Sa Sa Announces Annual Results for FY2020/21

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Aiming for Faster Breakeven
Through Rationalising Store Network and Achieving O2O Synergies

(16 June 2021 - HONG KONG) - **Sa Sa International Holdings Limited** ("Sa Sa" or the "Group", stock code: 0178) has announced today its final results for the year ended 31 March 2021 (the "financial year" or "the year"). Under the impact of the COVID-19 pandemic, the Group recorded a 46.8% decrease in turnover to HK$3,043.0 million for its continuing operations for the financial year. The retail and wholesale turnover at the Group's operations in the core markets of the Hong Kong and Macau SARs declined by 57.8% to HK$1,999.8 million.

The Group recorded a loss of HK$351.4 million for the year, compared with a loss of HK$515.9 million for the previous financial year ended 31 March 2020 (the "previous financial year" or the "previous year"). Excluding the provision for impairment made in accordance with the Hong Kong Accounting Standard 36 that applies to retail store assets (including the right-of-use assets and property, plant and equipment) and the results from discontinued operation, the Group's loss for the year was HK$301.6 million, compared with a loss of HK$204.6 million in the previous year. On the back of its stringent inventory management and cost control, the Group's cash and bank balances stood at HK$526.4 million as at 31 March 2021 and are adequate for its current operational needs.

Basic loss per share was 11.3 HK cents (2020: 16.7 HK cents). In view of the challenging and uncertain business environment of the markets in which the Group operates, the board of directors does not recommend the payment of a final dividend for the financial year (2020: Nil).

Business Review

In the markets of the **Hong Kong and Macau SARs**, the COVID-19 pandemic and geopolitical risks had once brought tourism to a standstill, thus dealing a severe blow to the Group's sales performance there. Specifically, since the beginning of February 2020, the cumulative number of Mainland Chinese visitors in the Hong Kong SAR up to now has plunged to almost zero year on year. Moreover, the local consumer sentiment has also been dampened by social distancing initiatives imposed by the Hong Kong SAR government.

With the pandemic gradually being brought under control, **Macau SAR** resumed the Individual Visit Scheme for Mainland Chinese visitors in mid-August 2020, and extended the scheme to the entire Mainland China at the end of September. With continuous increase of Mainland Chinese visitors, sales of the Group to these customers saw a gradual recovery with the year-on-year decline narrowing down in the second half of the year. The Group also leveraged on the two successive phases of consumption subsidy schemes launched by the Macau SAR government to drive sales of local customers.

Overall, the Group's retail sales in the markets of the Hong Kong and Macau SARs dropped by 58.1% year on year while its same-store sales decreased by 54.4% during the financial year. The decrease in sales narrowed notably following the re-opening of border in Macau SAR, coupled with the low base effect in the fourth quarter, the decline in sales in Hong Kong and Macau SARs narrowed from 70.8% in the first half of the year to 38.0% in the second half. Retail stores in Macau SAR started to record profits from the second half of the year and turned the whole year into profits while Hong Kong SAR's retail stores remained loss making.

To cope with the difficult operating environment, the management promptly adopted effective measures, including short-term cost reduction arrangements and long-term cost structure optimisation initiatives, with a focus on rationalising its store network, aiming for a faster turnaround for the Group.

The substantial decline in tourist arrivals brought a drastic impact to the retail stores in tourist areas. The Group continued to streamline its store network and close heavily-overlapping stores in tourist districts based on the premise of retaining its customers while lowering rental and other costs of physical retail stores. As of 31 March 2021, total number of Sa Sa's retail stores in Hong Kong and Macau SARs was reduced from the peak of 118 two years ago to 100, with a net decrease of 12 as compared to previous year. All closed stores were located in Hong Kong SAR, among which over 80% were located in tourist districts. For the stores remaining in operation, the Group negotiated for temporary rental concessions and rental reduction upon renewal of the leases. Total savings from actual rental expenses amounted to HK$238.4 million in the year as compared to previous year.

There will be 38 retail leases expiring in the financial year ending 31 March 2022 in the Hong Kong SAR. The Group expects to close 15 to 20 stores throughout the year.

For the financial year, turnover of the Group's **online business** rose by 45.4% to HK$501.3 million, accounting for 16.5% of the total turnover from the Group's continuing operations, up from 6.0% in the previous financial year. With sales from its third-party platforms and O2O business showing year-on-year growth, the Group's online business achieved a profit in the second half of the year, outweighing the loss in the first half of the year and resulting in a turnaround for the whole year.

During the financial year, the Group's turnover in **Mainland China** increased by 15.9% in local currency terms to HK$289.9 million, while the same-store sales increased by 5.4%. The pandemic has been well managed in Mainland China, although some stores were temporarily closed or otherwise affected by the sporadic outbreak in several cities, the consumption in the post-pandemic era fuelled the Group's positive sales growth in the third quarter and supported the Group's new store openings, bringing the total shop number to 57, representing a net increase of 13.

In **Malaysia**, turnover decreased by 34.9% in local currency terms to HK$252.0 million in the financial year. Due to the impact of the COVID-19 pandemic and related movement control orders, the Group's stores were temporarily closed for nearly 100 days in total. The Group continued to carry out a series of cost reduction measures, including seeking rental reduction and adjusting manpower, etc., so as to lower store and office expenses by around 30% and reduce loss.

<u>Outlook and Strategies</u>

In FY2021/22, the Hong Kong SAR market will continue to face great uncertainties, with its prospects highly dependent on the successful management of COVID-19 locally and the timing of the re-opening of the border with Mainland China. The high rental cost of the running retail leases in tourist areas means that it is unlikely that the Group can realise a fiscal balance during the year. Fortunately, the Group expects that the Macau SAR business will continue to improve and increase its profit growth after turning profitable in the second half of the year under review. The Group's online business has made significant progress, and is expected to further improve on its positive profit contributions. The Mainland China market is anticipated to gradually increase in profitability during its current active development stage. As regards the Malaysian market, the business is expected to rebound quickly and achieve a breakeven once the pandemic is over.

Setting its sights on achieving a more diversified and sustainable business and capitalise on market opportunities, the Group will expedite its market development beyond Hong Kong and Macau SARs, especially the online business and Mainland China market, which both possess promising growth potential. The Group's long-term vision is to grow businesses beyond the brick-and-mortar businesses in Hong Kong and Macau SARs from around 35% in the financial year to above 50%.

The Group will work to further realise the complementary effects of combining the advantages of online business and physical stores to improve both customer experience and the Group's profitability. Further integration of online and offline operations, improvements in inventory and logistic arrangements will all help to provide a seamless O2O customer experience. For Sa Sa, the O2O business offers more favourable gross margin and basket size owing to the element of personal service when compared to pure online sales channels. It also saves the Group rent and online platform fees. All these mean a more attractive profit margin for the O2O business, an area that the Group will wish to develop to its fullest potential.

Growing share of sales from online platforms can help the Group reduce its reliance on brick-and-mortar stores. Through persistently adjusting and rationalising the store network, the Group could improve its overall cost structure and lower the breakeven point for the traditional retail business, thus reinforcing its competitiveness and profitability in the long term.

In the new retail era, offline retail stores will play a pivotal role in improving customer experience. The decline in rents in the Hong Kong and Macau SARs allows the Group to set up customer experience zones in designated physical stores with adequate shop spaces at affordable rents. In those zones, customers will be able to try out beauty and health products to enjoy more personalised services. The Group is currently deploying pilot stores in Hong Kong and Macau SARs, which are expected to be opened in FY2021/22.

Mainland China is an enormous market which is diversified and fast-growing. Sa Sa will continue to improve internal management and product procurement to capitalise on the opportunities in Mainland China. Meanwhile, it will also capitalise on the weaker rental market by negotiating for more reasonable rent in the post-pandemic era, thereby progressively increasing its market coverage in Mainland China. The Group will focus its resources on developing the markets of the core city clusters, especially the cities in the Greater Bay Area, and strategic regions. The Group will also target to develop O2O integration in Mainland China, optimising mapping of online and offline businesses through adopting a dual-track model, thus maximising its coverage in Mainland China.

Dr Simon Kwok, *SBS, JP*, Chairman and Chief Executive Officer of the Group, said, "Online business has become the new focus of the retail industry. We are dedicated to expediting development in the new retail landscape by investing more resources in our online business, unceasingly strengthening our brand and adjusting our product portfolio. The Group will also proactively propel businesses beyond our core markets in Hong Kong and Macau SARs and promote the online business, thus diversifying and expanding our revenue portfolio and customer base and creating value for our stakeholders in the long term.

"To support the Hong Kong SAR in fighting the pandemic, the Group will donate HK$1 million worth of Sa Sa cash vouchers as prizes in lucky draws to encourage COVID vaccination among Hong Kong SAR residents to help the city reach effective herd immunity. We believe that the faster the vaccination penetration increases, the sooner our city can hopefully further ease anti-pandemic measures and re-open its border, leading to faster economic recovery."

<u>FY2021/22 Q1 Operational Sales Data (Continuing Operations)</u>

For the first quarter from 1 April to 9 June 2021, the Group's retail and wholesale turnover increased by 55.1% compared with that in the same period of last year. The year-on-year changes in the retail sales and same-store sales are shown in the table below.

In local currencies	YoY Change (%)	
	Retail Sales	Same-Store Sales
HK & Macau SARs	53.5%	56.3%
Mainland China	30.7%	6.7%
• *Excluding CRM impact*	*40.1%*	*13.9%*
Malaysia	3.5%	Not applicable
Online Business	131.2%	
Group Turnover	55.1%	

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