5% over the last financial year. Although the market environment became increasingly challenging in the second half of the financial year, the Group pressed ahead and continued to develop its new retail business operating model.

The Group is committed to generating sustained and consistent returns to our shareholders. The board of directors proposed a final dividend of 9.0 HK cents (2018: 11.0* HK cents) per share, payable in cash with a scrip dividend alternative. Together with the interim dividend of 7.0 HK cents (2018: 3.5 HK cents) per share, total annual dividend amounted to 16.0 HK cents (2018: 14.5* HK cents) per share.

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

Steadily Building our Operating Platform

Hong Kong and Macau

In our core market of Hong Kong and Macau, sales grew encouragingly in the first half of the financial year but a decline in the second half of the financial year partially counterbalanced the strong growth in the first half. As a result, the Group's sales recorded a modest growth rate of 4.9% for the whole financial year.

In the first half, the strong appeal of trendy products, fast traffic growth and robust consumption by customers drove the Group's sales performance. Consumer sentiment in the second half was impacted by the weakness in the Renminbi ("RMB") exchange due to the Sino-US Trade War as well as a decline in both the stock and property markets. Furthermore, the new E-commerce Law enacted by the Chinese government came into force at the beginning of 2019, dampening the sales of trendy products. Many new pharmacy stores selling skincare and cosmetic products also opened in tourist areas, intensifying competition.

Although there was a marked increase in Mainland tourist arrivals generated by the launch of two mega infrastructure developments in the autumn of 2018, they mainly comprised sightseeing trippers with modest spending power and so far have not greatly contributed to Hong Kong's and the Group's overall sales. However, the Group believes that subject to the impact of the trade war, the Greater Bay Area development supported by numerous new policies and infrastructure developments will generate higher local and tourist consumption going forward.

The Group continued to implement an effective store strategy during the financial year, optimising its network by closing underperforming stores, and adding new stores located in tourist hot spots such as Hong Kong West Kowloon Station, Tsim Sha Tsui, Sheung Shui and Tuen Mun. Under a conscious effort to control rental costs, the Group renewed rental contracts with modest rental growth of 0.5%.

The refocusing of the Group towards the new retail business model continued to make progress during the financial year. We completed phase one of the integration of all customer data from the three business units, namely Hong Kong and Macau physical stores, Mainland China physical stores and our online operations, uploading them to a centralised customer relationship management ("CRM") system. The Group also completed the data verification process and will get prepared to upload transaction details of existing customers as well as new customer data to the consolidated database.

We also assigned certain stores to pilot the use of new mobile devices for checkout in order to shorten waiting time at the cashiers and to improve the overall shopping experience. The Group is in the process of changing the in-store Point of Sale ("POS") system, which is expected to launch within the financial year ending 31 March 2020. The aim is to accelerate checkout time and improve the overall customer experience, including enabling the Group to move towards customer self-checkout.

In terms of logistics, the Group relocated various warehouses in Hong Kong to a single base at ATL Logistics Centre in late 2017. Continuous improvements in space utilisation and operational efficiency have been achieved, enabling the Group to enhance warehouse automation and accelerate delivery speed.

Beyond Hong Kong and Macau

We continue to focus our efforts on enhancing operations in our Hong Kong, Macau, Mainland China, Singapore and Malaysia markets as well as our e-commerce business. In order to achieve sustainable growth in the rapidly changing new retail environment, we are also committed to further integrating our online and offline operations so that our customers can enjoy a more enjoyable and seamless online-to-offline (“O2O”) shopping experience.

Mainland China and E-commerce

In Mainland China, we continued to optimise our retail network, opening new stores in a cautious manner while closing underperforming stores. Capitalising on the opportunities of the Greater Bay Area, the Group opened new stores in Zhuhai, Dongguan, Jiangmen and Huizhou. Outside of the Greater Bay Area, a new store was also opened in Nanjing, bringing to 54 the number of stores in Mainland China.

To enhance sales and tackle weakness in the sales of house-brand products in the first half, the Group restructured its sourcing team in the second half and further adjusted its product mix. Various marketing promotions and VIP membership activities were launched, which successfully recruited new members. In addition, the Group proactively organised other promotional activities to stimulate sales in stores.

E-commerce business offers important additional touch points to the Group’s customers. To align with the Group’s development, a new Order Management System (“OMS”) and a new e-commerce engine supporting Sa Sa’s own website and mobile app were being developed during the financial year. Meanwhile, the Group continued to partner with various renowned e-commerce platforms and explored new potential channels in order to expand its customer base and drive sales. Sales from third-party platforms in Mainland China have therefore become a major growth driver in the short term.

To improve logistics, the Group began to launch cross-border e-commerce B2C direct mailing services during the financial year, which resulted in higher efficiency and lowered the logistics cost to sales ratio. This service also helps to avoid detention of goods at Customs in Mainland China and to minimise stock losses caused by such events.

Overall, the rapid rise of e-commerce has opened up opportunities to develop the Group’s “New Retail” initiatives, thereby enhancing customer loyalty and driving the sustainable growth of the Group in the long run.

Singapore and Malaysia

In Singapore, the Group continued to optimise its existing store network and opened new stores. These new stores are largely concentrated in suburban areas to bring in customers from the neighbourhood and to cater to local customers’ evolving shopping behaviour. We will continue to build on this store network to increase our presence in the market, enhance profitability and deliver greater contributions to the Group.

During the financial year, we worked closely with suppliers to diversify our product portfolio, deliver new house-brand products and remove low productivity SKUs, thereby strengthening the sales mix of our products and improving new product launches.

In Malaysia, the Group’s business experienced month-to-month fluctuations due to changes in the consumption tax policy introduced by the new Malaysian government. Despite these challenges, the Group continued to exploit new business opportunities and recorded a satisfactory performance. The Group’s retail network in Malaysia registered the fastest growth in the financial year.

A major sales driver was the Group's strategy of targeting local Malays as customers. Measures included a CRM adapted for local Malays as well as marketing promotions aimed specifically at Malays. Meanwhile, the Group continued its proven strategy of attracting and retaining Chinese customers while establishing online channels to complement the Group's offline business.

The Pathway to the Future

There are many uncertainties in the external environment that may lead to a slowdown in global economic growth, not least the escalation of trade disputes between China and the US that may have a direct impact on consumers and businesses. The Hong Kong Retail Management Association ("HKRMA") expects the overall growth rate in sales will decelerate further and maintains its forecast of low single-digit growth for 2019 as a whole. However, looking further ahead, the Group believes that the development of the Greater Bay Area will bring about market opportunities in the medium to long term.

The Central Government's "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" ("Development Plan for GBA") underlines the core objectives: to create synergies and to drive economic development, leveraging the complementary advantages of the three regions. Facilitated by the two new mega infrastructure and other lesser known developments linking the network, the Group believes that under the Development Plan for GBA the improved connectivity between Hong Kong and other cities in the region will generate more foot traffic across various cities. This will give Sa Sa enhanced access to a vast pool of shoppers and customers from Guangdong Province and beyond – a key demographic for our physical stores. At the same time, the Group's retail store network in the Greater Bay Area will serve as important touch points when Mainland customers return home, laying the foundation for the Group's new retail strategies.

For Hong Kong and Macau, the Group will take into account evolving demographics, changes in visitors from their first entry points, as well as developments in the competitive landscape. We aim to open stores in selected areas to fill gaps in targeted districts and to prudently improve catchment in others. This will enable us to capture reasonable rental opportunities where possible, thereby strengthening our network competitiveness at a reasonable overall rental cost. For Mainland China, the Group will further develop its focus on Southern China as part of our network strategy.

Joining the Vanguard of the New Retail Era

"New Retail" is a phrase first coined by Alibaba Chairman Jack Ma in 2016, whose core is the combination of online and offline, of people, goods and warehouses, and of virtual space and reality – in other words, how to seamlessly combine consumers, goods, mode of delivery and supply chain.

According to the Hong Kong SAR "2019-20 Budget", Hong Kong will focus on the development of biotechnology, financial technology, smart city and artificial intelligence, to create a super-smart city. This will allow the local retail industry to have its fingers on the global pulse.

Guided by 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 O2O shopping experience to its customers.

The "New Retail" model is the core of our strategic development in the medium to long term. The most important step of the Group's "New Retail" initiatives is to integrate the customer database of our physical stores in Hong Kong, Macau and Mainland China with that of our e-commerce business. The Group will use this integrated customer database and coordinate our physical stores in Hong Kong, Macau and Mainland China as well as our online presence to provide multiple customer touch points. This integration will greatly strengthen the Group's customer relationship management. By using big data for business and product analysis, the Group will be able to formulate strategies to cater to the changing patterns in consumer behaviour, preferences and expectations.

Further initiatives include launching the POS system in Hong Kong stores in different stages by the end of the financial year of 2020. This will accelerate the checkout process by further simplifying promotions and by supporting comprehensive mobile payments in the retail industry. When combined with other developments in the pipeline, the new POS system has the capability to enhance both the physical store and online shopping experience. We plan to propose an in-store Internet of Things (IOT) to enhance the interactive customer experience and to deepen the enjoyment of product browsing and the product trial process.

A new O2O service named "Click-and-Collect" will be launched in Singapore and Malaysia to interact more closely with customers. Customers may purchase products at the website or on their mobile app, with the option of picking up the goods at our physical stores. The Group will also strengthen efforts and investment in digital marketing and content marketing.

To achieve the expected goals of the integrated customer database, the Group has to overcome a number of challenges. These include the restructuring of business units, assigning new responsibilities for better alignment, changing work processes and designing new departmental key performance indicators. The commission reward system for front-line staff will also be revised. Such organisational restructuring requires determination, dedication, patience and expertise as well as the right mind-set at all levels to make it work.

Optimising Product Strategies, Sales Channels and Warehouse Management

Product strategy is at the core of the Group's competitiveness. The Group will continue to adjust its product portfolio in order to adapt to changing consumer preferences. In terms of product management, the Group will strive to achieve a more balanced approach to product offerings by providing more products with high linked sales of own-brand products, all with the aim of enhancing profitability. We will also eliminate low productivity SKUs from the portfolio and promptly respond to market trends in order to cater to rapidly changing consumer preferences.

The Group will make use of big data and analysis to formulate sound product strategies and improve product life cycle management, generating more effective marketing strategies to enhance the customer experience. In order to boost sales and achieve operating leverage, we will actively grow the market share and revenue of our exclusively sold products through the expansion of wholesale distribution channels in our Hong Kong and Mainland China markets.

Subsequent to continuous consolidation of our warehouses in Hong Kong and Mainland China, the entire logistics chain of the Group has become more complete. The result has been a marked improvement in logistics costs and delivery.

All these initiatives have the ultimate goal of enhancing customer engagement and loyalty by offering a seamless O2O shopping experience to our customers.

Conclusion – A Time of Promise and Challenge

At this time of promise and challenge for Sa Sa, I would like to offer my deepest thanks to my dedicated Sa Sa colleagues and management team for their highly focused work and support as we continue to realise the Group's sustainable vision and goals. Our long-term competitive advantage is built on the Group's financial strength and rigorous management, which support us in our goal of generating long-term value for our shareholders. There will always be uncertainties and challenges in the environment. However, I hold fast to the view that the Group's outstanding brand recognition in our markets, our readiness to innovate and be agile, our cost management and our forward-thinking vision will propel us towards sustainable growth in the future.

Finally, we take our responsibilities seriously as a good corporate citizen, and in this spirit we aim to consistently serve the societies and communities in which we operate. "From the community, for the community" is the underlying belief that governs all our operations, helping us to move forward and bring abundance to all those whose lives we touch, actively giving back and advancing with the community.

Dr KWOK Siu Ming Simon, *SBS, JP*
Chairman and Chief Executive Officer
Hong Kong, 20 June 2019


胡定欣
「只需14天，
肌膚水嫩柔滑、健康透亮*」
*40位COSMOPOLITAN讀者連續使用活氧細胞生肌昇華露(第3代)14天，100%認同肌膚明顯較之前健康透亮，97.5%認同肌膚明顯較之前水嫩柔滑