Sa Sa Announces Interim Results 2021/22

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HK & Macau SARs: Improved Sales & Gross Margin and Effective Cost Control
Group's Loss Narrows 25% YoY

(18 November 2021 - HONG KONG) - **Sa Sa International Holdings Limited** ("Sa Sa" or the "Group", stock code: 0178) announced its interim results for the six months ended 30 September 2021 (the "period").

In the first half of the financial year, the Group's turnover for continuing operations grew 24.2% year on year to HK$1,597.2 million. Thanks to improved sales and gross profit margin and effective cost reduction efforts in the core markets of the Hong Kong and Macau SARs, loss for the period narrowed by HK$60.4 million (or 25.0%) to HK$181.6 million compared to the same period last year. Excluding the provision for impairment made in accordance with HKAS 36 that applied to retail store assets (including right-of-use assets and property, plant and equipment), subsidies for the COVID-19 pandemic by local governments, temporary rental concessions as well as the results from discontinued business, the Group's loss during the period narrowed by HK$152.3 million (or 44.3%) as compared to the same period last year.

Basic loss per share was 5.9 HK cents (2020: 7.8 HK cents). In view of the challenging and uncertain business and operating environment, the Board has resolved not to pay any interim dividend (2020: Nil).

<u>Business Review</u>

Local customers remained dominant in the **Hong Kong SAR** market. The Group continued to enhance its product portfolio and promotional activities to stimulate local sales, and fully capitalised on the opportunities brought about by the government's Consumption Voucher Scheme launched in August to boost sales to local customers. As for the **Macau SAR**, which re-opened its border, sales to Mainland Chinese visitors in this market surged in the first half, and recovered to around 45% of the pre-pandemic level in FY2018/19. However, more serious COVID-19 outbreaks were reported in the Macau SAR from the beginning of August to the end of September, leading to decreased sales in the second quarter compared with the first. We expect an uptrend in Macau SAR punctuated with fluctuations according to the pandemic situation.

In response to the plunge in the number of tourist arrivals in Hong Kong SAR, the Group has been adjusting its store strategies since September 2019, downsizing the store network in the Hong

Kong SAR, especially closing those stores located in the tourist districts with excessively high rental costs and lack of satisfactory contribution, while at the same time opening new stores or relocating stores to prime locations when the rents were reasonable. The total number of the Group's stores in the Hong Kong and Macau SARs has decreased from the peak of 118 in September 2019 to 91 in September this year. The Group has renewed a selection of leases only upon successful negotiations for substantial rental reductions upon their expiry. As a result, monthly rental expense has been reduced by 42.4% over two years. In the first half, rental savings from shop closures and renewals amounted to HK$77.2 million (43.5%), while other fixed overheads in retail stores (including fixed salary for frontline staff as well as utilities expenses, etc.) decreased by HK$16.7 million (10.2%) on top of an already reduced cost base last year. Based on the current plan, the Group expects a net decrease of 15 to 18 stores year on year in the Hong Kong and Macau SARs by March 2022 with five to eight retail stores expected to be closed in the second half.

The Group redeployed its beauty consultants from the closed stores to the neighbouring stores. This has allowed the neighbouring stores to continue to serve the customers in the same district systematically while driving sales growth. In addition, some consumers who had frequented the Group's physical stores switched over to online shopping, benefitting Sa Sa's online business in the Hong Kong SAR and boosting the sales by more than 40% year on year to HK$58.0 million. The store closures therefore did not result in any noticeable loss of sales for the Group.

During the period, the Group strategically introduced more health & fitness products and beauty gadgets, as well as obtained exclusive distribution rights for multiple renowned Korean and Japanese health & fitness brands in the Hong Kong and Macau SARs, enriching Sa Sa's exclusive product portfolio while the latter also boosted our gross margin performance. Monthly sales of the above-mentioned products surged by close to 50% from April to September. The Group targets to further increase its monthly sales by at least another 50% within this financial year.

Overall, total turnover in the Hong Kong and Macau SARs increased by around 26.9% in the first half, while same store sales rose 32.4% year on year. Gross profit margin improved by 9.2 percentage points from a year ago to 38.8%. This, coupled with effective cost control measures, narrowed the Group's loss in the Hong Kong and Macau SARs in the first half by HK$115.8 million (or 48.5%) from a year ago to HK$122.8 million, with business operation close to breakeven position in one month in the first half. Excluding the provision for impairment made for retail store assets, temporary rental concessions, and pandemic-related subsidies received from the governments, the Group's loss for the period in this market narrowed by HK$198.7 million (or 61.1%) as compared to the previous period.

Turnover of the Group's online business reached HK$307.4 million in the first half year, registering an increase of 65.2% year on year. It also achieved a bottom line turnaround with a profit of HK$1.2 million. The Group proactively enhanced its new retail operating model with integration of online and offline operations ("O2O") during the period by expanding the "click-and-collect" service to more stores in Hong Kong and Macau SARs and offering e-coupons that can be used both online and in the offline stores to enable cross-referral of customers across our online and offline platforms, which would in turn enhance repurchase rate and customer loyalty. The Group hopes to streamline its cost structure through the new retail operating model and enhance Sa Sa's overall competitiveness and profitability in the long run.

As for **Mainland China**, consumption weakened in the second quarter while the COVID-19 pandemic affected more than half of the country's provinces, leading to weaker sales performance in the second quarter compared with the first quarter, with same store sales dropping 5.0% in the first half. Nevertheless, the Group strategically expanded its store network in Southern and Northern China as well as the first-tier cities, resulting in the number of the Group's stores on the Mainland increasing by 21 year on year to 69 as of the end of September 2021. The Group's total sales in Mainland China in the first half rose 12.7% in local currency terms to HK$143.6 million.

Malaysia was seriously affected by the pandemic and stores there were required to close temporarily for nearly three months on average. Turnover of the Group's business in the Malaysian market plummeted by 53.7% year on year in local currency terms to HK$60.2 million, resulting in a loss of HK$18.5 million. The Group continued to carry out cost reduction measures and reduced retail store and office expenses by approximately 28.0% compared to the same period last year.

<u>Outlook and Strategies</u>

Looking ahead, the Group will continue to focus its efforts on the development of businesses with promising growth potentials such as operations in Mainland China and online business. We will continue to pursue our long-term goal to increase the sales mix of businesses beyond brick-and-mortar stores in Hong Kong and Macau SARs to above 50% of the Group's turnover. This will help the Group attain business diversification and sustainable development.

Sa Sa's physical stores will enhance the function of providing customers with rich in-store experience of products and services, thus attracting new customers, prolonging the customers' stay in the stores, and increasing their frequency of visits. Meanwhile, our online platform has begun providing around-the-clock shopping experience for consumers who have already switched over to online shopping. The Group will further integrate its online and offline operations so that its online and physical stores can complement each other under the new retail operating model to provide comprehensive seamless customer experience.

One of the advantages of online business is that its fixed costs are relatively lower, and we can also save on rental expenses (among our top three expenses) of brick-and-mortar stores. The O2O business model enables the Group to move towards a leaner cost structure and lower the breakeven point of its traditional retail business. The adoption of O2O would accelerate the time it takes for the Group to return to profitability, reinforcing its overall competitiveness and profitability in the long run.

In view of the great potential of new retail in markets other than the Hong Kong and Macau SARs, the Group plans to expand its O2O services in Mainland China where the O2O adoption is growing even faster than in Hong Kong. Sa Sa has launched a pilot programme in mid-October adopting cross-border shopping capability on WeChat mini-programme, allowing its frontline beauty consultants in Mainland China to sell selected products from the Hong Kong and Macau markets. Such move will make Sa Sa's product offerings in Mainland China more attractive and speed up the launch of new products, especially Sa Sa's private label products, on the Mainland. This can also attract more new customers to the Group's operations in Mainland China.

The border restriction between the Macau SAR and Mainland China has been lifted for more than a year, although the pandemic situation still fluctuates. The Group's sales in the Macau SAR are expected to trend up provided that the pandemic in the Macau SAR and cities nearby across Mainland China are under control. Given that it is less likely for the Hong Kong SAR to re-open its border with Mainland China this year, sales generated from mainland tourists in the Macau SAR will likely continue to be an important element of the Hong Kong and Macau SARs business, and would also be one of the key drivers in the Group's journey towards achieving breakeven in these markets in the short run. In the Hong Kong SAR, local customers will remain a major source of customers in the coming months, the Group will adjust its product portfolio in a timely manner in response to the changes in the preferences of local customers and the latest market trends. We also consider opening new stores in residential areas to improve sales and gain local market share.

There are recent weaknesses in the consumption sentiment in Mainland China, but it is expected to return to healthy growth in the long run. Sa Sa will slightly adjust the pace of retail network expansion on the Mainland for the remaining part of the financial year from 100 to about 80. The Group will focus its resources on expanding in the strategic regions and core city clusters, especially in the Greater Bay Area.

Dr Simon Kwok, *SBS, JP,* Chairman and Chief Executive Officer of the Group, concluded, "The world has been hit hard by the COVID-19 pandemic. The prolonged adoption of social distancing measures for nearly two years has accelerated the digitalisation of consumption. The Group has demonstrated its adaptability during such transformation to cater for the changing consumption habits, through devoting more resources in developing its online business for instance. Looking ahead, Sa Sa will adopt a host of diversified measures by continuously optimising our cost structure, extending and balancing our revenue base, and improving our product offerings, to pave way for restoring profitability in the future."

<u>FY21/22 Q3 operational sales data (continuing operations)</u>

For the third quarter from 1 October to 14 November 2021, the Group's retail and wholesale turnover increased by 1.4% compared to the same period last year. The year-on-year changes in retail sales and same store sales are shown below:

In local currencies	YoY Change (%)	
	Retail Sales	Same Store Sales
Hong Kong & Macau SARs	-2.6%	0.5%
• Hong Kong SARs	15.9%	23.4%
• Macau SARs	-33.5%	-37.7%
Mainland China	-9.4%	-24.5%
Malaysia	9.2%	5.5%
Online Business	20.4%	
Group Turnover	1.4%	

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