CHAIRMAN'S STATEMENT

"With the Group's solid foundation in the market and the strength accumulated over the years, we are looking forward to returning to the path of profitability when the overall business operating environment improves."

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

The business operations and financial performance of Sa Sa International Holdings Limited for the year ended 31 March 2022 ("financial year", "year under review" or "year") continued to be affected by the still-evolving threat posed by the Novel Coronavirus Disease ("COVID-19" or "pandemic").

During the financial year, the Group's turnover from continuing operations increased by 12.1% to HK$3,412.7 million. Loss for the year was HK$343.7 million, as compared to a loss of HK$351.4 million in the previous year. Excluding the provision for impairment, made in accordance with the Hong Kong Accounting Standard 36, which applies to retail store assets (including right-of-use assets and property, plant and equipment), subsidies related to the pandemic provided by various governments, temporary rental concessions, and the results of discontinued operations, the Group's loss for the financial year shrank by 41.5% from the previous year.

The Group's basic loss per share was 11.1 HK cents (2021: basic loss per share of 11.3 HK cents). In view of the challenging, uncertain business environment in the markets in which we operate, the Board does not recommend the payment of a final dividend for the financial year, in accordance with the Group's policy of paying dividends from profits and amid considerations related to responsible risk management in its current operating environment (2021: Nil).

The Group continued to actively rationalise its physical store network and carried out stringent cost and inventory management measures during the year to improve profitability and conserve working capital. To further reinforce the Group's financial position, I joined co-founder and controlling shareholder Dr Eleanor Kwok in providing a revolving loan facility of HK$200 million at the end of the financial year, a clear demonstration of our support for Sa Sa and our confidence in the long-term prospects of the Group's business. The Group's net cash of HK$194.2 million at the end of the financial year combined with the unutilised borrowing facilities of HK$376.6 million would be adequate for its current operating needs.

Creating an Omni-channel Shopping Experience to Capture Opportunities in the Changing Retail Landscape

The pandemic, which has lasted for more than two-and-a-half years, has ushered in fundamental changes in our living and consumption habits. Consumers spend less time in physical stores and have rising expectations of online shopping services that they have shifted to, leading to rapid changes in the retail landscape and reaffirm our conviction that it is crucial to accelerate the development of our online business. We are thus recalibrating our business approach to address the dynamic market conditions. While adjusting and optimising our traditional retail operations, we have also strategically deployed more resources in developing our online business with high potential, including the online-merge-offline ("OMO") operations in our new retail model, to enable us to stand out in this rapidly evolving and highly competitive business environment.

We achieved significant progress in new retail in the Hong Kong SAR market during the year. The offer of e-voucher and "click-and-collect" service successfully directed online customers to repurchase at our physical retail stores. We also gave full play to the strength of Sa Sa's professional beauty consultant team to engage with our customers through online channels to provide a more pleasant and personalised omni-channel shopping experience. The move also attracted new customers and strengthened customer loyalty and repurchase rates, further fostering the sustainable and steady development of Sa Sa's business.

In the new retail era, Sa Sa's physical store network will play a crucial role in providing customers with richer in-store experiences covering our products and services, while our online touchpoints will habituate interactions with customers and provide a round-the-clock shopping experience for online consumers. We believe our new operating model will enhance the Group's competitiveness in the long run and improve our profitability.

The new retail model enables our online and offline businesses to complement one another and improve the overall cost effectiveness of our both operations. Our physical store network attracts huge foot traffic, comprising both existing and new customers, serving as a source of customers for Sa Sa's online business. Successful conversion of these physical store customers into OMO customers by providing further services via online touchpoints will enable the Group to reduce advertising costs. Our digital marketing campaigns are also more effective in attracting more visits and consumption at physical stores, boosting customer repurchase rates and total spendings. These digital marketing activities are easier to track and deliver a higher investment return as compared to traditional advertisements. Online operations can also function to attract new customers, driving growth momentum in both the online and offline channels. Brand recognition and loyalty among customers who make purchases through multiple OMO touchpoints are generally stronger than among single-channel customers, with higher total spendings.

Another advantage of online channels is that fixed costs are lower than those of traditional retail operations. Our new retail model thus enables the Group to enhance its overall operating efficiency and draw us nearer to breakeven position, expediting a business turnaround.

Hong Kong and Macau SARs

During the financial year, our core market of Hong Kong and Macau SARs was affected by the COVID-19 pandemic. Sa Sa proactively made timely donations to the community and fought the pandemic alongside the public during the most challenging time. We received a confidence boost when the pandemic stabilised and the Hong Kong SAR government took actions to stimulate consumption. The Macau SAR also witnessed a rebound in inbound Mainland Chinese visitors during the year. The Group seized these business opportunities successfully and realised year-on-year growth in overall sales, despite a reduction in the number of its retail stores.

In Hong Kong SAR, local customers remained the primary source of revenue during the year as visitor arrivals from Mainland China remained at a minimal level amid strict border controls. While continuously rationalising its store network to reduce costs, the Group also adopted a multi-pronged approach to retaining and attracting local customers, including the redeployment of frontline employees from closed stores to the remaining ones to provide uninterrupted personalised services to existing customers, the strategic adjustment of our product portfolio, and the broadening of our personal care, health & fitness product and beauty device offerings. The Group also launched new promotions with various electronic payment gateways to capture business opportunities arising from the Consumption Voucher Scheme and the peak Christmas shopping season. Sa Sa reacted swiftly to the fifth wave of COVID-19 by quickly offering a large number of protective products such as rapid antigen test (RAT) kits and surgical masks to cater to urgent demand among the locals. These initiatives supported the Group in achieving positive same-store sale and retail sale growth for the year. Meanwhile, to protect the health and safety of its employees and customers, Sa Sa devoted considerable resources to anti-pandemic efforts in its retail stores, warehouses and offices, including the provision of RAT kits to staff and large-scale disinfection of both retail stores and back offices.

During the first half of the year, the Macau SAR government adopted a "dynamic zero-COVID" strategy and gradually re-opened its border with Mainland China. The Group witnessed a rebound in sales among Mainland Chinese visitors to the city. Sales in the Macau SAR were also driven by the Labour Day Golden Week and stimulus measures such as consumption vouchers. However, amid a resurgence in confirmed COVID-19 infections in Guangdong Province, the Macau SAR government tightened its border controls in the second half of the year, resulting in a loss of momentum in same-store sales and retail sales compared to the first half of the year.

To address the challenges faced by the retail sector during the pandemic, the Group implemented stringent measures to control its expenses to lower costs and increase efficiency, while increasing its investment in higher-productivity products. We also constantly improved our inventory levels, optimised procurement processes, introduced new and popular products, and drove new strategic product categories to bolster Sa Sa's position as a one-stop beauty specialty store. In addition, we continued to streamline our store network, closing loss-making stores and stores incurring exorbitant rents on the premise of retaining customers, and negotiated temporary rental concessions to reduce store overheads.

During the year, the Group made a breakthrough in its OMO development, thanks to overwhelming support from our retail team and the refinement of our appraisal, reward and commission mechanisms, further driving efforts to develop our new retail model. We were effective in drawing online customers to our physical stores to make repurchases, driving retail sales while laying solid foundations for the Group's new retail business in the post-pandemic era.

On a combined basis, the loss for the year in the Hong Kong and Macau SARs market narrowed by 43.6% from the previous year to HK$198.9 million. We believe market conditions in Hong Kong and Macau SARs have bottomed out as the most severe stages of the pandemic have likely passed by, allowing for recovery of our business performance as we continue to strive towards breakeven as quickly as possible.

Online Business

The Group's all-hands-on-deck approach to promoting its online business has begun to bear fruit, leading to record-high turnover in the online business during the year, an increase of nearly 40% from the previous financial year. The contribution made by the online business to the Group's total turnover rose from 16.5% in the previous year to 20.4% in the current year, and the business segment once again made a positive profit contribution during the year following a business turnaround the previous year.

With new retail operating model being priority, Sa Sa made significant progress on this front in the Hong Kong SAR local market during the year. In addition to further developing the "click-and-collect" service, we also proactively launched e-coupons across both our online and offline platforms, while enhancing online interactions between our beauty consultants and our customers to provide a more pleasant and personalised omni-channel shopping experience and boost sales.

Our online business was affected by the COVID-19 pandemic in different manners. During the fourth quarter, the Hong Kong SAR was severely hit by a massive COVID-19 outbreak, triggering strong demand for personal protective products. Catalysed by consumers shifting to online shopping, sales made via Sa Sa's Hong Kong SAR local website increased by more than 200% during the year. Conversely, this outbreak severely disrupted cross-border logistics, resulting in tumbling sales to Mainland China and other markets in the same quarter.

To cater to the burgeoning trend of livestreaming and OMO in Mainland China, the Group launched a live-streaming e-commerce initiative on third-party platform Douyin to attract younger customers. The WeChat mini-programme, through which Sa Sa connects its beauty consultants in the Hong Kong and Macau SARs with customers in Mainland China, achieved satisfactory results, and was extended to beauty consultants based in Mainland China, this further extends our online reach in the market and also serves to complement our physical store products in the market and increase our competitiveness.

Mainland China

The Group's losses in Mainland China increased significantly during the year as the continued spread of COVID-19 negatively affected consumer demand in Mainland China, and some of our stores had to suspend operations temporarily or were reduced to provision of limited services only, thus materially impacting our overall sales, as well as substantial increase in impairment for our physical stores.

We have readjusted our operating strategy in a timely and flexible manner amid the pandemic, and invested more resources in the development of our OMO business. Apart from developing new third-party platforms, we also leveraged on WeChat mini-programme to extend cross-border OMO service to Mainland China. We expedited the launch of our exclusive products in Mainland China and rapidly expanded product offerings in retail stores there, while facilitating engagement between our well-trained beauty consultants and customers both at physical stores and online to increase our competitiveness and create a new driver for the Group's business in Mainland China.

Malaysia

The pandemic prompted the Malaysian government to implement strict movement control measures during the first half of the year and dealt a heavy blow to Sa Sa's business in the country. This was relaxed In October when Malaysia changed its strategy. Accordingly, the ensuing new outbreak at the beginning of the calendar year did not trigger broad lockdown measures as before, allowing the economy and the retail sector to revive gradually. Sa Sa proactively rolled out promotional campaigns that successfully drove positive sales growth in the second half of the year. Unfortunately, profit in the second half was not sufficient to completely offset the loss incurred in the first half, leading the Group to incur a loss in the Malaysian market for the full year. The management believes that the country's change of strategy has made a positive contribution to the recovery of the local retail industry, and is optimistic about the future prospects for Sa Sa's business in the country.

Outlook

Moving Towards a New Retail Model

The persistence of COVID-19 has caused an upheaval in the traditional retail business landscape, leading to a coming-of-age moment in online shopping. We expect that our online business will remain critically important even when the pandemic eases in the future, and the Group will focus on fostering the integration of our retail store and online businesses to provide a personalised, omni-channel shopping experience driven by the use of big data. Adhering to its proven customer-centric principle, Sa Sa's new retail model will facilitate two-way customer conversion between our online and offline operations so that they complement one another to elevate consumer experience in the future.

Compared with other types of product offerings, our exclusive products allow us to enjoy greater flexibility in terms of strategy, positioning, pricing and sales channels, which not only facilitates the promotion of the new retail model, but also improves our product competitiveness and gross profit margin. Therefore, we are determined to intensify efforts to develop our exclusive products to enhance brand awareness and overall competitiveness.

Fostering OMO development is one of the core tasks in Hong Kong and Macau SARs operations. We will continue to launch e-coupons that align the online and offline channels and display such promotions in prominent areas of our retail stores to build a holistic shopping experience. In addition, we will leverage the strengths of our brick-and-mortar store network to create synergies with online touchpoints, including extending customer service online to enhance customer engagement. Our physical stores will boost their provision of richer in-store experiences covering our products and services for customers, attracting new customers, extending customers' browsing time in our stores, and increasing the frequency of customer visits. Internally, OMO progress will be incorporated as one of the performance indicators for our frontline beauty consultants as we augment our commission and reward system to encourage increased employee participation in comprehensive customer service across our offline and online touchpoints.

In addition to the Hong Kong and Macau SARs, and Mainland China, we also plan to replicate our success and extend cross-border OMO services to Malaysia through revamping Sa Sa's international shopping website.

A key advantage of third-party platforms lies in their capability to drive traffic, which can unlock a larger customer base for Sa Sa. The Group will also continue to collaborate with new and existing e-commerce platforms, leveraging their popularity and customer pools to capture expanded market opportunities and grow its own customer base.

Rationalising Physical Store Network to Expedite a Profit Turnaround

The pandemic still brings significant impact and uncertainty to the markets in which the Group operates, and coupled with global geopolitical instability, we expect the retail business environment to remain challenging. Under the general direction of actively promoting the new retail model, physical stores still play an important role for the Group. We will continue to rationalise the store network prudently and strengthen the touchpoints with customers.

In the Hong Kong and Macau SARs, we will continue to close stores that are loss-making or which are bearing exorbitant rents in the coming year, or relocate stores to locations with better traffic or lower rents. We will seek rental relief from landlords in a timely manner, in order to reduce the breakeven point of stores and accelerate the pace of turning losses into profits. When the pandemic situation improves, we plan to find new store locations in tourist areas at a reasonable rent level, and prepare for the recovery of the Hong Kong SAR and Mainland China when border restrictions are relaxed, which will benefit from the recovery of the market and the return of tourists from Mainland China.

As the Hong Kong SAR remains driven by local customers, we are considering opening new stores in residential areas at reasonable rents, introducing more products popular with local customers at our retail stores, launching more appealing promotional campaigns, while enhancing in-store product displays. In doing so, improve the efficiency of store operation, increase the penetration rate of Sa Sa's local market and increase foot traffic at the stores.

In Mainland China, although our mid– to long-term market objectives remain unchanged, we see the need to review and adjust our strategies so that we can retain strength to continue to develop the Mainland China market in the long run. We will rationalise our store network and focus our resources on optimising the operating performance of the physical stores and online operations, while at the same time, integrate our online and offline operations and lower overall expenses. In addition, we will strive to enhance our product portfolio and strengthen training for frontline staff in relation to online-and-offline integration to improve Sa Sa's overall competitiveness.

Conclusion – Proactively Reinvigorating Sa Sa for the New Retail Era

During the pandemic, we have experienced changes in our daily lives, with the "new normal" in the retail sector driven by more customers shopping online. We expect the competition in the retail industry will become more and more fierce, accelerating the survival of the fittest and industry consolidation. In order to consolidate our position in the industry and give play to our advantages, we maintain a consistent pragmatic attitude and demonstrate strong resilience, executing our multi-pronged strategy of stringent cost and inventory management measures to conserve our financial strength. We will also strategically invest resources in the online business and forge ahead with OMO development to create a seamless, omni-channel shopping experience, driving sustainable business development.

As countries actively look into ways to revive their economies amid the lingering pandemic, business environment will gradually see the light of day. With the Group's solid foundation in the market and the strength accumulated over the years, we are looking forward to returning to the path of profitability when the overall business operating environment improves. As a company that attaches great importance to corporate social responsibility, Sa Sa has always put the health and safety of employees, customers, business partners and the entire community in the forefront. We will continue to ensure strict compliance with health and hygiene authorities' pandemic control measures and adopt anti-COVID-19 practices in our retail stores and other workplaces to safeguard our employees and customers as part of our role in mitigating the risks of viral spread in the community.

I would like to express my heartfelt gratitude to every member of Sa Sa's staff for the professionalism and warmth they put into delivering customer services, for their continued support to the management team in overcoming the challenges of these difficult times, and for their unrelenting efforts to safeguard public health and contribute to society amid the pandemic.

Looking ahead, we will continue to ensure the Group's sound operation and steady development, leading our team to grow amid the new retail transformation with the aim of maximising value for our shareholders.

Dr KWOK Siu Ming Simon, *SBS, JP*
Chairman and Chief Executive Officer
Hong Kong, 30 June 2022