Chairman's Statement

"Guided by our vision towards sustainable development and business improvement plan and combined with our prudent cost control measures that optimise overall cost structure, we believe Sa Sa is poised to return to profitability."

Dr KWOK Siu Ming Simon, *SBS, JP*
Chairman and Chief Executive Officer

Business operations and financial performance of Sa Sa International Holdings Limited for the year ended 31 March 2021 ("financial year", "year under review" or "year") continued to be affected by Novel Coronavirus pandemic ("COVID-19 pandemic" or "pandemic") and geopolitical risks.

During the financial year, annual turnover decreased by 46.8% to HK$3,043.0 million for the Group's continuing operations. Loss for the year was HK$351.4 million. Excluding the provision for impairment made in accordance with the Hong Kong Accounting Standard 36 that applied to retail store assets (including the right-of-use assets and property, plant and equipment) as well as the results from discontinued operation, the Group's loss for the year was HK$301.6 million as compared to a loss of HK$204.6 million in the previous year.

Basic loss per share amounted to 11.3 HK cents (2020: 16.7 HK cents). In view of the challenging and uncertain business environment in our operating markets, the board of directors 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 reasons of responsible risk management in the current operating environment (2020: Nil).

COVID-19 Pandemic and New Normal in Retail Industry

It has been a remarkably difficult year for the world. The COVID-19 pandemic has brought a profound impact on our daily lives, work and overall business environment. In this unprecedented crisis, I would like to express my heartfelt gratitude to all staff members of Sa Sa who have maintained their professionalism despite untold hardships, as they worked tirelessly to serve our customers, navigate through adversity with our management, and took on the social responsibility of safe guarding the health of the general public in our stores.

Sa Sa always stands with the community. We prioritise the health and safety of our employees, customers, business partners and the entire community, and pay close attention to the development of the pandemic as well as its impact to the community. We strictly follow the precautionary instructions recommended by local health authorities, and implement a host of preventive measures inside and outside our stores to ensure the safety of our employees and customers while reducing the risk of virus spreading within the community. We also promptly responded to the pressing demand for protective products and spared no efforts in sourcing products such as masks and hand sanitisers from around the world to ease the urgent needs of the society. We aspire to play a part in protecting the community while driving business growth.

The COVID-19 pandemic has also accelerated the transformation of the entire retail ecosystem, leading more customers to shop online. In response to such behavioural change, we have redoubled our efforts in expanding our online business and further integrated online and offline operations ("O2O"), with the aim to enhance customers' shopping experience and ensure sustainability of our business.

Hong Kong and Macau SARs

During the financial year, geopolitical uncertainty and the COVID-19 pandemic dealt a severe blow to the Group's core markets of Hong Kong and Macau SARs. The tourism industries of Hong Kong and Macau SARs were both brought to a standstill at one time, precipitating the tumbling of Sa Sa's sales performance.

Macau SAR brought the pandemic under control very quickly and resumed the Individual Visit Scheme for Mainland Chinese visitors from the middle of 2020. Sales contributed by Mainland Chinese visitors saw a gradual pick up benefitting from the recovery of their arrivals. Meanwhile, the Group leveraged the opportunities brought about by the Macau SAR government's consumption subsidy scheme, further driving sales of local customers. Although sales in Macau SAR saw notable improvement and started to record profits in the second half of the year, the Macau SAR business could not fully offset the loss incurred in Hong Kong SAR business.

Sales of the Group particularly in Hong Kong SAR were dominated by local customers during the year. We expanded product categories that closely address their needs and preferences including protective and personal care, to meet their huge demand. At the same time, we improved in-store product display while launching a diverse line-up of promotional activities and enhanced the use of social media and livestreaming, with an aim to drive local consumption and effectively reduce inventory.

During the year, the Group focused its efforts on accelerating its online business and integrated its online and offline operations. The launch of protective products on our Hong Kong SAR shopping website in the middle of last year was initially aimed at bringing convenience to our customers, this in turn successfully boosted the website's traffic and brought it to life. We have since also extended our O2O service to customers in Hong Kong SAR to provide them with seamless online shopping experience.

Management carried out a host of measures to mitigate against the challenging operating environment, this included short-term cost reduction arrangements and long-term cost structure optimisation initiatives. Rationalising store network was pivotal to expedite a profit turnaround.

We continued to streamline our store network during the year by closing heavily-overlapping stores in tourist districts and negotiated for temporary rental concessions for running leases and substantial rental reduction for store renewals. Actual rental expense decreased by HK$238.4 million as compared with previous year. As of 31 March 2021, total number of Sa Sa's retail stores in Hong Kong and Macau SARs was reduced to 100 from the peak of 118 two years ago. The majority of stores closed were located in tourist districts in Hong Kong SAR.

In addition, the Group further streamlined its operations by speeding up digitalisation and automation to bring down costs and enhance operational efficiency, while minimising unnecessary and non-productive expenses to improve the Group's cost structure. Our cost control measures are showing promising results with office expenses down by approximately one third as compared to that of the previous year, driving higher operational efficiency of the Group in the long term.

During the year, our top priority was to implement prudent cash management. Through conducting clearance sales and other disciplined inventory management measures, inventory was successfully lowered to a reasonable level. As at 31 March 2021, cash and bank balances of the Group stood at HK$526.4 million, which is adequate for current operating needs. The Group is increasing its revolving loan facilities as working capital reserve in light of market uncertainty. The Group has maintained a healthy financial position and these standby banking facilities remained unused during the year.

Online Business

In response to changes in consumers' shopping behaviour, the frontline and back-office staff of our traditional retail departments have recognised the importance of expediting the development of online business and given their full support to the new and changing operating mode, facilitating the process of integrating our online and offline operations. Turnover of the Group's online business reached a record high with an 80.5% year-on-year increase in the second half of the year, resulting in a profit turnaround for this business segment for the year.

After strategically closing its Mainland China shopping website last April, the Group redirected customer traffic to WeChat mini-programme which mainly serves the Mainland China market. During the pandemic, the WeChat mini-programme provides Sa Sa's beauty consultants with a platform to serve Mainland consumers who are unable to visit the physical stores in Hong Kong and Macau SARs in person. With a view to boosting the growth of its O2O business, the Group extended the O2O service to local consumers in Hong Kong SAR from the middle of 2020 with its sales growth topping the list of online platforms.

The O2O mode of operations plays a key role in Sa Sa's new retail development, and demonstrated its potential by growing at the fastest pace of all our online touchpoints. Stepping up our efforts to stride towards this new retail mode, we will ensure that our online business and physical stores will complement each other more effectively and focus on further integrating our operations, with the aim of providing customers with a more pleasant and seamless O2O shopping experience.

Third-party platforms remain the Group's major online sales channel, accounting for approximately 70% of total sales in the segment. Promising sales growth was witnessed in multiple shopping festivals such as "Double 11", "Double 12" and "Black Friday". The Group established a new partnership towards the end of the financial year with Lazada, a well-known platform in South East Asia, with the objective of further broadening our customer base and revenue sources.

Mainland China

In Mainland China, where the Chinese government implemented strict preventive and control measures at the outset of the pandemic, some of the Group's stores were temporarily closed while the stores remaining in operations were also affected to varying degrees. On a positive note, the pandemic has been under control since May 2020 and positive sales growth was registered starting from the third quarter driven by post-pandemic consumption. Although there was sporadic outbreak in some cities in the fourth quarter, overall sales and same-store sales throughout the year recorded positive growths.

During the financial year, the Group strategically expanded its store network in key regions as planned. Total number of stores increased by 13, among which seven are located in Southern China, the Group's core development region. Five of them are located in Western China region, mainly in Chongqing and Chengdu. With the office and logistics centre in Chengdu commencing operation in the financial year, the Group can benefit from effective centralised management and improved cost-effectiveness in the western cluster. To complement its rapid expansion strategies in Mainland China, the Group introduced a new personnel management system and optimised the structure of human resources and training departments.

Malaysia

The Malaysian government implemented a number of movement control orders over time under the pandemic. During the most difficult period, all of the Group's stores were required to close temporarily for nearly 100 days in total, resulting in a year-on-year decrease of 34.9% in turnover in local currency terms. The Group continued to carry out a series of cost reduction measures which successfully lowered store and office expenses by approximately 30%. Meanwhile, the Group applied wage subsidy from the government to further alleviate its cost burdens for operation as well as to reduce loss.

Outlook

A Silver Lining Emerges from the Stormy Cloud

In the short run, the economic outlook of Hong Kong SAR remains uncertain as the pandemic is still not fully under control. Inbound tourism will remain sluggish until the border with Mainland China reopens. However, it is expected that the worst of winter has passed as the vaccination programme is already in progress, albeit at a slow pace. In Macau SAR, the Group has been able to turn into a profit for the year after recovering in the second half and further improvements are anticipated with gradual increase of Mainland Chinese visitors and continued strong local consumption.

In Hong Kong and Macau SARs, we are preparing ourselves for the return of Mainland Chinese visitors, our product portfolio is changing in accordance with the changes in our customer mix and latest product trend. Meanwhile, we are currently developing our customer relationship management system to bolster customer loyalty, attract new customers and improve our business performance. Furthermore, we will continue to scrupulously manage costs and working capital, and adjust our store network to return to profitability as quickly as possible.

Aiming to achieve a sustainable business development and to diversify market risks, the Group will accelerate its development in markets beyond Hong Kong and Macau SARs, especially its online business and Mainland China market, both of which possess promising growth potential. The Group's long-term vision is to grow its businesses beyond the brick-and-mortar businesses in Hong Kong and Macau SARs from approximately 35% in the financial year to above 50%.

Mainland China is an enormous market that is diversified and fast-growing. Riding on the opportunities in the weaker rental market during the post-pandemic era, we will negotiate for more reasonable tenancy terms with landlords and progressively increasing our coverage in the market. We will focus our resources on expanding in core city clusters (especially cities in the Greater Bay Area) and strategic regions, with a view to realising local management effectiveness and cost efficiency. Given that the outlook of the Malaysian market remains uncertain due to the pandemic, the Group would focus on improvement in the performance of existing stores in the short term. We expect that business and profitability will rebound quickly when the pandemic is over.

O2O Gives Growth Impetus to Online Business

We expect that consumers will continue to make purchases online even when the pandemic eases in the future. The Group's key development strategy for the mid to long-term is to adopt the new retail model and accelerate the development of both its brick-and-mortar and online businesses and enhance the complementary aspects between them, with additional emphasis on digital marketing techniques to capitalise on the fast-growing online shopping extravaganza.

Owing to its personal service element, O2O offers more favourable product sales mix, gross margin and basket size as compared to pure online sales channels. It also generates higher profits taking into account the savings on rent and online platform fees. The ever-growing online business reduces Sa Sa's reliance on brick-and-mortar stores, improves its overall cost structure and lowers the breakeven point, thus reinforcing the Group's competitiveness and profitability in the long term.

Thanks to the collaborative efforts of frontline and back-office employees across the board, our good progress in O2O business has translated into encouraging results during the year with online business achieving a turnaround. Looking ahead, we will focus on enhancing the collaboration of Hong Kong and Macau SARs' retail teams and online team as well as business operations to unleash the potential of O2O more fully.

The Group is continuously providing training to traditional retail staff and making improvements to logistics and inventory arrangement to facilitate the pilot launch of the click-and-collect service. The membership management function of our new shopping website, will be used to centralise the management of various customer databases of our retail business in the Hong Kong and Macau SARs and our online business, with the aim to providing personalised services more effectively and raising customers' loyalty and repurchase rate.

The above-mentioned measures will better prepare us for the re-opening of border in Hong Kong SAR in time. Our beauty consultants will then be able to engage with Mainland Chinese visitors when they visit our physical stores to enhance customer experience and interaction, as well as providing them with a seamless O2O shopping experience.

Enhancement of In-store Customer Experience Adds Uniqueness to Our Physical Stores

Brick-and-mortar stores are an integral part of Sa Sa's O2O new retail model by way of elevating customer in store experience in complement to online browsing and shopping. We will deploy resources to develop customer experience zones in selected stores in Hong Kong and Macau SARs where rental costs and spaces allow. Customers can try out beauty and healthcare products in designated areas, creating an engaging shopping experience at stores.

In addition, we plan to accelerate the launch of retail technologies in our stores to further enhance the customer experience, including the roll-out of mobile checkout devices, to equip ourselves for higher transaction volume when Mainland Chinese visitors return and to enhance the operational efficiency of our stores.

Product strategy has always been one of the core competences of the Group. The Group will continue to adjust its product portfolio in response to current trends and to cater for changing customer mix and preferences, while formulating better procurement and sales strategies that would be supported by improved in-store product display, so as to stimulate consumption.

Conclusion – Aspiring to Transform for Long-term Healthy Development

The past year presented an extremely challenging time for companies across the globe. We have adopted a series of reform measures that enables Sa Sa to better cater for the current consumer shopping behaviour, thereby laying a solid foundation for our new retail business model.

I believe the worst is already behind us as the pandemic is gradually brought under control in most of our markets and the vaccination programme is already in progress albeit at a slow pace. Guided by our vision towards sustainable development and the corresponding business improvement plan and combined with our prudent cost control measures that optimise overall cost structure, Sa Sa is poised to return to profitability.

I would like to express my deepest gratitude to all Sa Sa colleagues for their unremitting efforts in the past, as well as their unwavering commitment to work in overcoming the difficulties the Group faces. I would also like to thank our business partners, customers and shareholders for their continued support. Sa Sa will continue to shoulder its social responsibility as a good corporate citizen and to give back to the community, while steadily advancing and growing under the new retail transformation with the ultimate goal of creating a seamless O2O shopping experience to our customers and bringing value to its stakeholders.

Dr KWOK Siu Ming Simon, *SBS, JP*
Chairman and Chief Executive Officer
Hong Kong, 16 June 2021