Sa Sa Announces Interim Results for FY2022/23

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Hong Kong SAR same store sales up 19.8%
Group's loss narrows by 26.7% YoY

(17 November 2022 - 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 2022 (the "period").

In the first half of the financial year, the Group's turnover amounted to HK$1,550.5 million, representing a decrease of 2.9% over the six months ended 30 September 2021 ("previous period"), largely attributable to Covid-19 outbreaks in Mainland China and a spike in cases in the Macau SAR, which prompted lockdowns in affected cities and towns, disrupting our business operations. Thanks to the improved gross profit margin in the core markets of the Hong Kong and Macau SARs, as well as the effective implementation of cost reduction plans, loss for the period narrowed significantly by 26.7% to HK$133.2 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 from local governments and temporary rental concessions, the Group's loss during the period narrowed by 10.3% to HK$171.7 million compared to the previous period. Cash outflow from operating activities was merely HK$33.1 million, thanks to enhanced inventory management and zero-based budgeting practices.

Sa Sa has taken proactive measures to significantly adjust its cost structures and management practices, aiming for sustainable profitability. On the revenue side, the Group continued to expand revenue earning potential by reinvigorating its product categories and enhancing online-merge-offline ("OMO") strategies. On the cost side, it consistently managed inventory and lease rentals. Barring any further escalation in the Covid-19 pandemic restrictions in Sa Sa's core markets, the Group anticipates these measures to take effect by the end of the current financial year, and any relaxation of the pandemic restrictions will provide upside to the Group's plan.

Basic loss per share for the first half amounted to 4.3 HK cents (2021/22: 5.9 HK cents). In view of the challenging and uncertain operational environment in the markets where we operate, the Board does not recommend the payment of an interim dividend (2021/22: Nil).

Business Review

In the **Hong Kong SAR**, local consumers were still the main source of customers as tourist and visitor arrivals from Mainland China remained low in the city during the period. The Group took advantage of the improving consumer sentiment by refreshing its product mix and launching effective theme-based promotions that have led to a year-on-year increase of 19.8% in same store sales in the Hong Kong SAR. Retail sales grew 8.0% despite a net reduction of five stores to 71 in the Hong Kong SAR during the period. Moreover, the Group successfully capitalised on the opportunities brought about by the government's Consumption Voucher Scheme launched in April and August to bolster local consumer spending. As a result, the Group has been able to sustain the sales momentum, with same store sales growth for the second quarter remaining in solid double-digits.

As for the **Macau SAR**, the Group's sales performance was impacted by a sharp spike in Covid-19 infection cases since late June 2022, which led to the first citywide lockdown in July 2022 and subsequently a significant decline in the number of tourists. The Group's sales in the Macau SAR, of which 56.1% came from Mainland China tourists, decreased by 37.7% while same store sales dropped by 33.4% compared to the previous period.

Gross profit margin of Hong Kong and Macau SARs increasing to 39.3%

On a combined basis, retail sales in the Hong Kong and Macau SARs decreased by 8.7% to HK$966.8 million in the first half, while same store sales went up 0.8%. Gross profit margin for the period in the Hong Kong and Macau SARs increased by 0.5 percentage points to 39.3%. This, coupled with effective operating cost control measures, narrowed the Group's loss in this market to HK$82.3 million, a significant reduction of HK$40.5 million (or 33.0%) as compared to the previous period.

The Group has continued to streamline its store network based on store economics, balancing lease rentals with the Group's ability to retain and service customers in regional clusters. During the period, there was a net reduction in the total number of Sa Sa's retail stores in the Hong Kong and Macau SARs of five to 80, with all five net closures in the Hong Kong SAR. Sa Sa has continued to negotiate temporary rental concessions for certain retail stores to alleviate the rental costs where tourist footfall is yet to return. The Group is steadfast in its lease rental policy and will only renew the lease where the rental makes economic sense and we can earn a positive contribution. During the period, eight expiring leases in prime tourist districts with heavy foot traffic were renewed at a reasonable new rent, while three were closed.

Hong Kong SAR online sales up 88.9% amid new retail adoption

Consumer adoption of new retail formats and growth of online sales in the Hong Kong SAR continues to accelerate at pace. Online sales in the Hong Kong SAR increased remarkably by 88.9% during the period to HK$110.3 million as the Group continued to forge ahead with its OMO strategies and leverage the offline store network and unique team of Sa Sa Professional Beauty Consultants to truly deliver OMO addressing the needs of modern consumers who are looking for a seamless experience wherever they appear. Online sales mix as a percentage of total sales in the Hong Kong and Macau SARs for the period increased to 10.1% from 5.1% in the previous period. The Group believes that the contribution of OMO-driven brick-and-mortar sales will continue to grow gradually, and the importance of online business will continue to increase even when the pandemic related social-distancing measures are further relaxed in the future.

The contribution of **online business** to the Group's total turnover remained steady at 19.3% for the period (previous period: 19.2%), while turnover of this business segment slightly decreased 2.6% year on year to HK$299.4 million. The online business recorded a loss of HK$19.6 million for the period largely due to pandemic disruptions and poor consumer sentiment in Mainland China, while the strength of the Hong Kong dollar against a basket of currencies including the Renminbi has challenged the Group's pricing and impacted gross margins. Furthermore, the Group's online sales in Mainland China was affected by the quarantine of our main warehouse in Mainland China while deliveries into its warehouses and direct cross-border deliveries to customers were subject to uncertain delays during the period, resulting in order cancellations.

Operating losses in Mainland China expected to narrow significantly in the second half as a result of streamlined store network

In **Mainland China**, the pandemic outbreaks in some parts of the country and related pandemic measures contributed to low consumer sentiment during the period. This had a major impact on the Group's operations in the market, leading to 16.8% decrease in same store sales in Mainland China. The Group's loss in Mainland China increased by 5.1% to HK$43.6 million for the period largely due to the pandemic, while it closed loss-making stores and made extensive efforts to curtail operating costs. In accordance with the Group's right-sizing strategy, the total number of stores in Mainland China was rationalised and reduced by 35 to 42 as of the end of September 2022. These efforts are expected to significantly reduce the operating losses in Mainland China in the second half of the financial year.

Strong sales recovery in Malaysia with turnover surging 159.1%

In **Malaysia**, following the government's change in its strategy for fighting the pandemic and a relaxation of its pandemic measures, the Group's business in Malaysia has continued to rebound strongly, with sales recovering to 84% of the pre-pandemic levels. Turnover in Malaysia increased significantly by 159.1% compared to the previous period in local currency terms to HK$147.0 million and same store sales increased by 57.2%. While sales continued to surge, the Group has kept operating costs low, and as a result, in spite of the weakening Malaysian Ringgit, recorded a profit of HK$12.3 million in Malaysia during the period. The Group is optimistic about the future performance of its business in this market.

Outlook and Strategies

Looking ahead, the retail sector is expected to remain under immense pressure amid an arduous operating environment and in the face of prevalent external uncertainties. The Group has adopted a mindset of achieving sustainable profit despite the current operating environment and to this end took measures to lower the breakeven point significantly. These measures included adopting zero-based budgeting practices and tighter working capital management policies to navigate through the headwinds. These initiatives will enhance the Group's competitiveness and enable it to become more resilient and achieve sustainable business growth when the pandemic eases.

Amidst the ongoing market uncertainty and the fine line between profit and loss at store level, the Group will not hesitate to relocate loss-making stores and those that are bearing exorbitant rents. When the border with Mainland China reopens and higher sales demand results from the return of tourists, the Group will resume opening new stores in prime locations in tourist areas at reasonable rents to allow Sa Sa to be among the first to benefit. Meanwhile, the Group will further foster OMO development through leveraging the popularity of the "buy online pick-up in store" practice, engaging consumers with OMO-related promotions, and aligning online and offline promotional activities and advertising efforts to run complementary marketing campaigns and build a holistic shopping experience.

Forging ahead with OMO development to unleash new retail potentials

One of the key competitive advantages of the Group, is a network of brick-and-mortar offline stores and the embedded experience of managing them effectively with a team of professional beauty consultants. In the new retail era, it provides the Group with an added strategic tool through the integration of physical stores and online business, including running cross-channel promotional campaigns. This model enhances the Group's ability to analyse customer preferences and shopping habits, which in turn informs the product category development and direct-to-consumer marketing, to provide a personalised omni-channel shopping experience.

In view of the great potential of new retail in markets other than the Hong Kong and Macau SARs, the Group continues to explore OMO strategies in Mainland China to improve Sa Sa's overall competitiveness and reach, including leveraging the WeChat mini-programme to connect Sa Sa's beauty consultants with customers in Mainland China. To cater to the booming trend of livestreaming in Mainland China, the Group has maintained its own livestreaming team on third-party platform, Douyin, to attract a younger generation of customers. Moreover, the Group is actively seeking to enhance online product categories and introduce trending products, which is conducive to attracting new consumers to Sa Sa.

The Group's mid- to long-term market objectives in Mainland China remain unchanged. Still, the current optimal strategy in this market is to rationalise store network and focus on optimising the operating performance of profitable stores, and increase the attractiveness of our product range to excite our customers, so that the Group can retain strength to continue to develop the Mainland China market in the long run. The Group will continue to progress online operations, further integrate the online and offline operations, and lower overall operating expenses of its business units in Mainland China. In the long run, this market is expected to return to healthy growth.

Dr Simon Kwok, *SBS, JP,* Chairman and Chief Executive Officer of the Group, concluded, "Despite the challenges facing the retail sector, we are confident that we can navigate through the headwinds by carrying out stringent cost management measures and strategically focusing on our online business and OMO integration to capitalise on the accelerating trend of new retail and its huge potential. Sa Sa remains steadfast in lowering breakeven point with an aim to turn around and enhance long-term profitability. We expect our business in the Hong Kong and Macau SARs to further improve in the second half of the financial year under the circumstances that the Hong Kong SAR maintains the status quo without a full reopening of the border with Mainland China, and the Macau SAR does not experience another lockdown. Sa Sa will be the first to benefit once the border of Hong Kong fully reopens. Although the Mainland China market is overshadowed by weak consumer sentiment, we expect our efforts in store network rationalisation and cost restructuring will help narrow losses significantly in this market in the second half and allow us to retain resources to support our long-term development in Mainland China. More importantly, we consider any relaxation of the Covid-19 pandemic measures to be an upside to our plan, and we are well placed to take advantage when this happens."

FY2022/23 Q3 Operational Sales Data

For the third quarter from 1 October to 10 November 2022, the Group's retail and wholesale turnover decreased by 1.5% as compared to the previous period. The year-on-year changes of 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	5.6%	8.7%
• Hong Kong SAR	2.7%	9.1%
• Macau SAR	14.6%	7.5%
Mainland China	-26.9%	-14.1%
Malaysia	30.6%	31.2%
Online business	-11.2%	
Group Turnover	-1.5%	

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