CHAIRMAN'S STATEMENT

We stay agile to adapt to the 'new norm' as the economies in the region rebalance, and we are on the path of profitability while growing our business responsibly.

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

During the year ended 31 March 2023 (the "Financial Year"), the Group's turnover increased by 2.6% to HK$3,500.5 million. Profit for the year was HK$58.2 million, a significant turnaround compared to a loss of HK$343.7 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, recognition of a deferred tax asset in respect of prior years' tax losses in Hong Kong and Macau SARs and the accrued past service costs due to change in the offsetting arrangement under the mandatory provident fund, the Group's loss for the Financial Year improved by 81.7% from the previous year.

The Group's basic earnings per share was 1.9 HK cents (2022: basic loss per share of 11.1 HK cents). Given 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).

The business operations and financial performance of Sa Sa International Holdings Limited, has been a tale of four quarters.

The first half year saw Covid-19 pandemic continue its disruptive impact in our home base, Hong Kong and Macau SARs, with Mainland China also succumbing. Focus turned towards government policy with social distancing and closed boundaries restricting travel, changing demand for product categories and dampening consumer sentiment. With tourist traffic into Hong Kong SAR virtually zero, reliance was solely on local consumption that was also challenged due to the poor general economic environment. During this time, we carried out stringent cost and inventory management measures to improve profitability and conserve working capital. The Group adopted a mindset of achieving sustainable profit in spite of the tough operating environment and took measures to lower the breakeven point significantly. This included adoption of zero-based budgeting practices and tighter working capital management policies to navigate through the headwinds. The Group minimised unnecessary and non-productive expenses to reduce fixed costs of our offices and stores and implemented a series of initiatives to optimise its operations including acceleration of digitalisation, optimise people structures and enhance operational efficiency. These initiatives remain in place and enhance the Group's competitiveness and enable the Group to become more resilient and achieve sustainable business growth as tourists return gradually.

By the third quarter, the Group's execution of 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 re-opening of boundaries between Hong Kong and Macau SARs with Mainland China leading to a gradual return of tourism to our core markets of Hong Kong and Macau SARs. The fourth quarter also saw Mainland China easing social distancing measures and our online and offline operations were no longer significantly impacted by disruptions to logistics and quarantine to store operations. The boost from the policy relaxation contributed to the Group recording a post-tax profit of HK$185.9 million in the fourth quarter with a pre-tax profit margin of 9.0%, and completed the business turnaround from loss in the first half year of HK$133.2 million to overall profit for the full Financial Year of HK$58.2 million.

Our total net cash balance as at 31 March 2023 increased to HK$273.3 million (2022: HK$194.2 million) with net cash generated from operating activities (less the payment of lease liabilities and interest) for the Financial Year increasing significantly by HK$419.3 million to HK$144.6 million largely through cost structure optimisation, gross margin expansion and management of inventory on hand. To further reinforce the Group's financial position, I and co-founder and controlling shareholder Dr Eleanor Kwok continue to provide a revolving loan facility of HK$200 million, 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$273.3 million at the end of the Financial Year combined with the undrawn available banking facilities of HK$240.2 million would be adequate for its current operating needs.

Hong Kong and Macau SARs

Total online and offline retail sales and wholesales ("Offline Sales") in Hong Kong and Macau SARs amounted to HK$2,603.8 million accounting for 74.4% of total Group sales for the Financial Year, and growing at 8.7% for the Financial Year. Within this sales in Hong Kong SAR grew at 18.4% while Macau SAR decreased by 13.2%.

For the first three quarters of the Financial Year, Hong Kong and Macau SARs sales performance were held back by the tough market conditions brought about by Covid-19 and social distancing measures, which severely impacted consumer sentiment and offline retail in general. The closure of boundaries with Mainland China, in particular, dented visitor arrivals from Mainland China, which remained low and as the Macau SAR relies on tourism, the lockdown had a far-reaching impact. Accordingly, for the nine-months ended 31 December 2022, Offline Sales in the Hong Kong and Macau SARs decreased by 8.5% to HK$1,560.5 million compared to the previous period, while same store sales decreased by 1.0% dragged down by Macau SAR.

The Group's business in the Macau SAR for the first nine-months ended 31 December 2022 was severely hit by a sharp spike in Covid-19 infection cases since late June 2022 and the first citywide lockdown in July 2022 that led to a significant decline in tourist visitors.

Prior to the reopening of boundaries with Mainland China, the Hong Kong SAR Government continued with the Consumption Voucher Scheme ("CVS") to bolster local consumer spending, however, the positive impact of such scheme to local retail spending diminished with each time as the amount of the CVS reduced.

Despite the challenge to the topline, by the third quarter, proactive measures taken to significantly adjust the Group's cost structures and management practices in Hong Kong and Macau SARs had taken effect, while sales and gross margin expansion initiatives through category management and increasing sales mix of exclusive brands also showed positive results. The net result was that the Group recorded a marginal profit in the third quarter in Hong Kong and Macau SARs serving primarily local customers.

Our online business in Hong Kong and Macau SARs enjoyed high double-digit growth during the Financial Year somewhat benefitting from social distancing measures and accounted for 8.9% of total sales in this market. We continue to enhance our product and service offering while we continue to adapt and leverage our offline store network and unique team of Sa Sa Professional Beauty Consultants to truly deliver online-merge-offline ("OMO") addressing the needs of modern consumers who are looking for a seamless experience wherever they appear.

Having achieved profitability without the reopening of the boundary with Mainland China and return of tourists, the Group was well positioned to take advantage of the relaxation of social distancing measures in the fourth quarter, delivering impressive operating leverage with the return of tourist sales. Tourism saw a significant boost and upside to the Group's Offline Sales performance in Hong Kong and Macau SARs, which grew 60.1% in the fourth quarter year-on-year on a pre-tax profit margin of 9.3%.

Mainland China

Overall, Offline Sales for the Financial Year was HK$225.2 million, a decrease of 22.9% in local currency compared to the previous year, while same store sales decreased by 11.6%. For the full Financial Year, the Group's loss in Mainland China decreased by 69.2% to HK$44.5 million compared to the previous financial year with the overall operating loss in the second half of the Financial Year narrowed significantly to HK$0.9 million from HK$43.6 million in the first half of the Financial Year.

Covid-19 pandemic had a major impact on the Group's operations in Mainland China in the first nine-months of the Financial Year, causing our underperformance in that market in terms of both sales and profit. The pandemic outbreaks in various parts of Mainland China prompted lockdowns in affected cities and towns, lowering foot traffic in our retail stores and forcing a suspension of operations in the worst cases. For the first three quarters, there was a total of 758 lost operating days across our store network due to quarantine. This has contributed to consumer sentiment hitting record lows with same-store sales in Mainland China suffering a double-digit decrease compared with the previous financial year.

In light of these circumstances and uncertainties at that time, the Group took a decision to right-size the Mainland China retail operations in the second quarter of the Financial Year and, the total number of stores in Mainland China was rationalised and reduced by 40 to 37 as at 31 March 2023. Proactive measures taken to significantly adjust the Group's cost structures and management practices in Mainland China had also taken effect, while management of inventory led to a gradual improvement in gross margin. This helped to significantly reduce the loss in the third quarter despite Covid-19 continuing to negatively impact the operating environment.

With the relaxation of social distancing measures in the fourth quarter consumers began to resume normal activity. Despite 40 less stores, by the fourth quarter, Offline Sales in Mainland China 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. Same store sales growth for the fourth quarter was 5.1% (in local currency), which is an encouraging sign despite it will take time for consumer sentiment to improve.

Online sales in Mainland China decreased by 33.4% to HK$294.9 million for the Financial Year and was 56.7% of total sales in Mainland China. Online sales in Mainland China during the Financial Year continues to contribute the highest to the Group's total online sales at 49.0%. The first half of the Financial Year saw Covid-19 severely disrupting cross-boundary logistics arrangements into Mainland China, particularly for our online business, including restocking of our third-party warehouses and direct delivery to customers, disproportionately affecting cross boundary merchants. The delays in delivery resulted in a spike in order cancellations and sales returns during the first half of the Financial Year depressing the Group's online sales performance. Restrictions were also introduced restricting the import of fragrances, which we were unable to sell between October 2022 to February 2023.

Online remains a core part of our Mainland China strategy and aside from listings on all major third party ecommerce platforms, our professional beauty consultants connect with customers using Wechat mini-programme, and we also maintain our livestreaming team in Hong Kong SAR and Mainland China. Although still in its infancy, the Group's OMO strategies are contributing towards online sales growth and the Group is looking to accelerate its OMO development over the next financial year.

Southeast Asia

The Group's Offline Sales in Southeast Asia is operated through 70 stores in Malaysia. 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 on pre tax profit margin of 10.1% while recovering to 85% of pre-pandemic levels despite operating 70 stores vs. 81 pre-pandemic. Same store sales growth for the Financial Year was a very impressive 34.3%.

We continue to invest behind the development of our online business in Southeast Asia, which grew 9.0% for the Financial Year representing 19.4% of our total sales in Southeast Asia. While we are currently ranked number 1 among cross border merchants in the beauty and health category in Malaysia and Singapore on both Shopee and Lazada third-party ecommerce platforms, we have only just started to explore markets further afield such as the Philippines.

Future Outlook

Looking ahead, the retail sector in our 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, the rise of competing tourist destinations will all impact the extent and pace of such recovery for each market in the region.

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. Where the opportunity arises, the Group is seeking to expand its store network, particularly in tourist areas, to benefit from the return of tourism in the region so long as the economics make sense.

With the return of tourism and business growth in our core markets and 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. With the change in consumption patterns and behaviours since pre-pandemic, the Group will also look at its Asia footprint and most importantly Mainland China strategy in the second half of the next financial year.

Hong Kong and Macau SARs – Return of tourism driving growth

Tourist traffic so far is concentrated in our stores in traditional core tourist areas and has yet spread to other areas. Core Tourist Districts remain Tsimshatsui, Causeway Bay and Mongkok as well as in cross-boundary travel hubs at West Kowloon station and Lok Ma Chau station, where the Group currently has 18 stores (pre-pandemic period: 38 stores). Our tourist sales mix in the fourth quarter of the Financial Year in total and for core tourist areas was 25.3% and 45.4%, respectively compared with 70% in total pre pandemic. This recovery in tourist traffic in core tourist areas gives confidence over the future growth trajectory.

The Group is actively increasing its store network with focus turning to tourist locations, contingent upon the availability of reasonable rental rates. Post year-end we signed a total of 3 new leases with 2 in tourist areas taking our portfolio in the region to 82 stores.

The return of Mainland Chinese tourists has been much more pronounced in Macau SAR with sales recovering to approximately 80% of pre-pandemic levels during the fourth quarter and we expect that market to fully recover eventually.

The Group has been preparing for the boundaries 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.

Aside from tourists, the Group will continue to look to better serve local customers by optimising its product portfolio to address customer preferences and the latest market trends.

While there will be investment in new leases and frontline staff, including training of our professional beauty consultants, the Group expects its operations to be margin accretive over the next financial year as it leverages cost efficiencies. The Group will aim to reduce the ratio of rent to revenue, control the cost effectiveness continuously, enhance the operation efficiency of our stores and raise the ability of the Group to earn profits for our shareholders over the long term.

With the relaxation of social distancing measures, we are seeing the growing importance of offline in Hong Kong SAR. The experience of trialling new products online in the offline environment is more engaging, and hence the focus for the Group's online business going forwards will be to: (i) raise customer loyalty: significantly raising repeat purchase rate and active members; (ii) create an online community: promoting online user generated product reviews; (iii) promote exclusive brands: which can only be purchased from Sa Sa in the region; and (iv) accelerate OMO initiatives to leverage the offline store network and the customer base.

Fostering the development of OMO is embedded within our strategy. The Group will continue to promote and leverage the popularity of buy online and pickup in-store ("BOPIS"), engage consumers with related promotions and build a holistic shopping experience. The Group has innovated new packaging that will significantly reduce both our carbon footprint and the size of packaging for pick-up in store. To cater for the trend of livestreaming in the region that tends to attract younger consumers, the Group will continue to explore collaborations that will drive profitable sales.

Mainland China – economy gradually emerging from Covid-19

Mainland China remains a core focus of the Group's long-term strategy. Clear of market uncertainty caused by Covid-19 social distancing policy, the Group is now able to conduct business under normal plannable operating conditions. The Mainland China economy emerging from Covid-19 and consumer sentiment is gradually improving, while the Group is closely monitoring the market conditions to align its strategy.

Following a rationalisation of our store network in Mainland China, for the first half of the coming financial year, we will stabilise their performance and return the operations to profitability. Initial signs are positive as we have raised the normalised gross profit margin to 48.8% by the fourth quarter. Once this is in place, we will be seeking to grow our revenue and operations in the second half.

In order to improve the Group's competitiveness in Mainland China, the Group will focus around exclusive brands and invest to increase the product assortment. In sync with the offline business, the online business will focus resources around the Group's exclusive brands where it has the right to win, is able to build brand loyalty and can avoid direct price competition.

The integration of online and offline in the retail industry is accelerating, which presents huge opportunities. The Group is focused on advancing its OMO strategy this coming financial year integrating online platforms with the retail network to provide customers with an enhanced and seamless shopping experience. For example, increasing awareness of our online channels in store and allowing customers to browse product availability and order online.

One of the Group's unique advantages is its team of trained professional beauty consultants that provides industry-leading services. The Group will continue to leverage WeChat mini-programme to connect Sa Sa's beauty consultants with customers in Mainland China. With the return of and gradual increase in Mainland China tourists visiting Hong Kong and Macau SARs, the Group is actively promoting the Wechat mini programme and mobile application, and seeking to connect with these customers after they return to Mainland China to enable them to shop and purchase online.

Southeast Asia – expansion of offline and online footprint in the region

Compared to pre-Covid, the Group is operating 11 less stores at 70 stores while delivering 85% of pre-Covid sales. As offline operations in Malaysia have stabilised over the past twelve months we are on the lookout for possible new store openings that will add to our store portfolio and enable us to grow further. The Group is also actively seeking to open one or two flagship stores in Singapore to complement our online presence in the region.

The Malaysian economy is facing some macro headwinds with the main challenge for the local economy the rising cost of living. The Group will continue to stay relevant by launching products and promotions to adapt to changing market conditions and consumer preferences. Fragrance and make-up are two strong categories for Malaysia, and the Group will be stepping up its brand and product assortment this coming financial year, particularly to enhance its exclusive brand portfolio in this market.

Moving into the new financial year, the Group will continue to focus on Shopee and Lazada online market-places to grow its revenue. While the Group is market leading in Singapore and Malaysia among cross-border merchants in the beauty and health category, there is still room to grow in the Philippines while the Group has added Thailand in the new financial year as well as launching on Zalora. The key advantage of third-party platforms lies in their capability to drive traffic, leveraging their popularity and reputation to maximise market exposure and expand its customer base. While price competition in online is fierce, the Group will be looking to separate itself from the competition by improving service levels, providing tailored product offerings by leveraging Customer Relationship Management ("**CRM**") and strengthening brand relationships to build a portfolio of exclusive brands and unique product offerings.

Conclusion – Staying agile to adapt to the 'new norm' as the economies in the region rebalance

Having collectively endured four years of the pandemic, I am pleased to see and be able to say that we are finally emerging from its shadow. As economies in the region find their feet and rebalance towards a new norm, we are staying agile with a pulse on changing consumer behaviour to adapt our operations and leverage opportunities in the region accordingly.

While Covid-19 accelerated a move to online, post Covid we are seeing a tilt back towards offline. What is clear is that modern consumers are increasingly digital savvy and truly adopt a multi-channel approach in their journey to purchase. This plays into the strengths of a multi-brand retailer of Sa Sa, given our established store network across the region and experience in operating in many jurisdictions in the region. While it may be somewhat easier to set up shop on a third party ecommerce platform, building a meaningful store network in prime locations is somewhat more challenging and capital intensive. Over the past four years, Sa Sa has also built up our own ecommerce capabilities and infrastructure with a presence on multiple ecommerce platforms in the region, and notably Mainland China. We will continue to invest resources in better connecting our online and offline businesses and forge ahead with OMO development to create a seamless, omni-channel shopping experience, which is demanded by modern consumers.

Pre- and post-Covid has also seen switching between product categories, during Covid personal protective equipment ("PPE") became a significant category and Sa Sa played its part in sourcing and supplying such important products to the communities we operated in while make-up suffered significantly. Following a relaxation of social distancing measures from January 2023, we saw a sharp decline in these product sales while demand for make-up and fragrance increased significantly. However, a sudden increase Covid-19 cases recently has seen demand for PPE again jump. One of the key strengths of Sa Sa that is very difficult to replicate is the experience built up over 45 years for the sourcing of brands and products of assured quality and presenting these brands to market. We are proud that we can commit to a 30-day return policy. A brand looking to set up presence in the region has immediate access to our physical store portfolio and online channels, and also member base. Most importantly, particularly for emerging brands, is the benefit of our team of professional beauty consultants, who are able to operate both offline and online, helping to present the brand story and product to our consumers.

As a company that attaches great importance to corporate social responsibility, we are delighted to have turned around the business and to deliver a profit for the Financial Year. We seek not only to continue on this path of profitability but to do so while growing our business responsibly.

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 to greater opportunities, 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.