Sa Sa Announces Annual Results 2019/20

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Expects Lifting of Border Controls Will Drive Sales in HK & Macau SARs
Actively Expands E-commerce Business

(18 June 2020 - HONG KONG) - **Sa Sa International Holdings Limited** (“Sa Sa” or the “Group”, stock code: 0178) announced its final results for the year ended 31 March 2020 (the “financial year” or “the year”).

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. Mainland tourists declined by 41% in the second half of 2019 in Hong Kong SAR due to the outbreak of social issues. In early 2020, the Individual Visit Scheme for Mainland Chinese visitors to Hong Kong and Macau SARs was suspended 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.

During the financial year, the Group’s turnover decreased by 29.9% to HK$5,717.3 million for the continuing operations due to the aforementioned reasons. Loss for the year amounted to HK$515.9 million, compared to a profit of HK$470.8 million 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 applies 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. In view of the challenging and uncertain operational environment, the Board does not propose a final dividend (2019: 9.0 HK cents per share).

<u>Business Review</u>

In **Hong Kong and Macau SARs,** retail sales dropped by 34.6%, while same store sales declined by 33.8% for the year ended 31 March 2020. 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. Local consumption declined less by comparison, mainly due to the Group's quick shift of product sourcing towards personal protection equipment. In addition, the Group has actively strengthened online channels to capture some of the lost sales.

In the face of the challenging operational environment, the Group closed poor performing stores in tourist areas to reduce costs and arrive at a leaner cost structure. The Group had already closed 12 stores from 1 October 2019 to 14 June 2020, with the majority of these located in the tourist districts of Tsim Sha Tsui, Causeway Bay and Mongkok. Staff costs were reduced through no pay leave arrangements, a temporary salary reduction scheme and adjustment of staff organisation, while members of staff have also been encouraged to clear their annual leave. In addition, the 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.

During the financial year, total turnover for the Group's **Mainland China** operations decreased by 12.1% in local currency to HK$243.0 million, while same store sales in local currency terms rose by 5.2%. Due to the COVID-19 outbreak, the Group closed most retail shops in Mainland China temporarily from late January to mid February. 90% of shops have re-opened since mid March 2020 and sales are gradually improving, with the same store sales in May climbing to a similar level as the same period last year.

In this financial year, the turnover of the **e-commerce** business was HK$344.7 million, with around 90% of customers coming from Mainland China. Sales generated from third-party platforms grew by 4.6% year-on-year. Sales contribution of third-party platforms increased to 70% in the financial year as TMall and JD.com reported sales growth, offsetting the significant sales decline at Kaola. Due to the relentless shift of consumer traffic towards third party platforms, the Group has closed its own website and mobile app for the Mainland China market and directed customers to the WeChat mini-programme piloted in October last year. The WeChat mini-programme is a natural online extension of the personal services traditionally provided by 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 the frontline staff who are otherwise suffering badly from the lack of footstep traffic in the physical stores. The sales focus, gross margin and basket sizes are more satisfactory as compared to pure online sales due to the personal service element.

The Group is increasingly coordinating the 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 in Hong Kong SAR, in early March 2020 the Group began partnering with a service provider to provide support for an online queuing system for sale of surgical masks. This has proved to be very well received and has the added advantage of increasing new member recruitment.

For the 10 months ended January 2020, the Group recorded double-digit sales growth, and increased profit in the **Malaysia** market by a high single digit year-on-year. Mandatory temporary shop closures were implemented under the Movement Control Order in mid March as a result of the COVID-19 outbreak, which seriously disrupted sales performance in the fourth quarter, trimming overall annual sales growth to 3.6% in local currency terms. Turnover of the Group in Malaysia was

HK$390.2 million, while a profit of HK$16.2 million was recorded for the whole financial year. With the gradual re-opening of retail shops in May, local sales performance has already begun to recover.

Singapore had been loss making for many years. As a consequence, the Group closed all 22 stores in the financial year, thereby concentrating its resources on markets in Hong Kong and Macau SARs, Mainland China and Malaysia, as well as the e-commerce business.

Outlook and Strategies

Currently, the focus of Sa Sa is to manage costs and working capital to navigate and survive the storm and to adjust the Group's business strategy to ride the wave of gradual recovery. In addition to closely monitoring the inventory and cash positions, the Group aims to reduce inventory by launching 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. The Group will reduce the rental expenses in Hong Kong SAR and speed up digitalisation and workflow automation. While striving to retain stores and staff as much as possible, the Group aims to realise a leaner cost structure and enhance operational efficiency in order to achieve the long term healthy development of the Group.

The adjustment of the shop network in Hong Kong SAR 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 to significantly reduce the breakeven point and to achieve a faster turnaround when sales recover.

With the anticipation of a gradual sales recovery after the lifting of border and quarantine restrictions in Hong Kong and Macau SARs, the Group will adjust product strategy in a timely manner to cater to the needs of different customer segments, thereby strengthening its product competitiveness. By adopting a more diversified product offering, the Group aims to improve the loyalty of existing customers, attract new customers and build stable customer segments.

The Group aims to grow revenue streams from Macau SAR, Mainland China and Malaysia. These markets represent good growth potential for the Group and will further diversify its revenue and profit base while mitigating market concentration risks. Before the COVID-19 epidemic, Macau SAR's same store sales continued to improve from August to December 2019. The Group is confident that that the tourism industry will recover swiftly from the pandemic, benefitting from the potential sales improvement.

The COVID-19 outbreak accelerated the Group's expansion of e-commerce. Through the enhancement of customer experience and engagement via information technology and digitalisation, the Group serves 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.

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 the vendors, the Group plans to launch new partnerships in the first half of the year, with the introduction of personalised service elements enabling interactions between Sa Sa's 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. Furthermore, a new POS system is expected to launch in second quarter FY2020/21. This system will introduce a higher degree of automation, thereby lowering operational costs and enhancing the shopping experience for customers.

In response to the new trend of consumption, the Group has devoted greater efforts to social commerce. The WeChat mini-programme is a proven successful online platform to connect the 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 clearly when tourist arrivals fell substantially in Hong Kong SAR. The Group will explore this development more in the future. In addition, leveraging the latest promotional strategy of live broadcasting for online shopping, the Group partnered with WeChat for a live broadcasting in Mainland China in May and teamed up with shopping platform and vendor in Hong Kong SAR to attract local customers through live broadcasting. The Group will continue to explore more opportunities on current and potential third party platforms. The Group is also planning to tap into more countries in Southeast Asia through Shopee.

Dr. Simon Kwok, *SBS, JP*, Chairman and Chief Executive Officer of the Group, concluded, "The COVID-19 outbreak has become a global issue, which is impacting all markets where Sa Sa operates. 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 efficiency as well as profitability. We will retain stores and jobs for staff as much as possible and prepare ourselves to benefit as soon as the consumption market revives. As for the future, the Group will move forward in the New Retail era by investing more resources in information technology, digitalisation and e-commerce to capture opportunities from the fast growing e-commerce sector, as well as increasing automation in our retail network to drive us towards the O2O operation model."

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 below:

In local currencies	YoY Change (%)	
	Retail Sales	Same Store Sales
Hong Kong & 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.

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