Sa Sa Announces Annual Results 2021/22

*   *   *

Group's turnover up 12.1%
Loss narrows by 41.5% excluding non-recurring items

(30 June 2022 - HONG KONG) - **Sa Sa International Holdings Limited** ("Sa Sa" or the "Group", stock code: 0178) announced its annual results for the year ended 31 March 2022 (the "year"). During the year, the Group's turnover at its continuing operations grew by 12.1% to HK$3,412.7 million.

As a result of substantial improvement in losses at core operations in the Hong Kong and Macau SARs, excluding the provision for impairment, made in accordance with the HKAS 36, which applies to retail store assets (including right-of-use assets and property, plant and equipment), subsidies related to the Novel Coronavirus Disease ("COVID-19" or "pandemic") provided by various governments, temporary rental concessions, and the results of discontinued business, the Group's loss for the year shrank by 41.5% compared to the previous financial year. When the aforementioned non-recurring items are included, the Group's loss amounted to HK$343.7 million for the year, as compared to a loss of HK$351.4 million for the previous year.

The Group carried out stringent cost management measures, including the rationalisation of store network and strategic focus of resources in online business which possesses promising growth potential, with the aim of improving profitability. It also consistently improved its inventory by actively reducing products with low productivity and diverting working capital towards more productive products and drove new strategic product categories to bolster Sa Sa's position as a one-stop beauty specialty store.

The Group's basic loss per share was 11.1 HK cents (2021: 11.3 HK cents). In view of the challenging and uncertain operational environment in markets where we operate, the Board does not recommend the payment of a final dividend for the financial year for the reason of responsible risk management under the current operating environment (2021: Nil).

<u>Business Review</u>

In the **Hong Kong SAR**, while the Group continued to rationalise its physical store network, it adopted a multi-pronged approach to attract local customers. As a result, same store sales increased by 12.6% and retail sales grew 6.1%. During the first half of the financial year ended 31 March 2022, local consumer sentiment improved as the pandemic eased, the Group successfully took the opportunity to launch new promotions to capitalise on the Consumption Voucher Scheme launched by the government. It also strategically adjusted its product mix and broadened product offerings such as health & fitness products and personal care products to enhance Sa Sa's position as a one-stop beauty specialty store. In a swift response to the fifth wave of the COVID-19 pandemic in early 2022, Sa Sa promptly introduced anti-epidemic products into the market to fight the pandemic alongside the public and contributed to the Group's sales performance.

Retail sales at the Group's physical stores in the Hong Kong SAR benefited from the online-merge-offline ("OMO") strategy as repurchases made by online customers at retail stores directed through the "click-and-collect" service and e-voucher programme generated revenue for the physical stores, this amounted to almost 20% of the online sales in Hong Kong SAR. The Group believes that the OMO-driven sales at physical stores will continue to increase.

In the **Macau SAR,** the Group's sales rebounded along with the number of Mainland Chinese visitors to the city in the first half of FY2021/22. However, pandemic outbreaks of varying severity in the Macau SAR and Guangdong Province in the second half of the year affected the number of Mainland Chinese visitors to the city, subsequently leading to a decline in retail sales for the second half of the year. The Group's retail sales in the Macau SAR grew 27.9% for the full year.

The Group continued to streamline and rationalise its store network on the premise of retaining customers. Meanwhile, it negotiated for temporary rental concessions for certain stores to lessen rental burden of the Group. As at 31 March 2022, the total number of Sa Sa's retail stores in the Hong Kong and Macau SARs was reduced to 85 from the peak of 118 in 2019, representing a net decrease of 15 stores compared with 31 March 2021. Most of the closed stores were located in tourist districts in the Hong Kong SAR.

Overall, despite the decrease in shop count, retail sales at the Group's operations in the Hong Kong and Macau SARs increased by 12.6% to HK$2,161.3 million for the year, while same-store sales performed better with a 16.9% increase. Loss for the full year narrowed by HK$154.0 million (or by 43.6%) to HK$198.9 million. Excluding non-recurring items such as the impairment of retail store assets, temporary rental concessions as well as pandemic-related subsidies received from the government, the Group's financial performance saw a more marked improvement with its loss for the year in this market narrowing by HK$285.0 million (or 58.4%).

Turnover at the Group's **online business** in the year increased by 38.8% to HK$695.6 million, accounting for 20.4% of the Group's total turnover. The online business recorded a profit of HK$6.9 million for the year (previous year: HK$8.8 million). During the year, the Group pressed ahead with the new retail model of OMO as one of its top priorities. In addition to further developing the "click-and-collect" service in the Hong Kong SAR, the Group also launched e-coupons that are applicable to both online and offline operations. The engagement between the Group's beauty consultants and customers has also been extended online to provide a more pleasant and personalised omni-channel shopping experience. To capitalise on the growing trend of livestreaming e-commerce in Mainland China, the Group started livestreaming on the third-party platform Douyin in the second half of the year, with its own talents producing videos to attract a younger generation of customers.

In the market of **Mainland China**, pandemic outbreaks that started in the second quarter of the financial year in various parts of the country prompted lockdowns in affected cities and towns during more severe phases, lowering foot traffic in our retail stores, some of which were forced to suspend operations in the worst cases, resulting in a 15.4% decrease in same-store sales during the year. Due to enlarged operating losses and a substantial increase in impairment of physical stores, the Group recorded a loss of HK$144.3 million in Mainland China this year, compared to HK$12.7 million in the previous year.

In the market of **Malaysia**, the pandemic prompted the government to implement strict movement control measures during the first half of the financial year. In October 2021, the government changed its policies and there were no longer large-scale lockdowns. As a result, Sa Sa's returned to positive sales growth in the second half of the year and narrowed the loss at the Group's operations in Malaysia for the whole year to HK$7.5 million. The Group is optimistic about the future performance of its business in the country.

Outlook and Strategies

As online shopping becomes increasingly popular, management believes that the importance of online business will continue to increase even when the pandemic subsides in the future. As the new retail era strides on, the Group will continue to increase its online investment and actively expand its online sales channels in various regions. It will also strive to build branding of its exclusive products and integrate physical stores and online platforms, to provide customers with personalised shopping experiences and drive the sustainable development of the Group.

Physical stores remain critical in the new retail model. In the future, the Group will continue rationalising its store network while improving operational efficiency. In the Hong Kong SAR, the Group plans to close loss-making stores and those that are bearing exorbitant rents, or relocate stores to more desirable areas. At the same time, the Group will examine opportunities in opening new stores in residential areas. As for tourist districts, the Group will retain stores with reasonable rents, hoping to be among the first to benefit when the borders reopen.

Although the Group's mid- to long-term market objectives in Mainland China remain unchanged, it sees the need to review and adjust the strategies to preserve resources for sustained development of the market. It will rationalise its store network and focus resources on optimising the operating performance of the physical stores and online operations, while at the same time, integrate the online and offline operations and lower overall expenses.

The exclusive products allow the Group to enjoy greater flexibility in terms of strategy, positioning, pricing and sales channels. They are best positioned to facilitate new retail transformation and enhance Sa Sa's product competitiveness and profitability. The Group will step up its efforts in developing and building exclusive product brands.

Dr Simon Kwok, *SBS, JP,* Chairman and Chief Executive Officer of the Group, concluded, "The collaborative efforts from our Board of Directors, management and all staffs in the past three years in implementing all-round cost-saving measures have achieved positive results. We are looking forward to returning to profitability when the overall business operating environment improves. To cope with the increasingly digitalised consumption patterns, the Group actively invests resources to develop online business and accelerate the integration of online and offline operation, enabling Sa Sa to thrive in business transformation and create value for shareholders."

– END –