Sa Sa Announces Annual Results for FY2022/23

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Hong Kong SAR same store sales up 26.6%
Achieves business turnaround before re-opening of boundaries with an overall profit of HK$58.2 million

(15 June 2023 - 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 2023 (the “Financial Year”). During the Financial Year, the Group’s turnover grew by 2.6% to HK$3,500.5 million.

The first half of the Financial Year saw Covid-19 pandemic continue its disruptive impact in the Group’s home base, Hong Kong and Macau SARs, with Mainland China also succumbing. The Group retained its financial strength to withstand challenges. By the third quarter, the Group’s cost management and margin expansion policies had taken effect and recorded a profit of HK$5.5 million, the first quarterly profit since the pandemic took hold. The fourth quarter saw a gradual easing of social distancing measures and the re-opening of Hong Kong and Macau SARs’ boundaries with Mainland China, leading to a return of tourism to the two core markets and resulting in remarkable growth in sales. The Group’s profit for the Financial Year was HK$58.2 million, a significant turnaround compared to the loss of HK$133.2 million in the first half and the loss of HK$343.7 million in the previous year. The Group operated a total of 186 retail outlets across all regions as at 31 March 2023. The growth momentum in the HK and Macau SAR markets has continued, driving sales for the first quarter of the new financial year up to 11 June 2023 up 51.2% year-on-year.

The Group’s rigor in adopting zero-based budgeting practices, centralising cost centres to enhance economies of scale, driving cost optimization and negotiating for fair rents on lease renewals has led to a significant improvement in operating costs efficiencies during the Financial Year. The Group also adopted disciplined category management practices, adding to the exclusive brand portfolio and discontinuing less popular and unprofitable lines. This led to an improvement in gross margin that continued throughout the Financial Year from 35.5% in the first quarter to 43.5% in the fourth quarter.

The Group’s basic earnings per share amounted to 1.9 HK cents (2022: basic loss per share of 11.1 HK cents). Given that the Group has only just emerged from the challenges brought about by the pandemic in the core markets where the Group operates, the Board does not recommend the payment of a final dividend for the Financial Year in accordance with the Group’s policy to pay dividends out of profits and for the reason of responsible risk management (2022: Nil).

Business Review

The HK and Macau SAR markets are together the Group's largest region by turnover. In the **Hong Kong SAR**, the Group leveraged the gradual improvement in local consumer sentiment during the Financial Year and the Consumption Voucher Scheme by refreshing the brand and product mix and launching effective theme-based promotions, contributing to Hong Kong SAR same-store sales growth of 15.7% for the first three quarters. For the fourth quarter ended 31 March 2023, benefiting from the return of the Mainland Chinese tourists, offline sales in the Hong Kong SAR increased by 55.6% year-on-year or 25.1% compared to the previous quarter ended 31 December 2022. Compared with the same period of the pre-pandemic period, turnover has recovered to 40%.

The Group further bolstered sales growth throughout the Financial Year by targeting trending product categories. During the first three quarters, personal protective equipment ("PPE"), including protective masks and Rapid Antigen Test ("RAT") test kits, was a core product category, while following the change in social distancing measures, demand for such products reduced sharply but the demand for make-up, colour cosmetics and fragrance moved swiftly upwards.

In **Macau SAR,** offline sales during the Financial Year declined by 13.2% to HK$636.4 million, with same-store sales decreasing by 12.8%. Following a relaxation of social distancing measures from December 2022, the Group saw a rapid return of Mainland Chinese tourists to the Macau SAR which was at a much faster pace compared with that to the Hong Kong SAR. Sales for the fourth quarter increased by 70.5% year-on-year or increased by 93.8% compared to the previous quarter, representing a recovery of approximately 77% compared to the pre-pandemic period.

Sales mix of Mainland Chinese tourists in the Hong Kong and Macau SARs recovered to 41.1% in the fourth quarter which compares with approximately 70% during the pre-pandemic period.

Positioning Store Network for Market Recovery

In accordance with the Group's store network strategy, during the Financial Year, 11 expiring leases in prime tourist districts in the Hong Kong SAR with heavy foot traffic were renewed, while two stores were closed. Renewals tend to result in less initial capex spending and hence less related depreciation in the future. In addition, the Group is on the lookout for stores of the right-size located in local residential areas and also heavy footfall stores in core tourist districts in the Hong Kong SAR that complement its existing store network, and which make economic sense. Post the end of the Financial Year, the Group signed three new leases with two in core tourist districts in the Hong Kong SAR, which will be opened for business in the first quarter of the new financial year.

Sa Sa's Online penetration rate in the Hong Kong and Macau SARs increased from 0.1% in the pre-pandemic period to 8.9% for the Financial Year

Total online sales in the Hong Kong and Macau SARs through the Group's own channels and third-party platforms increased by 26.4% year-on-year to HK$230.5 million, accounting for 38.3% of the Group's total online sales. The Group's online penetration has improved rapidly from 0.1% in the pre-pandemic period to 8.9% for the Financial Year. Consumer adoption of new retail formats and growth of online sales in the Hong Kong and Macau SARs continued to accelerate. Apart from its own managed channels, the Group is also present on third-party platforms, such as HKTV Mall and continues to explore new retail models.

Mainland China emerged from the pandemic

In **Mainland China**, there was a total of 758 lost operating days across the Group's store network due to quarantine measures in the first three quarters. In light of the uncertainty at that time and significant reduction in foot traffic, the Group took a decision to reduce losses, conserve cashflow and retain strength for a recovery down the road. In line with this strategy, the total number of stores in Mainland China was rationalised and reduced by 40 to 37 as at 31 March 2023. For the fourth quarter, offline sales in the market recovered to HK$61.5 million, an increase of 32.7% (in local currency) versus the previous quarter demonstrating a gradual and marginal recovery as Mainland China emerged from the pandemic. Overall, the Group's loss in Mainland China decreased by 69.2% to HK$44.5 million for the Financial Year and notably, the loss in the second half was HK$0.9 million.

Business in Southeast Asia continued to rebound strongly

Malaysia was a bright spot for the Group throughout the year benefitting directly as a result of the government's relaxation of pandemic measures since 1 April 2022. The Group's business continued to rebound strongly, growing 64.9% for the Financial Year while recovering to 85% of pre-pandemic levels despite operating 70 stores versus 81 in the pre-pandemic period. Same-store sales growth for the Financial Year was a very impressive 34.3%. The Group continued to invest in the development of its online business in Southeast Asia, which grew 9.0% for the Financial Year, representing 19.4% of its total sales in Southeast Asia.

Outlook and Strategies

Looking ahead, the retail sector in the Group's core markets is expected to continue to recover gradually as travelling and tourism resumes in the region. However, the pace of such recovery, the impact of changing consumer tastes brought about by the pandemic, and the rise of competing tourist destinations will all impact the extent and pace of such recovery for each market in the region.

With the return of tourism and business growth in the Group's core markets and the Hong Kong and Macau SARs, attention has turned to expanding the store portfolio in tourist areas, recruitment of frontline employees and product category supply and management to service the demand. Post year-end, the Group signed a total of three new leases with two in tourist areas taking its portfolio to 82 stores. Furthermore, with the change in consumption patterns and behaviours since the pre-pandemic period, the Group will also look at its footprint in Asia and most importantly its Mainland China strategy in the second half of the next financial year.

Fostering the development of OMO

Although still in its infancy, the Group's online-merge-offline ("OMO") strategies are contributing to online sales growth and the Group is looking to accelerate its OMO development over the next financial year. The engagement between the Group's professional beauty consultants and customers has been extended to online channels and the Group is looking to enhance its customer relationship management ("CRM") program and CRM infrastructure going forward to be able to provide a more personalised omni-channel shopping experience. To cater for the trend of livestreaming in the region that tends to attract a younger consumer, the Group will explore collaborations that will drive profitable sales.

Mainland China remains a core focus of the Group's long-term strategy. The Mainland China economy is emerging from Covid-19 and consumer sentiment is gradually improving, while the Group is closely monitoring the market conditions to align its strategy. In order to improve the Group's competitiveness in Mainland China, the Group will focus on exclusive brands and invest to increase the product assortment. One of the Group's unique advantages is its team of trained professional beauty consultants who provide industry-leading services. The Group will leverage this team to further enhance its CRM program and capture OMO opportunities.

Dr Simon Kwok, *SBS, JP,* Chairman and Chief Executive Officer of the Group, concluded, "The Group has been preparing for the boundary reopening, adopting agile management practices, including extending store opening hours, refreshing the product mix, flexibly adjusting frontline staff deployment and inventory to cope with the increasing demand after tourists return. The recovery in tourist traffic in core tourist areas gives confidence about the future growth trajectory. We expect that the gradual return of Mainland Chinese tourists will have an ongoing positive impact on our performance in the Hong Kong SAR as it ranks consistently among the top holiday destinations for Mainland Chinese while beauty products also feature high on their travel shopping basket. Furthermore, the return of Mainland Chinese tourists has been much more pronounced in the Macau SAR and we expect that market to fully recover eventually. The Group will continue to enhance its internal structures and risk management mechanisms to build resilience and be better able to manage external risks and leverage opportunities."

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