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## SA SA INTERNATIONAL HOLDINGS LIMITED

莎莎國際控股有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 178)

### Annual Results for the year ended 31 March 2020, Closure of Books and Trading Updates from 1 April to 14 June 2020

#### Highlights

- The Group's turnover for the continuing operations decreased by 29.9% to HK\$5,717.3 million
- Sales of retail and wholesale in Hong Kong and Macau SARs reduced by 33.2% to HK\$4,739.4 million
- Loss for the year was HK\$515.9 million, compared to a profit of HK\$470.8 million recorded in the same period last year
- Excluding the provision for impairment of HK\$270.5 million made in accordance with the Hong Kong Accounting Standard 36 that applied to retail store assets and a loss of HK\$40.8 million for the termination of retail business in Singapore, the Group's loss was HK\$204.6 million in this financial year
- Basic loss per share amounted to 16.7 HK cents as compared to basic earnings per share of 15.4 HK cents in the previous year
- In view of the challenging and uncertain operational environment in the operating markets, the Board does not propose a final dividend (2019: 9.0 HK cents per share)

The board of directors of Sa Sa International Holdings Limited (the "**Company**") presents the consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 March 2020 with comparative figures for the previous year as follows. The annual results have been reviewed by the audit committee of the Company.

Note: "Hong Kong" refers to "The Hong Kong Special Administrative Region of China", "Macau" refers to "The Macau Special Administrative Region of China" and "Taiwan" refers to "Taiwan, China".

# CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 HK\$'000	2019 HK\$'000 Restated
<b><u>Continuing operations</u></b>			
Turnover	3	5,717,283	8,156,597
Cost of sales	5	<u>(3,634,818)</u>	<u>(4,839,967)</u>
Gross profit		2,082,465	3,316,630
Other income	4	64,373	95,749
Selling and distribution costs	5	(2,151,949)	(2,542,076)
Administrative expenses	5	(278,868)	(309,155)
Impairment of right-of-use assets and property, plant and equipment	11	(270,455)	(5,969)
Other gains - net		<u>1,009</u>	<u>6,560</u>
Operating (loss)/profit		(553,425)	561,739
Finance income		17,447	20,558
Finance costs	6	<u>(26,020)</u>	<u>-</u>
(Loss)/profit before income tax		(561,998)	582,297
Income tax credit/(expense)	7	<u>86,916</u>	<u>(91,380)</u>
(Loss)/profit for the year from continuing operations		(475,082)	490,917
Loss for the year from discontinued operations	8	<u>(40,854)</u>	<u>(20,165)</u>
(Loss)/profit for the year attributable to owners of the Company		<u><b>(515,936)</b></u>	<u><b>470,752</b></u>
 (Loss)/earnings per share from continuing operations attributable to owners of the Company for the year (expressed in HK cents per share)			
Basic	9	(15.4)	16.1
Diluted		<u>(15.4)</u>	<u>16.1</u>
 (Loss)/earnings per share for (loss)/profit attributable to owners of the Company for the year (expressed in HK cents per share)			
Basic	9	(16.7)	15.4
Diluted		<u>(16.7)</u>	<u>15.4</u>

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 HK\$'000	2019 HK\$'000 Restated
<b>(Loss)/profit for the year</b>		<b>(515,936)</b>	470,752
<b>Other comprehensive loss</b>			
<u>Item that will not be reclassified subsequently to profit or loss</u>			
Actuarial gain/ (loss) on retirement benefit obligations		1,992	(2,016)
<u>Items that may be reclassified to profit or loss</u>			
Cash flow hedges, net of tax		61	(472)
Currency translation differences of foreign subsidiaries recorded in translation reserve		<u>(21,732)</u>	<u>(20,851)</u>
<b>Other comprehensive loss for the year, net of tax</b>		<b><u>(19,679)</u></b>	<b><u>(23,339)</u></b>
<b>Total comprehensive (loss)/income for the year attributable to owners of the Company</b>		<b><u>(535,615)</u></b>	<b><u>447,413</u></b>
Total comprehensive (loss)/income for the year attributable to owners of the Company arises from:			
Continuing operations		(489,769)	472,469
Discontinued operations	8	<u>(45,846)</u>	<u>(25,056)</u>
		<b><u>(535,615)</u></b>	<b><u>447,413</u></b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 31 MARCH 2020

	Note	2020 HK\$'000	2019 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		281,531	351,100
Right-of-use assets		761,107	-
Rental deposits, prepayments and other assets		118,120	162,225
Deferred tax assets		115,146	4,808
		<b>1,275,904</b>	518,133
<b>Current assets</b>			
Inventories		1,005,900	1,413,726
Trade receivables	12	60,617	112,701
Other receivables, deposits and prepayments		276,237	221,274
Time deposits		82,122	589,512
Cash and cash equivalents		559,381	551,134
Income tax recoverable		7,026	-
		<b>1,991,283</b>	2,888,347
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	13	219,246	471,499
Other payables and accruals		235,057	328,851
Lease liabilities		574,006	-
Income tax payable		35,066	63,190
		<b>1,063,375</b>	863,540
<b>Net current assets</b>		<b>927,908</b>	2,024,807
<b>Total assets less current liabilities</b>		<b>2,203,812</b>	2,542,940
<b>Non-current liabilities</b>			
Other payables		32,674	50,475
Lease liabilities		505,064	-
Retirement benefit obligations		1,710	5,643
Deferred tax liabilities		52	214
		<b>539,500</b>	56,332
<b>Net assets</b>		<b>1,664,312</b>	2,486,608
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital		310,319	309,560
Reserves		1,353,993	2,177,048
<b>Total equity</b>		<b>1,664,312</b>	2,486,608

## Notes:

### 1. Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) and disclosure requirements of Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

The presentation of comparative information in respect of the consolidated statement of comprehensive income for the year ended 31 March 2020 has been restated in order to disclose the discontinued operations separately from continuing operations. Further details of financial information of the discontinued operations are set out in Note 8.

### 2. Changes in accounting policies and disclosures

(i) Amendments to standards and interpretation mandatory for the first time for the financial year beginning 1 April 2019 and were early adopted in prior years

- Hong Kong Accounting Standard (“HKAS”) 19 (Amendment), “Plan Amendment, Curtailment or Settlement”
- HKAS 28 (Amendment), “Long-term Interests in Associates and Joint Ventures”
- HK(IFRIC) Interpretation 23, “Uncertainty over Income Tax Treatments”

(ii) New standard and amendment to standard mandatory for the first time for the financial year beginning 1 April 2019 and were not early adopted in prior years

- HKFRS 9 (Amendments), “Prepayment Features with Negative Compensation”

The narrow-scope amendments made to HKFRS 9, “Financial Instruments” in December 2017 enable entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss. To qualify for amortised cost measurement, the negative compensation must be ‘reasonable compensation for early termination of the contract’ and the asset must be held within a ‘held to collect’ business model. The amendment to HKFRS 9 did not have any material impact on the Group’s accounting policies and did not require retrospective adjustments.

- HKFRS 16, “Leases”

The Group has adopted HKFRS 16 retrospectively from 1 April 2019, as permitted under the specific transitional provisions in the standard. The reclassification and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 April 2019.

## 2. Changes in accounting policies and disclosures (continued)

- (ii) New standard and amendment to standard mandatory for the first time for the financial year beginning 1 April 2019 and were not early adopted in prior years (continued)

### **HKFRS 16, “Leases” (continued)**

- (a) *Adjustments recognised on adoption of HKFRS 16*

The following table shows the adjustments for change in accounting policy recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	<b>31 March 2019</b>		<b>1 April 2019</b>
	<b>Before</b>	<b>Adoption of</b>	<b>After</b>
	<b>adoption</b>	<b>HKFRS 16</b>	<b>adoption</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Consolidated statement of financial position (extract)</b>			
<b>Non-current assets</b>			
Right-of-use assets	-	1,622,028	1,622,028
Deferred tax assets	4,808	4,691	9,499
<b>Current liabilities</b>			
Other payables and accruals	(328,851)	20,074	(308,777)
Lease liabilities	-	(687,427)	(687,427)
<b>Non-current liabilities</b>			
Lease liabilities	-	(983,692)	(983,692)
<b>Equity</b>			
Reserves	2,177,048	(24,326)	2,152,722

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17, “Leases”. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 April 2019. The lessee’s weighted average incremental borrowing rate applied to the lease liabilities on 1 April 2019 was at 1.7%.

## 2. Changes in accounting policies and disclosures (continued)

- (ii) New standard and amendment to standard mandatory for the first time for the financial year beginning 1 April 2019 and were not early adopted in prior years (continued)

### **HKFRS 16, "Leases" (continued)**

- (a) *Adjustments recognised on adoption of HKFRS 16 (continued)*

	<b>2019</b> <b>HK\$'000</b>
Operating lease commitments disclosed as at 31 March 2019	1,453,653
Less: discounted using the lessee's incremental borrowing rate of at the date of initial application	(130,770)
Less: short-term leases recognised on a straight-line basis as expense	(14,071)
Add: adjustments as a result of a different treatment of extension and termination options	362,307
	<u>1,671,119</u>

### **Leases liabilities recognised as 1 April 2019**

Of which are:

Current lease liabilities	687,427
Non-current lease liabilities	983,692
	<u>1,671,119</u>

The associated right-of-use assets for properties leases were measured on a retrospective basis as if the new rules had always been applied. The associated right-of-use assets for property leases, which had been subleased out and classified as finance leases, were recognised as receivables and measured at the amount equal to the net investment calculated with the implicated interest rates in the finance leases on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	<b>1 April 2019</b> <b>HK\$'000</b>
Properties leases	1,622,028
Leasehold land (note)	94,322
	<u>1,716,350</u>

Note:

Leasehold land previously classified as finance lease as at 31 March 2019 is reclassified as right-of-use assets as of 1 April 2019. The Group presents the leasehold land separately from the right-of-use assets and contains within property, plant and equipment.

Lease receivables for sub-lease arrangement classified as finance leases are recognised since the adoption of HKFRS 16 within "rental deposits, prepayments and other assets" under non-current assets and "other receivables, deposits and prepayments" under current assets.

## 2. Changes in accounting policies and disclosures (continued)

- (ii) New standard and amendment to standard mandatory for the first time for the financial year beginning 1 April 2019 and were not early adopted in prior years (continued)

### **HKFRS 16, "Leases" (continued)**

(a) *Adjustments recognised on adoption of HKFRS 16 (continued)*

(i) *Impact on segment disclosures*

Segment assets as at 31 March 2020 increased as a result of the change in the accounting policy. Right-of-use assets are now included in segment assets, whereas right-of-use assets were previously excluded from segment assets. The following segments were affected by the change in policy:

	<b>Segment assets HK\$'000</b>
Hong Kong and Macau SARs	698,867
Mainland China	12,876
Malaysia	49,364
	<u>761,107</u>

(ii) *Practical expedients applied*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases within reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the use of recognition exemption to lease with a remaining lease term of less than 12 months at 1 April 2019;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date of the Group relied on its assessment made applying HKAS 17.



## 2. Changes in accounting policies and disclosures (continued)

(iii) The following amendments to standards have been issued but are not effective for the financial year beginning 1 April 2019 and have not been early adopted

- HKAS 1 (Amendment), “Amendments to Definition of Material” (effective for annual periods beginning on or after 1 April 2020)
- HKFRS 3 (Amendment), “Definition of Business” (effective for annual periods beginning on or after 1 April 2020)

The directors of the Company are in the process of assessing the financial impact of the adoption of the above amendments to standards. The directors of the Company will adopt the amendments to standards when it is appropriate to do so.

(iv) Early adoption of amendments to standards during the year ended 31 March 2020 where early adoption is permitted

- HKFRS 16 (Amendment), “COVID-19-Related Rent Concessions” (effective for annual periods beginning on or after 1 April 2021). The amendment provides lessees with exemption from assessing whether COVID-19-related rent concession is a lease modification and requires lessees that apply the exemption to account for COVID-19-related rent concession as if they were not lease modifications. In applying HKFRS 16 (Amendment) for the first time, the Group has applied the practical expedient and elected not to assess whether COVID-19-related rent concession is a lease modification. All of the COVID-19-related rent concessions amounted to HK\$29,031,000 has been credited to the income statement within “selling and distribution costs”.
- HKFRS 9, HKAS 39 and HKFRS 7 (Amendment), “Interest Rate Benchmark Reform” (effective for annual periods beginning on or after 1 April 2020). The amendment provides temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by Interbank Offered Rate (“IBOR”) reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. Any hedge ineffectiveness should continue to be recorded in the income statement under both HKAS 39 and HKFRS 9. The early adoption of HKFRS 9, HKAS 39 and HKFRS 7 (Amendment) does not have any impact to the Group as the Group does not enter any interest rate hedge arrangement as of and for the year ended 31 March 2020.

### **3. Segment information**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors of the Group who make strategic and operating decisions.

Executive directors of the Group review the internal reporting of the Group in order to assess performance and allocate resources. Executive directors consider the business principally from a geographic perspective and assess the performance of the geographic segments based on a measure of segments results.

During the year ended 31 March 2020, the Group discontinued the business of retailing of cosmetic products in Singapore (Note 8) which was previously included in “all other segments”; the comparatives have been restated. Since “all other segments” refer to the market in Malaysia only, “all other segments” has been renamed to “Malaysia”. The Business reportable segments identified are Hong Kong and Macau SARs, Mainland China, E-commerce and Malaysia.

Segment assets consist primarily of property, plant and equipment, right-of-use assets, deferred tax assets, inventories, receivables, deposits and prepayments, time deposits and cash and cash equivalents. Capital expenditure comprises additions to property, plant and equipment.

### 3. Segment information (continued)

The breakdown of key segment information including total turnover from external customers is disclosed below.

	For the year ended 31 March 2020				
	Hong Kong & Macau SARs HK\$'000	Mainland China HK\$'000	E-commerce HK\$'000	Malaysia HK\$'000	Total HK\$'000
<b>Turnover</b>	<b>4,739,382</b>	<b>243,013</b>	<b>344,671</b>	<b>390,217</b>	<b>5,717,283</b>
<b>Segment results</b>	<b>(413,559)</b>	<b>(37,987)</b>	<b>(39,736)</b>	<b>16,200</b>	<b>(475,082)</b>
<b>Other information</b>					
Capital expenditure	71,300	4,488	8,299	6,907	90,994
Finance income	15,458	173	50	1,766	17,447
Finance costs	23,553	498	-	1,969	26,020
Income tax (credit)/ expense	(80,954)	-	(11,126)	5,164	(86,916)
Depreciation of property, plant and equipment	93,360	4,142	2,591	17,187	117,280
Depreciation of right-of- use assets	698,918	10,510	-	39,412	748,840
Provision for slow moving inventories and shrinkage	84,026	7,162	3,257	2,691	97,136
Impairment of property, plant and equipment	22,162	2,003	-	351	24,516
Impairment of right-of- use assets	<b>243,180</b>	<b>2,274</b>	<b>-</b>	<b>485</b>	<b>245,939</b>
	For the year ended 31 March 2019				
	Hong Kong & Macau SARs HK\$'000	Mainland China HK\$'000	E-commerce HK\$'000	Malaysia HK\$'000 (Restated)	Total HK\$'000 (Restated)
<b>Turnover</b>	<b>7,091,830</b>	<b>287,762</b>	<b>391,829</b>	<b>385,176</b>	<b>8,156,597</b>
<b>Segment results</b>	<b>512,230</b>	<b>(16,086)</b>	<b>(26,461)</b>	<b>21,234</b>	<b>490,917</b>
<b>Other information</b>					
Capital expenditure	99,603	4,931	662	18,786	123,982
Finance income	18,570	209	80	1,699	20,558
Income tax expense/(credit)	93,199	-	(9,946)	8,127	91,380
Depreciation of property, plant and equipment	81,407	6,439	1,664	17,579	107,089
Provision for slow moving inventories and shrinkage	21,821	465	5,023	3,490	30,799
Impairment of property, plant and equipment	<b>3,678</b>	<b>2,291</b>	<b>-</b>	<b>-</b>	<b>5,969</b>

### 3. Segment information (continued)

	Hong Kong & Macau SARs HK\$'000	Mainland China HK\$'000	E-commerce HK\$'000	Malaysia HK\$'000 (Restated)	Total HK\$'000
<b>At 31 March 2020</b>					
Non-current assets	1,174,950	21,919	1,706	77,329	1,275,904
Current assets	1,540,945	124,153	95,195	184,455	1,944,748
Total segment assets					3,220,652
Discontinued operations					46,535
<b>Total assets as per consolidated statement of financial position</b>					<b>3,267,187</b>
<b>At 31 March 2019</b>					
Non-current assets	446,086	11,819	6,935	38,069	502,909
Current assets	2,365,696	137,686	115,493	180,717	2,799,592
Total segment assets					3,302,501
Discontinued operations					103,979
Total assets as per consolidated statement of financial position					3,406,480

### 4. Other income

	2020 HK\$'000	2019 HK\$'000 Restated
Slide display rental income	64,373	65,166
Sub-lease income	-	30,583
	<b>64,373</b>	<b>95,749</b>

## 5. Expenses by nature

	2020 HK\$'000	2019 HK\$'000 Restated
Cost of inventories sold	3,537,682	4,809,168
Employee benefit expenses (including directors' emoluments)	964,624	1,120,646
Depreciation expenses		
- right-of-use assets	748,840	-
- property, plant and equipment	117,280	107,089
Building management fees, government rent and rates	102,425	103,623
Provision for slow moving inventories and shrinkage	97,136	30,799
Advertising and promotion expenses	75,711	110,514
Lease rentals in respect of land and buildings		
- lease rental for short-term leases	47,970	-
- contingent rent	37,402	46,462
- minimum lease payments	-	854,712
- rent concession related to COVID-19	(29,031)	-
Utilities and telecommunication	49,803	49,994
Transportation, storage and delivery charges	40,315	56,424
Repair and maintenance	35,268	47,614
Write-off of property, plant and equipment	9,712	991
Auditors' remuneration		
- audit services	3,289	3,409
- non-audit services	1,369	1,605
Donations	2,188	4,960
Sub-lease expenses	-	28,946
Others	223,652	314,242
	<b>6,065,635</b>	<b>7,691,198</b>
Representing:		
Cost of sales	3,634,818	4,839,967
Selling and distribution costs	2,151,949	2,542,076
Administrative expenses	278,868	309,155
	<b>6,065,635</b>	<b>7,691,198</b>

### Note:

Rent concession related to COVID-19 amounted to HK\$29,031,000 has been credited to the income statement and included in selling and distribution costs.

## 6. Finance costs

	2020 HK\$'000	2019 HK\$'000
Finance costs from:		
Interest expenses on lease liabilities	26,020	-

## 7. Income tax (credit)/ expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates respectively.

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
Current tax:		
Hong Kong profits tax		
Current	<b>4,967</b>	62,580
Over-provision in previous years	<b>(506)</b>	(508)
Overseas taxation		
Current	<b>14,960</b>	28,992
(Over)/under-provision in previous years	<b>(139)</b>	158
<b>Total current tax</b>	<b>19,282</b>	91,222
Deferred tax:		
Origination and reversal of temporary differences	<b>(106,198)</b>	158
<b>Income tax (credit)/ expense</b>	<b>(86,916)</b>	91,380
Income tax (credit)/expense is attributable to:		
(Loss)/profit from continuing operations	<b>(86,916)</b>	91,380
Loss from discontinued operations	-	-
	<b>(86,916)</b>	91,380

## 8. Discontinued operations

The breakdown of loss from discontinued operations are presented below:

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
Singapore retail operation (Note (i))	<b>(40,854)</b>	(18,849)
Taiwan region retail operation (Note (ii))	-	(1,316)
	<b>(40,854)</b>	(20,165)

## 8. Discontinued operations (continued)

- (i) During the year ended 31 March 2020, the Group discontinued the business of retailing of cosmetic products in Singapore. The results of Singapore retail operation for the year ended 31 March 2020 and 2019 are presented below:

	2020 HK\$'000	2019 HK\$'000
Turnover	253,222	219,303
Other income and gains, net	184	853
Cost of sales and expenses	<u>(294,260)</u>	<u>(239,005)</u>
Loss before income tax	(40,854)	(18,849)
Income tax expense	<u>-</u>	<u>-</u>
Loss from discontinued operation	<b><u>(40,854)</u></b>	<b><u>(18,849)</u></b>
Currency translation differences of foreign subsidiaries recorded in translation reserve	<u>(4,992)</u>	<u>(3,225)</u>
Total comprehensive loss from discontinued operation	<b><u>(45,846)</u></b>	<b><u>(22,074)</u></b>

Loss for the year of Singapore retail operation has been arrived at after charging/ (crediting):

	2020 HK\$'000	2019 HK\$'000
Write-off of property, plant and equipment	5,416	-
Depreciation of property, plant and equipment	3,713	4,196
Depreciation of right-of-use assets	33,471	-
(Reversal)/provision for slow moving inventories and shrinkage	(686)	3,257
Interest expenses on lease liabilities	<b><u>822</u></b>	<b><u>-</u></b>

- (ii) During the year ended 31 March 2018, the Group discontinued the business of retailing of cosmetic products in Taiwan region. The results of Taiwan region retail operation for the year ended 31 March 2019 are presented below:

	2019 HK\$'000
Turnover	13,259
Other income and gains, net	18
Cost of sales and expenses	<u>(14,593)</u>
Loss before income tax	(1,316)
Income tax expense	<u>-</u>
Loss from discontinued operation	<b><u>(1,316)</u></b>
Currency translation differences of foreign subsidiaries recorded in translation reserve	<u>(1,666)</u>
Total comprehensive loss from discontinued operation	<b><u>(2,982)</u></b>

## 9. (Loss)/earnings per share

### From continuing operations

- (a) Basic (loss)/earnings per share from continuing operations is calculated by dividing the (loss)/profit from continuing operations attributable to owners of the Company by the weighted average number of ordinary shares in issue less the total number of shares held under the Share Award Scheme during the year.

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
(Loss)/profit from continuing operations attributable to owners of the Company	<b>(475,082)</b>	490,917
Weighted average number of ordinary shares in issue less shares held under the Share Award Scheme during the year (thousands)	<b>3,096,414</b>	3,060,494

- (b) For the year ended 31 March 2020, diluted loss per share from continuing operations equals to basic loss per share from continuing operations as the potential ordinary shares were not included in the calculation of diluted loss per share because they are anti-dilutive.

For the year ended 31 March 2019, diluted earnings per share from continuing operations is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: share options and shares held under the Share Award Scheme during the year. For the share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and future service cost. For shares held under the Share Award Scheme, awarded shares granted to the employees but not yet vested as at 31 March 2019 has been included in the number of shares.

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
(Loss)/profit from continuing operations attributable to owners of the Company	<b>(475,082)</b>	490,917
Weighted average number of ordinary shares in issue less shares held under the Share Award Scheme during the year (thousands)	<b>3,096,414</b>	3,060,494
Adjustment for share options and awarded shares (thousands)	-	685
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<b>3,096,414</b>	3,061,179



## 9. (Loss)/earnings per share (continued)

### From continuing and discontinued operations

The calculation of the basic and diluted (loss)/earnings per share attributable to owners of the Company is based on the following data:

	2020 HK\$'000	2019 HK\$'000
(Loss)/profit from continuing operations attributable to owners of the Company	(475,082)	490,917
Loss from discontinued operations attributable to owners of the Company	(40,854)	(20,165)
<hr/>		
(Loss)/profit for the purpose of basic and diluted earnings per share from continuing and discontinued operations	(515,936)	470,752

The denominators used are the same as those detailed above for both basic and diluted (loss)/earnings per share from continuing operations.

### From discontinued operations

The basic and diluted loss per share for the discontinued operations are 1.3 HK cents per share (2019: Basic and diluted loss of 0.7 HK cents per share).

The calculations of basic and diluted loss per share from the discontinued operations are based on:

	2020 HK\$'000	2019 HK\$'000
Loss attributable to owners of the Company from the discontinued operations	(40,854)	(20,165)
<hr/>		
Weighted average number of ordinary shares in issue less shares held under the Share Award Scheme during the year (thousands)	3,096,414	3,060,494

During the year ended 31 March 2020 and 2019, diluted loss per share equals to basic loss per share as the potential ordinary shares were not included in the calculation of diluted loss per share because they are anti-dilutive.

## 10. Dividends

	2020 HK\$'000	2019 HK\$'000
Interim, paid – Nil (2019: 7.0 HK cents) per share	-	216,454
Final, proposed – Nil (2019: 9.0 HK cents) per share	-	278,604
	-	495,058

The Board has decided not to declare a final dividend for the year ended 31 March 2020 (2019: 9.0 HK cents per share).

## 11. Impairment of right-of-use assets and property, plant and equipment

As at 31 March 2020, net book amount of retail store assets represented property, plant and equipment and right-of-use assets amounting to HK\$79,514,000 (2019: HK\$127,341,000) and HK\$619,328,000 (2019: Nil) respectively. The Group regards each individual retail store as a separately identifiable cash-generating unit. Management carried out an impairment assessment for the retail store assets, including property, plant and equipment and right-of-use assets, which have an impairment indicator. Given the potential adverse impact on the performance of the Group's retail stores as a result of the COVID-19 epidemic, management performed impairment assessment for all the retail stores in Hong Kong and Macau SARs market.

The carrying amount of the retail store assets is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The estimates of the recoverable amounts were based on value-in-use calculations using discounted cash flow projections based on the financial forecasts approved by management covering the remaining tenure of the lease, with major assumptions such as percentage change in revenue, percentage change of running cost and gross profit margin. As a result, an impairment loss of property, plant and equipment and right-of-use assets of HK\$24,516,000 and HK\$245,939,000 (2019: HK\$5,969,000 and nil) respectively were recognised in selling and distribution costs.

Key assumptions used in the value-in-use calculations for the recoverable amount of retail store assets in Hong Kong and Macau SARs market are as follow:

Percentage change in revenue:	based on the estimated timing of easing quarantine restrictions at the borders and the recovery of Mainland tourist arrivals and the consequential effect on the foot traffic of the Group's retail stores
Percentage change of running cost:	based on the estimated change related to the Group's cost saving plan and measures
Gross profit:	based on the historical data and change in product mix

## 12. Trade receivables

The Group's turnover comprises mainly cash sales and credit card sales. Certain wholesale customers are granted credit terms ranging from 7 to 120 days. The ageing analysis based on invoice date is as follows:

	2020 HK\$'000	2019 HK\$'000
Within 1 month	30,952	87,391
1 to 3 months	14,396	22,140
Over 3 months	15,269	3,170
	<b>60,617</b>	<b>112,701</b>

The carrying amounts of trade receivables approximate their fair values.

### 13. Trade payables

The ageing analysis based on invoice date of trade payables is as follows:

	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
Within 1 month	<b>79,430</b>	370,818
1 to 3 months	<b>84,716</b>	86,687
Over 3 months	<b>55,100</b>	13,994
	<b>219,246</b>	471,499

The carrying amounts of trade payables approximate their fair values.

## MANAGEMENT DISCUSSION & ANALYSIS

During the financial year, the Group's turnover decreased by 29.9% to HK\$5,717.3 million for the continuing operations, excluding the discontinued operations in Taiwan of China and Singapore. Sales of retail and wholesale in Hong Kong and Macau SARs reduced by 33.2% to HK\$4,739.4 million. The Group's retail outlets for the continuing operations decreased from 253 last year to 235 as of 31 March 2020.

The Group incurred a loss for the year amounting to HK\$515.9 million, compared to a profit of HK\$470.8 million recorded in the same period last year. Excluding the provision for impairment of HK\$270.5 million<sup>1</sup> made in accordance with the HKAS 36 that applied to retail store assets (including right-of-use assets and property, plant and equipment) and a loss of HK\$40.8 million for the termination of retail business in Singapore, the Group's loss was HK\$204.6 million in this financial year.

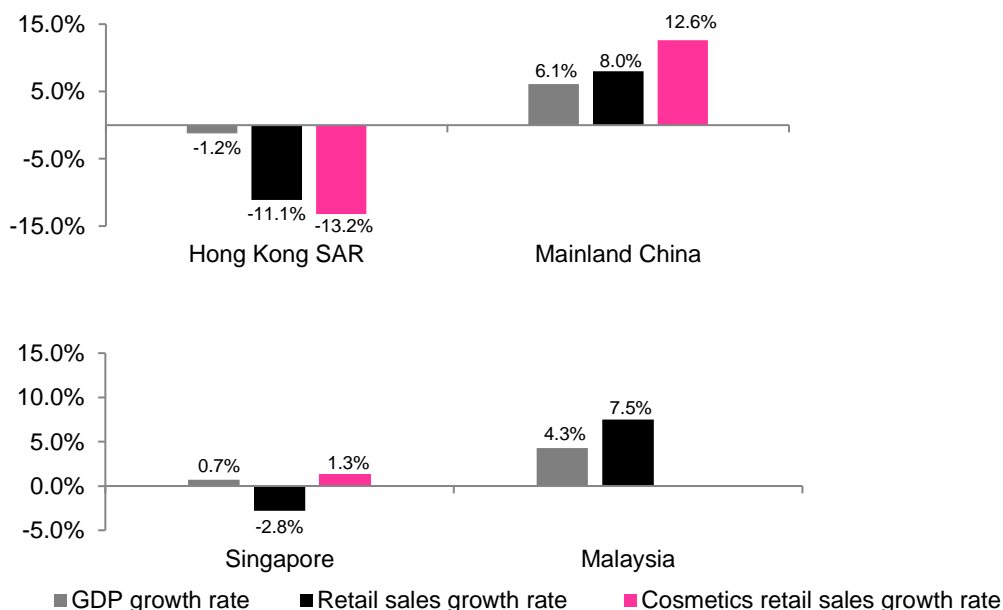
Basic loss per share amounted to 16.7 HK cents (2019: basic earnings per share of 15.4 HK cents). In view of the challenging and uncertain operational environment in our operating markets, the Board does not propose a final dividend for this reporting year in accordance with the Group's policy to pay dividends out of profits and for reasons of responsible risk management under the current operating environment (2019: 9.0 HK cents per share).

The Group has been included in the Hang Seng Composite SmallCap Index, FTSE World Index Series and MSCI Index Series. We have been a constituent member of Hang Seng Corporate Sustainability Benchmark Index since 2011. The Group is also an eligible stock for Shenzhen-Hong Kong Stock Connect since 2016.

<sup>1</sup> Details are set out in Note 11 on page 18

## Market Overview

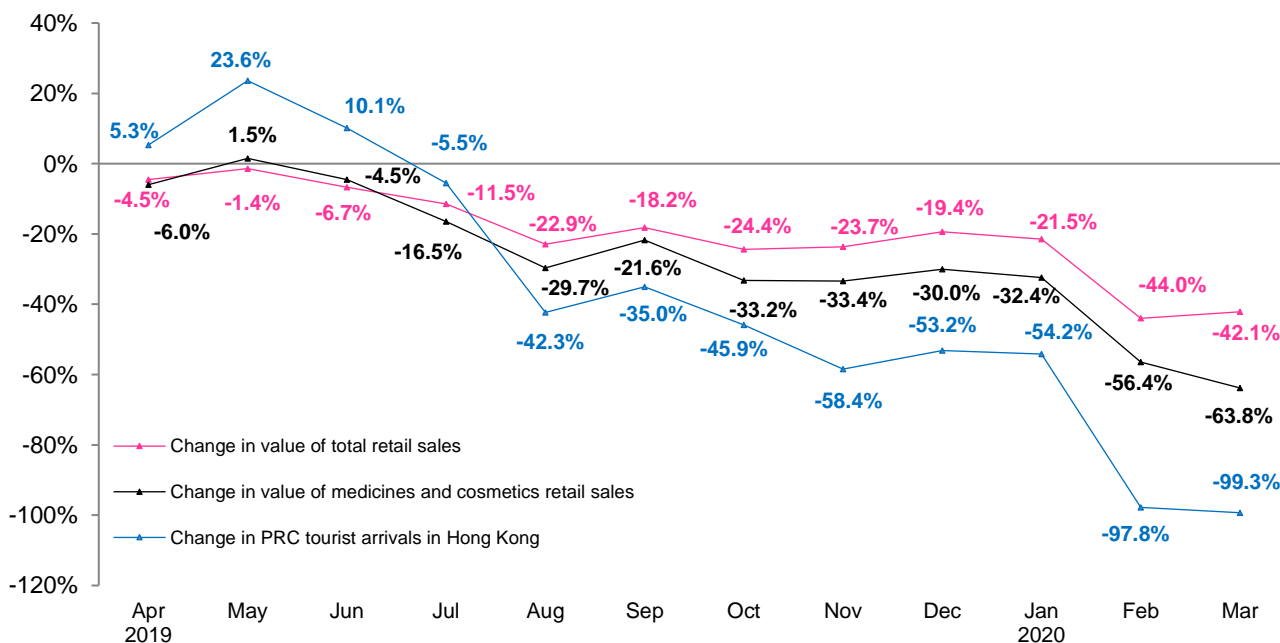
### GDP/ Retail Sales / Cosmetics Retail Sales in 2019 (year-on-year change)



**Note:**

- 1) There were no cosmetics retail sales statistics provided by the Malaysian Government.
- 2) All of the above data were sourced and estimated from statistics published by corresponding governments' statistics bureaus.
- 3) There are some inconsistencies in definition and survey methodology for cosmetics retail sales by different government statistics bureaus.

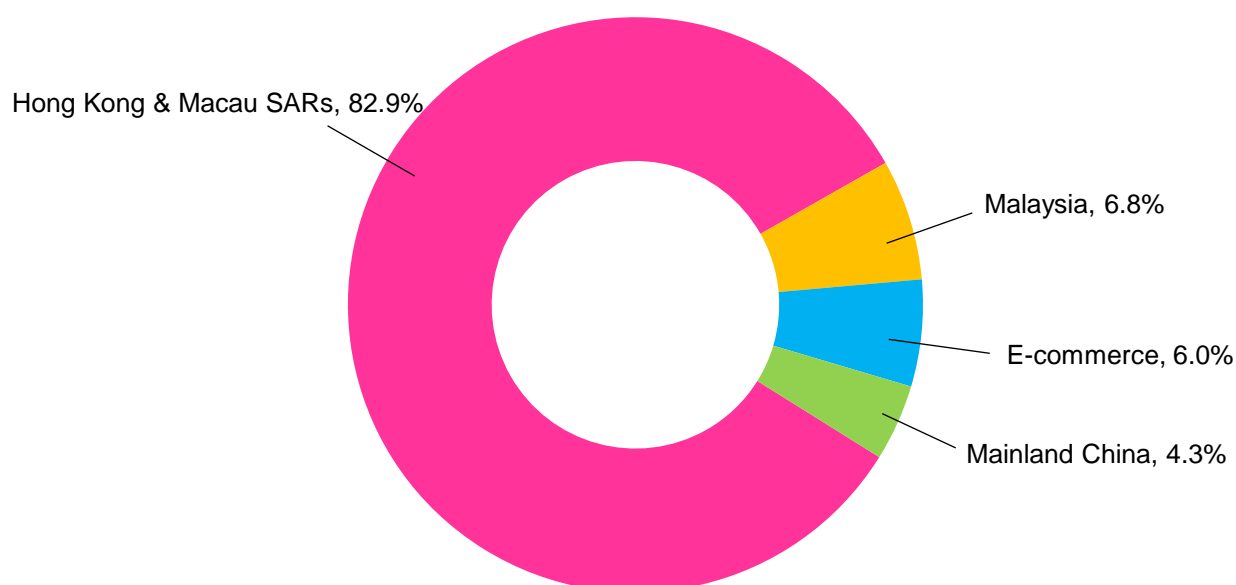
### Retail Sales Performance in Hong Kong SAR and PRC Tourist Arrivals in Hong Kong (year-on-year change)



Source: Hong Kong Census and Statistics Department & Hong Kong Tourism Board

## Retail and Wholesale Business

### FY19/20 Turnover Mix by Market



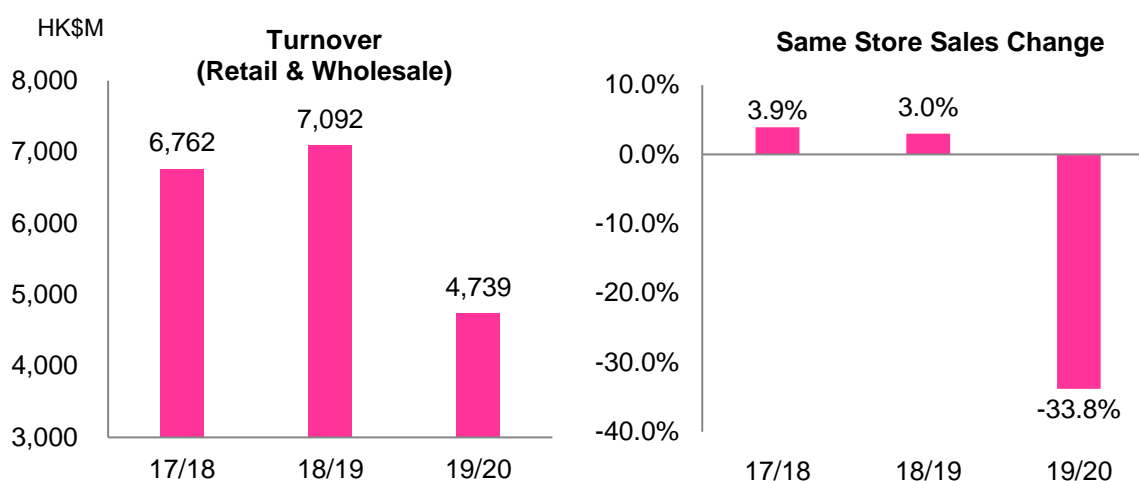
### Store Network by Market

Market (Continuing operations)	As of 31 Mar 2019	Opened*	Closed*	As of 31 Mar 2020
Hong Kong & Macau SARs	118	11	17	112
Mainland China	54	6	16	44
Malaysia	81	4	6	79
<b>Total</b>	<b>253</b>	<b>21</b>	<b>39</b>	<b>235</b>

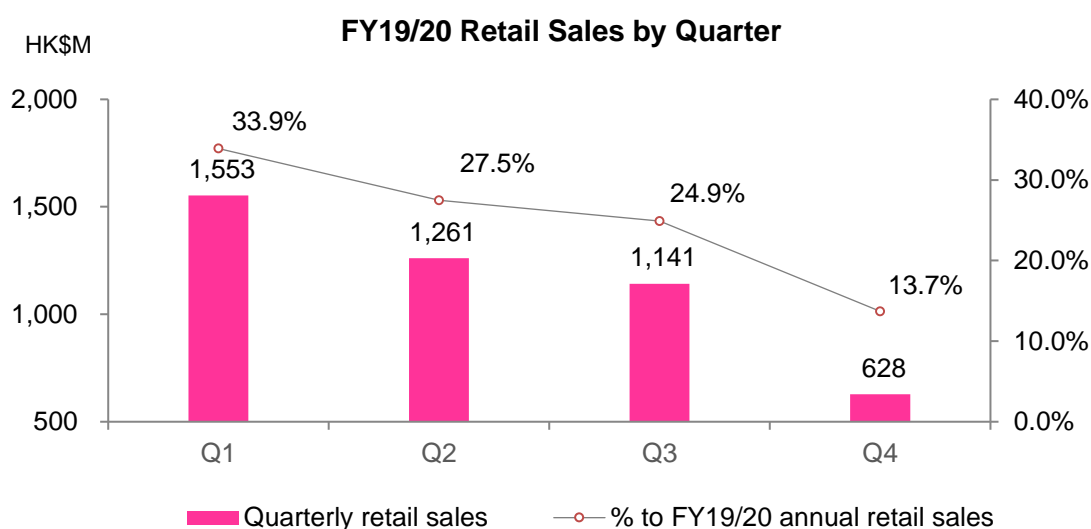
*\*Note:*

- The number of stores opened and closed within 12 months between 1 April 2019 and 31 March 2020.
- As at 31 March 2019, there were 21 retail stores in Singapore market in total. Since the Group announced the closure of Singapore business in December 2019, all retail stores have been closed before 31 March 2020.

## Hong Kong and Macau SARs



As a result of the fallout from the continuing Sino-US trade war and social issues, the retail industry of Hong Kong SAR registered a significant decline in sales from mid 2019 onwards. According to statistics released by the Census and Statistics Department, the total retail sales value decreased by 11.1% on a year-on-year basis in the full-year 2019, recording the biggest annual fall since 1999. Retail sales in Hong Kong SAR were severely weakened from July onwards when a 41% decline in Mainland tourists was recorded in Hong Kong SAR due to the outbreak of social issues in the second half of 2019. The individual visit scheme for mainland Chinese visitors to Hong Kong and Macau SARs was suspended in early 2020 to impede the spread of the COVID-19 virus, which made it an even more challenging year for the retail sector in Hong Kong and Macau SARs.

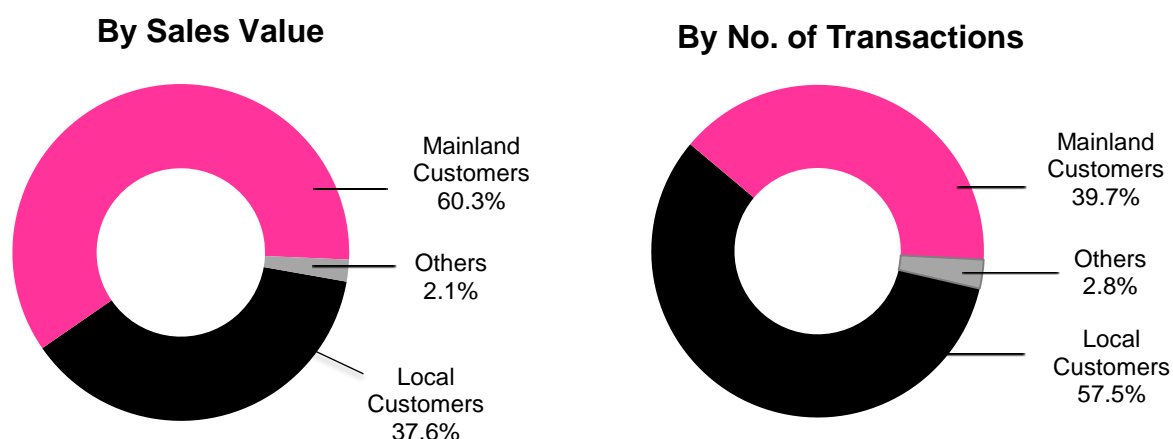


Note: The above data includes the impact of deferred income adjustment on customer loyalty programme

Retail sales in Hong Kong SAR reduced by 24.8% in the first half of FY2019/20, while 3.6% growth was reported in Macau SAR, which benefitted from the shifted consumption power from Hong Kong SAR. For the combined market in Hong Kong and Macau SARs, overall retail sales in the interim period declined by 19.4%. Although the sales decline was slightly narrowed in December 2019 and early January 2020 due to pent-up demand from locals in Hong Kong SAR, the COVID-19 outbreak from late January 2020 onwards had a significant impact on tourist arrivals and local consumption in the city. Macau SAR was not spared the adverse impact of the outbreak. Mainland tourist arrivals to Hong Kong SAR dropped substantially by 97.8% in February, followed by 99.3% in March.

Macau SAR recorded a similar level of decline in Mainland tourists due to stringent border controls to combat the outbreak.

## Customer Mix (FY19/20 Retail Sales)



The year-on-year decline in Mainland tourist sales was 80.2% in the fourth quarter, reaching an extraordinary 97.4% in February for Hong Kong and Macau SARs combined. Customer mix by sales value from Mainland tourists dropped to 38.0% in the fourth quarter, compared to 71.0% in the same period last year. Local consumption declined less by comparison, decreasing by 16.6% in the fourth quarter thanks to our quick shift of product sourcing towards personal protection equipment.

On a more positive note, we strengthened our online channels to capture some of our lost sales. The WeChat mini-programme was launched in October 2019, and we continued to interact with and conduct product sales to Mainland tourists who visited retail shops in Hong Kong and Macau SARs. In addition, the Group launched the online sale of masks in early March to avoid the inconvenience of customers queuing outside stores. (For details, please read the E-commerce section)

Overall, retail sales dropped by 34.6% for the whole financial year in Hong Kong and Macau SARs, while same-store-sales declined by 33.8%. The overall number of transactions decreased by 26.3%, with the number of Mainland tourists and locals declining by 45.3% and 2.2% respectively. The sales mix between Mainland tourists and locals significantly changed, with sales value from Mainland tourists decreasing to 60.3%, from 71.4% in the last financial year.

In Hong Kong and Macau SARs, the Group incurred a loss amounting to HK\$413.6 million in this financial year, compared to a profit of HK\$512.2 million recorded in the same period last year. Excluding the provision for impairment of HK\$265.3 million made in accordance with the HKAS 36 that applies to retail store assets (including right-of-use assets and property, plant and equipment), the Group's loss was HK\$148.2 million in this market.

### **Significant Rental Reduction**

Our retail shops located in the tourist areas have always contributed more revenue to our operations in Hong Kong and Macau SARs. However, these stores have lost an increasingly high proportion of traffic and have incurred losses as the decline in tourist arrivals became more acute over the past 12 months. The decline in sales of 80% to 90% in recent months has meant that significant losses became inevitable. We have had no choice but to close poor performing stores in tourist areas in order to reduce our costs and arrive at a leaner cost structure.

Our closure decision has been made based on rental negotiations with the landlords, business demand in the districts and market recovery to achieve the breakeven point of retail shops in principle. As of 14 June 2020, the Group had already closed 12 stores since 1 October 2019, with the majority of these located in the tourist districts of Tsim Sha Tsui, Causeway Bay and Mongkok. As we move into FY2020/21, we strive for significant rental reduction in the renewal negotiations or closures of shops with unsatisfactory rental reduction in order to reduce the rental expenses of the Group as more leases will expire in this financial year.

Meanwhile, we will continue to negotiate with landlords for temporary rental relief for shops with leases not yet expiring in the near term. In regard to upcoming new leases, we are exploring the possibility of changing to turnover rent with landlords instead of having a fixed rental expense, which is the arrangement adopted for almost all of our current leases in Hong Kong and Macau SARs. This would help merchants such as Sa Sa and our landlords to align interests during market fluctuations. However, some landlords are willing to offer this arrangement only on a temporary basis.

### **Stringent Cost and Inventory Management**

Following the first round of cost saving measures in the third quarter FY2019/20, all departments conducted another all-round cost reduction exercise beginning in early February to minimise the Group's costs, particularly during this critical time. Wherever possible, costs are targeted to synchronise with decreased business volume. This involves both short-term measures such as seeking fee reductions from business partners as well as actions to streamline operations and costs for medium and long-term benefits. Such measures have unfortunately resulted in job losses.

Due to weak business demand, the Group implemented temporary store closures of up to 21 stores in Hong Kong and Macau SARs from January to March 2020. Most stores were scheduled for re-opening in March and early April. These temporary shop closures helped save manpower and reduce fixed shop expenses. For the forced closures at the border stations in Hong Kong SAR and the casinos in Macau SAR, the rental for the closed period was covered by the landlords.

Staff costs were reduced through no pay leave arrangements, a temporary salary reduction scheme and job cuts, while members of staff have also been encouraged to clear their annual leave. Such optimised staff organisation, streamlined operating procedures and reduced cost structures will pave the way for Sa Sa to return to profitability at a faster pace and to develop a more solid foundation for the Group to thrive going forward.

Our inventory reduction efforts through clearance sales and wholesale measures have reduced the Group's inventory by HK\$407.8 million to HK\$1,005.9 million, while inventory turnover days decreased from 104 days as at the end of the last financial year to 101 days as of 31 March 2020. The Group's cash and bank balance was reduced to HK\$641.5 million as of 31 March 2020. This reduction was mainly attributable to a final cash dividend payment of HK\$265.8 million for the previous financial year, accounts payable decreasing by HK\$252.3 million as more inventory was financed by the Group, and losses incurred during the financial year. Despite the reduced level of cash, the reserves are still adequate for our current operating needs.

### **Adjusting Our Product Strategy to Retain Customers**

The Group actively improved our offerings in the premium category at the beginning of the financial year, taking into account changing customer preferences away from Korean trendy products towards premium products. The sales mix of premium brands of parallel imports increased significantly over the previous financial year. Many of Sa Sa's own brand products are designed to be linked to premium products. The own brand mix increased slightly in the financial year. However, due to the decrease of sales mix from sole agent products, the house brand mix dropped to 35.1% from 36.5% in the same period last year. Moreover, the increased aggressive promotions and wholesale activities in the second half resulted in a decline in gross profit margin from 40.4% to 35.4%.

From February 2020, we introduced personal protection products from global sources to counter COVID-19 including surgical masks, hand sanitisers and wet wipes, with the aim of serving our customers' needs to combat the pandemic. Hand sanitisers under our own labels were also launched in March to satisfy the huge customer demand.



## Information Technology and Digitalisation

Embracing the usage of information technology and digitalisation is the foundation of the Group's future success. The aim is to automate workflow and streamline operations, resulting in lower costs and higher operating efficiency. In addition to speeding up our transition towards digital workflow, the Group has combined the IT function of our e-commerce team with our Group IT department to further the integration of our online and offline operations ("O2O") and to save costs. We are making progress with the launch of the new Point of Sales ("POS") system, which is expected to launch in FY2020/21. The features of the new POS system will be further elaborated in the Outlook section.

### Mainland China

During the financial year, total turnover for the Group's Mainland China operations decreased by 12.1% in local currency to HK243.0 million, while same store sales in local currency terms rose by 5.2%. The Group operated 44 stores as of 31 March 2020, compared to 54 stores in the same period last year.

Following the satisfactory momentum achieved in the first half of the year, the Group's same-store-sales rose by 18.5% and retail sales also grew by 4.5% in the third quarter despite the fall in store count. This was due to an increase in basket size resulting from continuous improvement in product mix, enhanced operational management and effective promotions.

As we entered the fourth quarter, the temporary closure of most retail shops from late January to mid February and the reduction in foot traffic after re-opening due to the COVID-19 outbreak dragged sales growth into negative territory in the fourth quarter and impacted the full year sales performance. 90% of shops have re-opened since mid March 2020 and sales are gradually improving, with the same store sales in May climbing up to a similar level in the same period last year. Although transaction volume was severely impacted, basket size continued to grow in the fourth quarter by 9.3% in local currency.

During the financial year, our expanded product range was extended to more trendy products, which are effective in attracting foot traffic to our retail stores. Product items for private labels were also increased to satisfy customers' diverse preferences, resulting in a 3.3 percentage points improvement in the house brand mix. This improvement, however, could not compensate fully the loss in gross profit margin in each category. The gross profit margin declined from 53.7% to 48.7% in local currency. Although the first half loss for the Mainland China business was narrowed by 15.0%, the loss for this business during the full year was HK\$38.0 million, compared to HK\$16.1 million in the last year. This was mainly due to the deleveraging effect in the second half, which resulted from a 23.2% decline in second half sales.

To counter these trends, more online elements were introduced to boost sales, customer interaction and operational efficiency during the financial year. Following the launch of the WeChat mini-programme in August 2019 (for retail customers in Mainland China), we launched an aggressive promotion campaign on WeChat in February 2020 as many physical stores were closed due to the COVID-19 outbreak. Against the backdrop of extremely low traffic in the shopping malls, the sales promotions on WeChat proved effective in almost halving the sales decline in those critical weeks. More advanced features will be introduced following encouraging sales results and positive feedbacks from customers. The Group also introduced mobile technology to facilitate staff management in Mainland China, which is proving particularly effective in improving our management efficiency as our retail stores are scattered throughout different parts of the country. Aided by relevant staff policies, staff productivity significantly improved in the financial year with better sales per staff and a lower staff turnover rate.

## E-commerce

Turnover of the Group's e-commerce business declined by 12.0% year-on-year to HK\$344.7 million. Sales generated from third-party platforms grew by 4.6% year-on-year, despite a significant decline of sales at Kaola due to a change of major shareholders and management. Sales contribution of third-party platforms increased to 70% in the financial year as TMall and JD.com reported sales growth, while HKTVmall and Shopee were newly launched during the period.

Around 90% of the customers of our e-commerce business came from Mainland China in this financial year. However, our own website suffered a significant sales decline due to the relentless shift of consumer traffic towards third party platforms. Our investment in a major e-commerce engine therefore failed to gain traction and was written off during the year. We have closed our own website and mobile app for the Mainland China market and directed customers to our WeChat mini-programme (for Mainland customers who visited retail shops in Hong Kong and Macau SARs) piloted in October 2019. For local customers in Hong Kong SAR, we have retained our own website and mobile app and we will continue to look for enhancements to their shopping experience.

The WeChat mini-programme is a natural online extension of the personal services traditionally provided by our beauty consultants in the physical stores. It offers the advantages of multiple touch point consultant services and sales irrespective of the location of customers. It also provides compensation for lost income for our frontline staff who are otherwise suffering badly from the lack of footstep traffic in our physical stores. The sales mix, gross margin and basket sizes are more satisfactory as compared to pure online sales due to the personal service element.

The loss of the e-commerce segment widened to HK\$39.7 million, including a one-off write-off of the aforementioned e-commerce engine of HK\$10.9 million, of which HK\$6.9 million and HK\$4.0 million included in write-off of property, plant and equipment and telecommunication expenses respectively. Service charges for existing platforms increased by 35.2% year-on-year, due to higher service rates charged by some third-party platforms and more promotional campaigns. Our manpower and infrastructure costs were substantially cut towards the end of the financial year as we strategically terminated the operation of Sa Sa's shopping site in Mainland China on 1 April 2020. The savings will be reflected more fully in the next financial year.

The Group is increasingly coordinating our online and offline operations to serve customers due to the change in consumer behaviour towards online purchases, all of which has been hastened by the COVID-19 pandemic. In an initiative specifically aimed at serving local consumers of Hong Kong SAR, the Group began partnering with a service provider to provide support for an online queuing system for the sale of surgical masks in early March 2020. This has proved to be very well received and has the added advantage of significantly increasing new member recruitment.

## Malaysia

Turnover of the Group in Malaysia was HK\$390.2 million, an increase of 3.6% on a year-on-year basis in local currency terms. Same store sales rose slightly by 0.9% in local currency terms. The Group operated 79 stores as of 31 March 2020, compared to 81 stores last year.

In the first half, the Group's turnover grew by 8.2% as we opened four and 10 new stores in the first half and previous financial year respectively. This momentum continued until January 2020 with double-digit sales growth. For the 10 months ended January 2020, we increased our profit for this market by a high single digit year-on-year. However, beginning in February 2020, the COVID-19 outbreak affected local consumption sentiment. Mandatory temporary shop closures were implemented under the Movement Control Order in mid March, which seriously disrupted our sales performance in the fourth quarter, trimming overall annual sales growth to 3.6%. Malaysia recorded a reduced profit of HK\$16.2 million for the whole financial year, a decline of 23.7% compared to last financial year. With the gradual re-opening of retail shops in May, local sales performance has already begun to recover and recorded same store sales growth on a year-on-year basis in May. However, since all retail shops were not yet re-opened, the overall retail sales still recorded a negative growth as a result.

In view of the uncertainty caused by COVID-19, the Group carried out a series of cost saving measures. Ongoing negotiations with landlords were conducted to obtain rental relief. Payment reductions were requested from other business partners and an internal capital allowance review was conducted for tax savings. Since the outbreak, the Group has introduced personal protection products to satisfy customers' urgent needs. Online home delivery was launched in March, together with more extended use of social media channels, to bolster sales activities. Inventory balance is under close monitoring to ensure sufficient product supply and yet avoid over-stocking issues.

During the financial year, the Group strategically shifted focus to skincare, fragrance and healthcare products to cater for customer preferences. Before the Movement Control Order, sales generated from these three product categories increased by 10% as compared to the previous financial year. The Group also adjusted our brand portfolio and cut non-performing SKUs to enhance our competitiveness in the market. The Group's sales contribution from local Malays continued to increase as we make further progress in the expansion of our Malay customer base. The engagement of influencers in our promotional campaigns and our partnerships with brands and the community have contributed to the Group's penetration into the local Malay market.

### Singapore

The Group's performance in Singapore has been less than satisfactory for many years, and we have recorded losses for seven consecutive years. During the financial year, consumer sentiment remained low for the Singapore market. From February to December 2019, the Singapore Retail Sales Index recorded 11 months of negative growth, resulting in a 2.8% decline for the whole of 2019.

In December 2019, after careful consideration, the Group decided to close all retail stores in Singapore to concentrate resources on our markets in Hong Kong and Macau SARs, Mainland China and Malaysia, as well as our e-commerce business. Clearance sales were introduced to reduce inventory level, which stimulated sales from December 2019 to the fourth quarter. As a result, retail sales and same store sales recorded 16.5% and 22.6% growth in local currency terms respectively on a year-on-year basis.

By 31 March 2020, the Group had closed all 22 stores in the Singapore market. A loss of HK\$40.8 million was incurred for the financial year. The management team that managed both the Singapore and Malaysia markets will now concentrate resources to develop the Malaysia market, which has higher potential and profitability.

## **OUTLOOK AND STRATEGIES**

### **Measures to Navigate the Storm**

The combination of a negative economic outlook and Sino-US trade tensions followed by the global outbreak of COVID-19 has deeply impacted the retail sector in Hong Kong and Macau SARs, Mainland China and even Malaysia. The impact was particularly severe for Hong Kong SAR as the city's tourist arrivals, especially from Mainland China, plummeted after social issues began to erupt in July 2019 onwards. The near-term economic outlook for Hong Kong SAR is extremely challenging, with the growing probability of another year of economic contraction. The Hong Kong Retail Management Association ("HKRMA") forecasts the total retail sales value for the first half of 2020 will decrease by mid double digits, ranging from -30% to -50%.

Currently, the top priority for Sa Sa is to manage our costs and working capital to navigate and survive the storm and to adjust our business strategy to ride on the much awaited wave of gradual recovery. In addition to closely monitoring our inventory and cash positions, we aim to reduce our inventory by implementing aggressive clearance activities, as well as implementing stringent controls on product order placement to ensure that funds will only be allocated to strategically focused products. We will reduce our rental expenses in Hong Kong SAR, explore a new rental payment model and speed up our digitalisation and workflow automation. While striving to retain

stores and staff as much as we can, we aim to realise a leaner cost structure and enhance operational efficiency in order to achieve long term healthy development for the Group.

For Hong Kong SAR, the recovery is not expected to be as fast as in other markets, such as Macau SAR, Mainland China and Malaysia. The social issues that emerged in June 2019 will require more time for tourist arrivals to recover. However, we will strive to diversify our customer base by focusing more on serving local consumers in our physical stores. We aim to thereby strengthen our product competitiveness by adapting our product strategy in a timely manner to the changing needs of local customers. In addition, by adopting a more diversified product offering, we aim to improve the loyalty of existing customers, attract new customers and build stable customer segments. In addition to customer and product diversification in Hong Kong SAR, we aim to grow our revenue streams from other geographies, namely Macau SAR, Mainland China and Malaysia. These markets represent good growth potential for the Group and will further diversify our revenue and profit base while mitigating market concentration risks.

In terms of sales channels, we see an acute need to accelerate our development in e-commerce and online elements to better serve our customers in this digital era. In addition, leveraging the latest promotional strategy of live broadcasting for online shopping, we partnered with WeChat for a live broadcasting in Mainland China in May. We also teamed up with shopping platform and vendor in Hong Kong SAR to attract local customers through live broadcasting. In the future, we will invest more resources in information technology, digitalisation and e-commerce to capture sales from the growing e-commerce sector, as well as to increase automation in our retail network in a concerted drive towards the O2O operation model.

#### Hong Kong & Macau SARs

The coming year is expected to be extremely difficult. Despite the HKSAR government proposed a series of relief measures to support the retail industry and protect employment in the near term, the Group still needs to take very active measures to cope with the anticipated challenges. The Group is currently lowering rental expenses, streamlining work procedures and optimising the cost structure (see Business Review Section) to significantly reduce the breakeven point and to achieve a faster turnaround when sales recovers.

Since the market dynamic changes rapidly and our lease tenors run on different timelines, the adjustment of the shop network depends on market circumstances when the leases expire, business opportunities in the various districts and the rental terms offered by landlords. The Group will strive to seek substantial rental reduction for the currently unprofitable stores, with the basic principle of at least achieving breakeven point at store level, while retaining stores and jobs for staff as much as possible. In addition, the Group will continue to seek temporary rental relief from landlords before leases expire and explore the possibility of changing to a new model of charging turnover rents.

Macau SAR experienced improving same store sales growth from August to December 2019, just before the COVID-19 outbreak. We believe the tourism industry will recover swiftly soon after the pandemic.

Product offerings remain the key to sustained growth. As customer preferences for products and services continue to evolve, a product offering that adapts to fast changes in customer preferences will ultimately determine our competitiveness. We will increasingly engage big data to determine our product direction and improve inventory management.

With relentless dedication to customer experience, we will improve product display to attract foot traffic and cater to the younger generation and those who prefer self-service, complementing our professional beauty consultants in the retail stores.

The enhancement of customer experience and engagement via information technology and digitalisation will be our core priority to reach the ultimate goal of serving customers online-and-offline in a seamless manner. Measures include the launch of more online elements to cater to the growing number of online shopping consumers, which reflects a notable change of shopping behaviour due to the social distancing measures imposed by the COVID-19 outbreak.

Meanwhile, a new POS system is expected to launch in second quarter FY2020/21. The system will introduce a higher degree of automation, thereby lowering the operation cost and enhancing the shopping experience for our customers. As we develop further our New Retail strategy, the new POS system will enhance both the physical store and online shopping experience.

Our retail stores and e-commerce business reported 18 million and almost one million transactions respectively in this financial year. Such transaction data is a valuable asset for Sa Sa to grow on-going revenue and customer loyalty by leveraging the enhanced use of digital marketing and targeting tools. In the long term, we aim to connect the customer touch points of three business units, namely physical stores in Hong Kong and Macau SARs and Mainland China as well as our e-commerce business, through a centralised customer database, thus continuously serving occasional Mainland customers who have purchased in our stores in Hong Kong and Macau SARs. The aim is to extend this service to both Mainland China's bricks-and-mortar stores and online platforms, converting occasional buyers into long-term loyal customers and creating more sales from the Mainland China market and online channels. The database is also essential for us to provide a seamless online-to-offline shopping experience to customers.

### Mainland China

The market outlook for Mainland China is for slower growth than previously expected due to COVID-19. Correspondingly, our store expansion plan slowed in the first half of 2020. With the outbreak coming under more control from April onwards, we will consolidate our resources and resume our development plan step by step as we move into the new financial year. A two-pronged approach will be adopted to focus our resources on developing strategic regions and core cities for enhanced management and operational efficiency.

Currently, more than 40% of the stores in our PRC portfolio are in Southern China. We will focus on improving their productivity next year to take advantage of our stronger reputation in the Greater Bay Area, thereby laying the foundation for adding more stores in the region. The performance of our stores has been improving but some of them still require attention to attain optimal sales and profitability.

The Group will focus on only a few key cities in each region in the near future, which will become the stepping stones to our ultimate goal of growing our business network, including online and offline segments, right across China in the long term. In the west of the country, Chengdu, where we currently have 3 shops, is identified as a key city for expansion in the second half. More shops will be opened around its neighbouring city, Chongqing, after successful establishment of our business in Chengdu. As for Eastern China, after years of development in the region, we will only focus strategically on a few cities, namely Shanghai, Hangzhou and Ningbo. In Northern China, our development plans will focus on Beijing, which is planned to achieve organic growth this year.

To realise the above long term expansion blueprint, the Group will localise our management team and use more data driven analysis to optimise our management efficiency. We will invest more in developing marketing and branding marketing expertise in Mainland China, which will enhance the brand reputation of Sa Sa and our private labels in the country. We will also accelerate our progress in talent training and reserves. On the product front, our focus on introducing new and trendy products since early 2019 has proven successful in attracting customers and improving same-store-sales growth, enabling us to deliver double-digit growth before the COVID-19 outbreak. We will continue this momentum by bringing new products to our shelves. As for our own brand products, we will strive to maintain the current sales mix while raising the gross profit margin through brand building initiatives in order to enhance the overall gross profit margin.

Looking at the future of Sa Sa in Mainland China, which is one of the most advanced e-commerce countries in the world, we see a growing need to speed up the development of our O2O strategy. The WeChat mini-programme, which was piloted in August 2019, generated notable sales from customers who did not reside near to our shops, thereby helping us to fill the gaps in our retail network and to generate sales from their repeat purchases. We will explore more online solutions customised for PRC consumers, since they will enable us to build more of our own product brands and facilitate O2O development in the future.

## E-commerce

The COVID-19 outbreak has made the general public all over the world avoid going out. Instead, many of them purchase daily necessities via e-commerce platforms. This evolving practice will gradually but inevitably change consumer shopping behaviour on a global scale.

E-commerce is fast becoming more important to Sa Sa's future development plans. More emphasis is being placed on third-party platforms instead of own channels, and on catering to the shopping behaviour of Mainland consumers, which represent around 90% of our e-commerce sales. In line with this, the Group will continue to explore more opportunities on current and potential third-party platforms. Geographically, since 2019 we have started to expand our reach beyond Mainland China, entering Singapore and Malaysia markets by partnering with Shopee. More countries in Southeast Asia are planning to enter through Shopee in the coming year.

Merchants are a growing presence on third-party platforms, resulting in more competition and price pressure, and therefore house brands have become increasingly important. We will shift our focus towards building brands for our house brands (own brands and exclusively distributed brands) with the aim of boosting sales in both online and offline shops and contributing to the long-term development and competitiveness of the Group.

Social commerce has been growing rapidly in recent years. According to the "China's Social Commerce" white paper, social retail penetration in Mainland China has reached a high level of 71%. According to the "Analysis of China's E-commerce Industry Development Status and Prospects 2019", the scale of social commerce sales is expected to reach over 30% of total e-commerce retail sales in 2020. In the long run, online and offline continuous integration will inevitably narrow the gap between online and offline retail stores, providing customers with professional services and quality products as a result. The Group has been piloting this shift in direction since late last year, thereby enabling us to leverage the unique strength of our team of well-trained professional beauty consultants.

In response to the new trend of consumption, we have devoted greater efforts to social commerce. Our WeChat mini-programme is a proven successful online platform to connect our frontline beauty consultants with customers, delivering a higher gross profit margin with more product mix from house brands as compared to other online channels. The positive impact was seen very clearly when tourist arrivals fell substantially in Hong Kong SAR. We will explore this development more in the future.

Since late 2019, less funding was allocated to Sa Sa's own online shopping channels, including the website and mobile app. From 1 April 2020, we closed our shopping site and mobile app for Mainland Chinese residents, who have been directed to the WeChat mini-programme for a better interactive service experience. In the short term, the positive benefits of these initiatives has yet to be reflected in the sales performance. However, the Group strongly believes that the collaborative efforts from different departments, including frontline beauty consultants, for supporting the Group's e-commerce business will drive sales of the WeChat mini-programme and Sa Sa's other O2O developments in the long run.

The COVID-19 outbreak has also accelerated the development of online shopping outside of Mainland China. The Group's own websites and mobile app in Hong Kong SAR and overseas were used to sell surgical masks during this time, an initiative that received positive feedback from customers. We will invest resources to enhance our e-commerce capabilities, drive online business development, and provide a more comprehensive shopping experience to our consumers in Hong Kong SAR. In Hong Kong SAR, the Group has been actively exploring multiple new social commerce and other online sales channels since March this year. Leveraging the technologies and sales features of our vendors, we plan to launch partnerships in the first half of the year, with the introduction of personalized service elements enabling interactions between Sa Sa beauty consultants and customers in different channels. As such, the Group will effectively broaden its customer base to different target consumer groups, while playing a complementary role with Sa Sa's own shopping website.

## Malaysia

After the complete closure of all the Group's retail stores in Singapore by March 2020, our Malaysia management team will focus more on this profitable market.

Malaysia has experienced a challenging time with the country undergoing significant political upheaval, followed by the COVID-19 outbreak. The unexpected change of the ruling party on 1 March 2020 is expected to impact existing government policies. This political turmoil has led to an uncertain future for local consumer spending. Against the backdrop of a gloomy outlook for retail sales projected by the Malaysian government, a stimulus package has been launched for various industries including aviation, retailing and tourism to cushion the impact.

Continuous efforts will be made to negotiate with landlords and business partners for cost reduction, as well as to exercise stringent controls on cost and inventory to remain at a healthy cash and stock level. We will continue to boost online sales and use O2O to recover sales due to temporary shop closures and to reach the untapped audience in Malaysia after the pandemic. Mobile apps for click-and-collect were launched by February 2020 and for direct delivery service thereafter. We aim to optimise the in-store experience with better services and engagement, both offline and online.

Looking forward, the Group remains prudent in terms of store opening, with an emphasis on improving the same store sales performance of our store network. Frontline staff productivity will be enhanced in order to achieve organic growth. Store visual display will also be upgraded to draw foot traffic. We will adjust the product sourcing strategy to match with customer preferences and market trends. Skincare products are traditionally more attractive to domestic Chinese customers. These will be one of our key product focuses next year as the sales of make-up products and fragrances may slow due to COVID-19. Health-related and personal protection products are another two product categories on which we will focus.

Due to the above changes in the product mix under the influence of COVID-19, we will revisit the influencer engagement ratio for Malay and Chinese to attract more Chinese customers next year, although we will still grow our Malay segment in the long run. In addition, we plan to work together with brand principals to organise more skincare workshops to attract domestic Chinese customers in the coming year.

### **FY20/21 Q1 operational sales data (continuing operations)**

For the first quarter from 1 April to 14 June 2020, the Group's retail and wholesale turnover decreased by 69.5% compared to the same period last year. The year-on-year changes of retail sales and same store sales are shown in the table below.

<i>In local currencies</i>	YoY Change (%)	
	Retail Sales	Same Store Sales
HK & Macau SARs	-75.9%	-72.6%
Mainland China	-15.3%	-1.2%
Malaysia	-48.9%	-5.6%
E-commerce	-22.7%	
Group turnover	-69.5%	

Remarks: The above data includes the impact of Deferred Income Adjustment for VIP bonus points

## Human Resources

As at 31 March 2020, the Group had around 3,700 employees. The Group's staff costs for the year under review were HK\$1,027.3 million. Details on our human resources programs, training and development will be set out in the environment, social and governance report and the enterprise risk management report sections of the annual report for the year ended 31 March 2020.

## Financial Review

### Capital Resources and Liquidity

As at 31 March 2020, the Group's total equity funds amounted to HK\$1,664.3 million including reserves of HK\$1,354.0 million. The Group continued to maintain a strong financial position with cash and bank balances of HK\$641.5 million. The Group's working capital amounted to HK\$927.9 million. Net cash generated from operating activities for the year was HK\$648.6 million compared with last year of HK\$346.2 million. The increase is due to the adoption of HKFRS16, "Leases" under which the payment of lease liabilities (including interest) of HK\$774.5 million are classified as financing activities rather than as operating activities as in last year. Based on the Group's steady cash inflow from operations, coupled with sufficient cash and bank balances and readily available banking facilities and considering the potential impact of COVID-19 outbreak on the Group's operation, the Group has adequate liquidity and financial resources to meet the working capital requirements in the next financial year.

During the year, the majority of the Group's cash and bank balances were in Hong Kong dollar, Malaysian Ringgit, Singapore dollar, US dollar, Renminbi, and Swiss Franc and deposited in reputable financial institutions with maturity dates falling within a year. This is in line with the Group's treasury policy to maintain liquidity of its funds and continue to contribute a relatively stable yield to the Group.

### Financial Position

Total funds employed (representing total equity) as at 31 March 2020 were HK\$1,664.3 million, representing a 33.1% decrease over the funds employed of HK\$2,486.6 million as at 31 March 2019.

The gearing ratio, defined as the ratio of total borrowings to total equity, was zero as at 31 March 2020 and 2019.

### Treasury Policies

It is the Group's treasury management policy not to engage in any highly leveraged or speculative derivative products. In this respect, the Group continued to adopt a conservative approach to financial risk management with no borrowings during the year. Most of the assets, receipts and payments of the Group are denominated either in Hong Kong dollar, US dollar, Euro or Renminbi. Based on purchase orders placed, the Group enters into forward foreign exchange contracts with reputable financial institutions to hedge against foreign exchange exposure arising from non-Hong Kong dollar or non-US dollar denominated purchases. These hedging policies are regularly reviewed by the Group.

### Charge on Group Assets

As at 31 March 2020, no asset of the Group was under charge to any financial institution.



## **Contingent Liabilities**

The Group had no significant contingent liability as at 31 March 2020.

## **Capital Commitments**

As at 31 March 2020, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK\$14.6 million.

## **Conclusion**

The COVID-19 outbreak has become a global issue, which is impacting all markets where Sa Sa operates. Although the governments of various countries have launched a series of relief measures to support the industry, the retail market is expected to remain challenging in the near term.

The Group's top priority is to retain our strength by continuously and closely monitoring costs, inventory and cash while streamlining work processes, so as to improve our operational and cost efficiencies as well as profitability. We will also safeguard the interests and livelihood of our employees, and prepare ourselves to benefit as soon as the consumer market revives.

Capitalising on our physical store network, professional beauty consultant team, maturing nationwide logistics capabilities as well as our e-commerce touch points, we are confident of moving the Sa Sa brand forward in the New Retail era, and of creating a seamless O2O shopping experience for our customers.

Although the road to recovery is full of challenges, we believe 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. We believe that Sa Sa's agility and responsiveness will remain its core competency, leading the Group through this difficult time and laying a solid foundation for the development of the New Retail model in the future.

## **FINAL DIVIDEND**

The Board has not recommended the payment of a final dividend for the year ended 31 March 2020 (2019: 9.0 HK cents per share).

## **REVIEW OF ANNUAL RESULTS**

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and the annual results for the year ended 31 March 2020. The figures in respect of the preliminary announcement of the Group's results for the year ended 31 March 2020 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

## **BUY-BACK, SALE OR REDEMPTION OF SHARES**

During the year ended 31 March 2020, there was no buy-back, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

## **CORPORATE GOVERNANCE**

The Company believes that its business can only be sustainable and beautiful to its stakeholders in the broadest sense when guided by a strong corporate governance culture. The Company is committed to maintaining high standards of corporate governance and strives to integrate the principles of good corporate governance practices into our operations, making corporate governance part of our culture.

### **Compliance with the Corporate Governance Code (“CG Code”)**

Throughout the year ended 31 March 2020 and up to the date of this announcement, we have complied with all but two of the code provisions under the CG Code.

#### **Code Provision A.2.1**

The roles of chairman and chief executive should be separate and should not be performed by the same individual under code provision A.2.1 of the CG Code. We have deviated from the code in that Dr KWOK Siu Ming Simon is both the chairman and CEO of the Company. The division of responsibilities between the two roles are, however, clearly established and set out in writing in the respective terms of reference for the chairman and the chief executive officer. Dr Kwok, being one of the founders of the Group, has superior knowledge of our business and is a veteran of the retail industry. The Board is therefore of the view that vesting the roles of chairman and chief executive officer in the same person facilitates the execution of the Group’s business strategies and maximises the effectiveness of our operations. We will, nevertheless, periodically review the Board’s structure going forward in light of the evolving needs of the Group and consider segregation of the two roles if and when appropriate.

#### **Code Provision E.1.2**

This code provides that the chairman of the Board should attend the annual general meeting of the Company. In the year ended 31 March 2020, we have deviated from the code as our board chairman did not attend the annual general meeting on 2 September 2019 because he was unwell on that day. The vice-chairman of the board was chosen by the directors present to act as chairman of the meeting and it proceeded smoothly with the attendance of the external auditor and all board members except the board chairman.

### **Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”)**

The Company has adopted its own written policy regarding securities transactions on terms no less exacting than the standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (Model Code). The Model Code is extended to certain “relevant employees” who, because of their office or employment, is likely to possess inside information in relation to the Company or its securities. The Company has received confirmation from all directors and relevant employees that they have complied with the policy throughout the period under review.

The annual report of the Company for the year ended 31 March 2020 containing more information on its corporate governance practices will be dispatched to the shareholders on or around Monday, 20 July 2020, and published on the respective websites of Hong Kong Exchanges and Clearing Limited and the Company in due course.

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' eligibility to attend and vote at the forthcoming AGM to be held on Thursday, 27 August 2020, the Register of Members of the Company will be closed in accordance with the following timetable:

For determining shareholders' eligibility to attend and vote at the AGM:

- Latest time to lodge transfer documents for registration 4:30 p.m. on Friday, 21 August 2020
- Closure of Register of Members Monday, 24 August 2020 to Thursday, 27 August 2020 (both dates inclusive)
- Record date Thursday, 27 August 2020

During the above closure period, no transfer of shares will be registered. To be eligible to attend and vote at the AGM, all valid documents for the transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than the time set out above.

On behalf of the board of directors, I would like to extend my thanks and appreciation to all our staff for their hard work and commitment and to all of our customers, suppliers and shareholders for their continued support.

By order of the board of directors  
**Sa Sa International Holdings Limited**  
**KWOK Siu Ming Simon**  
*Chairman and Chief Executive Officer*

Hong Kong, 18 June 2020

As at the date of this announcement, the directors of the Company are:-

### ***Executive Directors***

Dr KWOK Siu Ming Simon, *SBS, JP* (Chairman and Chief Executive Officer)  
Dr KWOK LAW Kwai Chun Eleanor, *BBS, JP* (Vice-chairman)  
Dr LOOK Guy (Chief Financial Officer)  
Ms KWOK Sze Wai Melody

### ***Non-executive Director***

Ms LEE Yun Chun Marie-Christine

### ***Independent non-executive Directors***

Ms KI Man Fung Leonie, *GBS, SBS, JP*  
Mr TAN Wee Seng  
Mr CHAN Hiu Fung Nicholas, *MH*