MANAGEMENT DISCUSSION & ANALYSIS

Turnover

HK$3,500.5 million

↑ 2.6%

Gross Profit

HK$1,401.4 million

↑ 11.2%

Profit for the Year

HK$58.2 million

↑ HK$402.0 million

Consolidated Income Statement for the Year Ended 31 March 2023

	Full year		**First half**		**Second half**	
	2023	2022	**2023**	2022	**2023**	2022
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover	**3,500,525**	3,412,727	**1,550,493**	1,597,234	**1,950,032**	1,815,493
Cost of sales	**(2,099,165)**	(2,152,181)	**(977,189)**	(1,010,716)	**(1,121,976)**	(1,141,465)
Gross profit	**1,401,360**	1,260,546	**573,304**	586,518	**828,056**	674,028
Other income	**56,166**	52,235	**41,687**	21,903	**14,479**	30,332
Selling and distribution costs	**(1,223,114)**	(1,323,946)	**(614,052)**	(653,669)	**(609,062)**	(670,277)
Administrative expenses	**(244,833)**	(249,191)	**(124,495)**	(121,600)	**(120,338)**	(127,591)
Impairment of right-of-use assets and property, plant and equipment	**–**	(86,978)	**–**	(10,195)	**–**	(76,783)
Other gains - net	**11,907**	19,238	**7,696**	936	**4,211**	18,302
Operating profit(loss)	**1,486**	(328,096)	**(115,860)**	(176,107)	**117,346**	(151,989)
Finance income	**3,253**	3,049	**1,177**	1,567	**2,076**	1,482
Finance costs	**(19,100)**	(11,778)	**(8,605)**	(5,853)	**(10,495)**	(5,925)
(Loss)/profit before income tax	**(14,361)**	(336,825)	**(123,288)**	(180,393)	**108,927**	(156,432)
Income tax credit/(expenses)	**72,608**	(6,907)	**(9,895)**	(1,208)	**82,503**	(5,699)
Profit/(loss) for the year attributable to owners of the Company	**58,247**	(343,732)	**(133,183)**	(181,601)	**191,430**	(162,131)

Our Business

Headquartered in Chai Wan, Hong Kong SAR, the Group's operations cover online and offline retail and wholesale sales channels in Hong Kong and Macau SARs, Mainland China, and Southeast Asia, and also online sales in certain locations in the rest of the world. The Group has regional offices in Kuala Lumpur, Malaysia and Shanghai, Mainland China.

The Group's supply chain management organisation manages warehouses in Hong Kong SAR and Malaysia, and third-party warehouses in Mainland China. The Group has invested in supply chain innovation, digitalisation and sustainability to drive efficiency and support quality standard for which we offer a 30-day return policy to customers. During the year ended 31 March 2023 (the "**Financial Year**"), the Group enhanced its ecommerce handling capacity through deployment of automated guided vehicles ("**AGV**"). These supply investments enable and support our ecommerce operations beyond our core home markets and into Southeast Asia, North America, Australia and New Zealand.

The Group positions itself around its purpose of "***Making Life Beautiful***", as a one-stop beauty specialty platform and the go-to place for professional, quality and trending skincare, colour cosmetics and fragrance products, differentiating itself from the market and offering uniqueness. To cater for the growing needs of customers, the Group has introduced new categories such as inner beauty, personal care products and beauty equipment with a view to raising their sales mix over time.

The Group is laser-focused on managing its product offerings by reviewing its core product categories and ensuring that it carries trending brands and products. The Group is also actively seeking partnerships with brands and enhancing its portfolio of exclusive brands and develop these brands with the brand owners. The Group's standards of excellence in retail management and unique team of professional beauty consultants make it an ideal partner for brands looking for a presence in Asia and for professional beauty consultants to effectively communicate their brand story to consumers.

In line with this focus, the Group regularly renews how it displays and promotes brands and products both in-store and online to heighten awareness of what is trending and educate regarding functionality. Accordingly, the Group increasingly adopts theme-based promotional campaigns aligned to the seasons and other external factors.

Financial Performance

Summary

CHART 1:

(HK$ Million)	Turnover Offline	Turnover Online	Turnover Total	Year-on-year change	% to Group Turnover (%)
HK & Macau SARs	$2,373.3	$230.5	$2,603.8	▲ 8.7%	74.4% (LY: 70 2%)
Mainland China	$225.2	$294.9	$520.1	▼ 31.1%	14.9% (LY: 22 1%)
Southeast Asia	$300.0	$72.0	$372.0	▲ 43.8%	10.6% (LY: 7 6%)
Others	–	$4.6	$4.6	▲ 0.7%	0.1% (LY: 0.1%)
Total	$2,898.5	$602.0	$3,500.5	▲ 2.6%	100.0%

For the year ended 31 March 2023

Cost structure optimisation and gross margin expansion providing platform for profitable growth

During the Financial Year, the Group's turnover amounted to HK$3,500.5 million, representing an increase of 2.6% over the previous year, as performance held back by Covid-19 outbreaks in Mainland China and Macau SAR prompting lockdowns in affected cities and towns disrupted our business operations. Offline retail sales and wholesales ("Offline Sales") in Hong Kong and Macau SARs increased by 7.3% to HK$2,373.3 million, Offline Sales in Mainland China decreased by 22.9% to HK$225.2 million while Offline Sales in Southeast Asia increased by 64.9% (in original currency) to HK$300.0 million. The Group operated a total of 186 retail outlets across all regions as at 31 March 2023.

Turnover of the Group's online business decreased by 13.5% to HK$602.0 million for the Financial Year, affected by Covid-19 disruptions in Mainland China where online sales decreased by 33.4%, the only region recording a decrease. Total online business contributed 17.2% to the Group's total turnover (2022: 20.4%), a significant increase as compared to the financial year ended 31 March 2019 immediately before the pandemic ("pre-pandemic period"). The total online business recorded a loss of HK$21.2 million for the Financial Year as compared to a profit of HK$6.9 million for the previous year as a result of Covid-19 pandemic impact in Mainland China and the strength of the Hong Kong dollar against a basket of currencies including the Renminbi.

In terms of category sales, during the peak of the pandemic, the Group seized the opportunity from growth of personal protective equipment ("PPE"), and more recently the demand for post Covid-19 recovery health food and supplements. Since the fourth quarter, focus has switched to make-up which has made a strong recovery post relaxation of pandemic measures including the requirement to wear a protective mask. The Group continues to strengthen product sourcing to enrich the product portfolio and aside from our core categories of skincare, make-up and fragrance, is beginning to grow additional categories including inner beauty, personal care and beauty equipment. We will continue to invest in the category extension strategy, explore potential categories, meet market trends and customer needs, and strive to bring more product choices to consumers.

Group profit for the Financial Year was HK$58.2 million, a significant turnaround compared to the loss of HK$343.7 million in the previous year, and the loss of HK$133.2 million for the first half of the Financial Year. Excluding the provision for impairment made in accordance with HKAS 36 that applied to retail store assets (including right-of-use assets and property, plant and equipment), the subsidies for Covid-19 pandemic by local 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 during the year narrowed to HK$54.6 million (an improvement of 81.7%) compared to the previous year.

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 optimization, gross margin expansion and management of inventory on hand.

1) Rigour in adopting zero-based budgeting practices, centralising cost centres to enhance economies of scale and drive cost optimization and negotiating fair rent on lease renewals, has led to a significant improvement in operating costs efficiencies during the Financial Year.

2) Adopting disciplined category management practices, adding to the exclusive brand portfolio and discontinuing less popular and unprofitable lines 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.

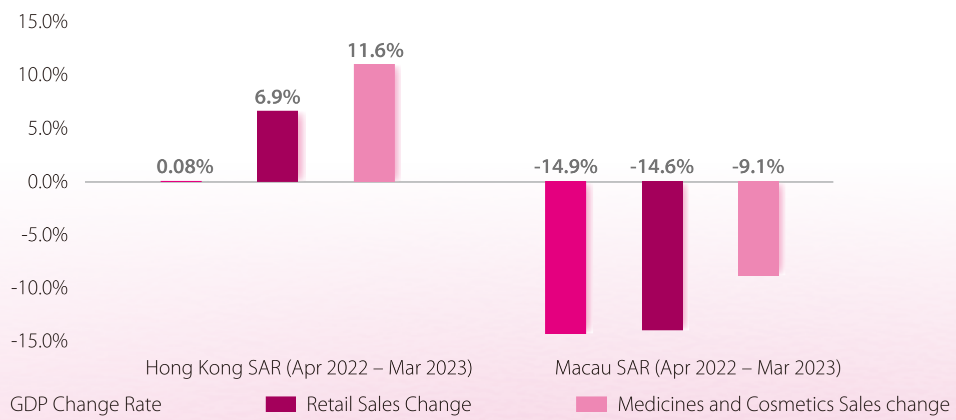
3) Proactively managing inventory, striking a balance between holding sufficient inventory taking into account Covid-19 impacted delivery lead times to ensure adequate stock during peak periods, and the cost of investing in inventory, has led to a reduction in the inventory balance at the year-end. As at 31 March 2023, the Group's inventory was HK$669.5 million, representing a decrease of HK$78.5 million as compared to 31 March 2022, while inventory turnover days was 116 days representing a decrease of 11 days. The Group is increasingly laser-focused on managing product categories, to ensure it introduces trending products and grows category share reinforcing its position as a one-stop beauty specialty platform.

Basic earnings per share amounted to 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).

1. Hong Kong & Macau SARs

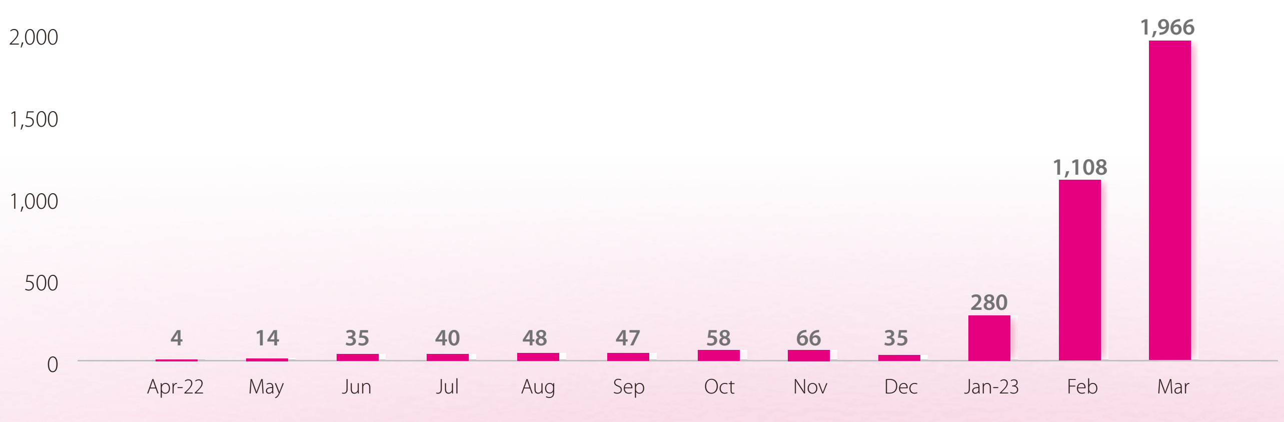
Market Overview

CHART 2: GDP/Retail Sales/Medicines and Cosmetics Sales in F23 (year-on-year change)



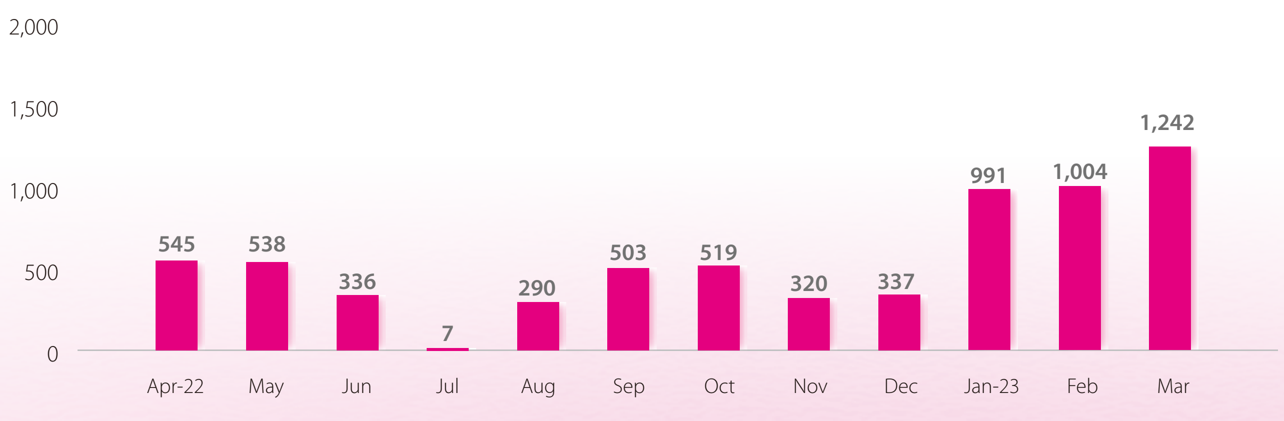
Source: Corresponding governments' statistics bureaus

CHART 3: Mainland Tourist Arrivals in Hong Kong SAR (in thousand)



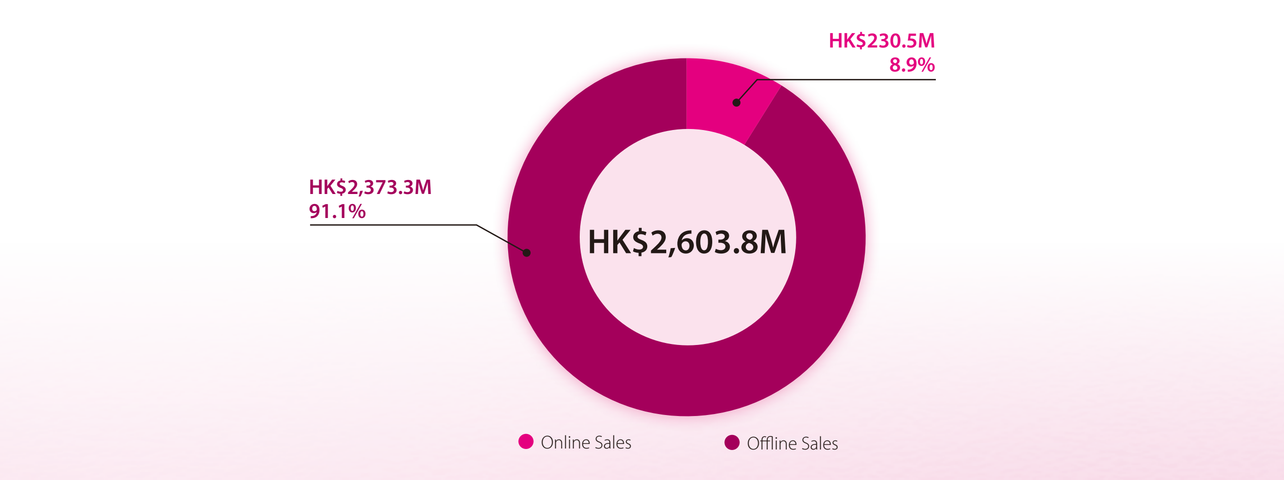
Source: Hong Kong Census and Statistics Department & Hong Kong Tourism Board

CHART 4: Mainland Tourist Arrivals in Macau SAR (in thousand)



Source: Government of Macao Special Administrative Region Statistics and Census Service

CHART 5: HK & Macau SARs Turnover (Online and Offline Channels)



Total Online and 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%.

Offline Sales – Hong Kong & Macau SARs

Hong Kong and Macau SARs is the Group's largest region by turnover Offline Sales in the fourth quarter increased 60.1% despite pandemic and social distancing in the first nine months suppressing the overall performance for the Financial Year

Hong Kong and Macau SARs

CHART 6: Same Store Sales Performance

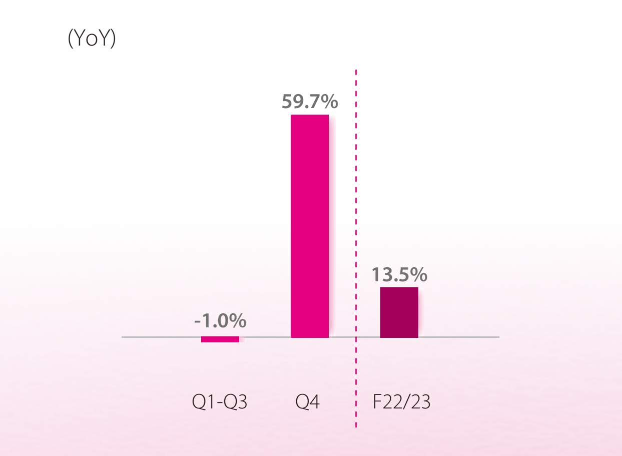
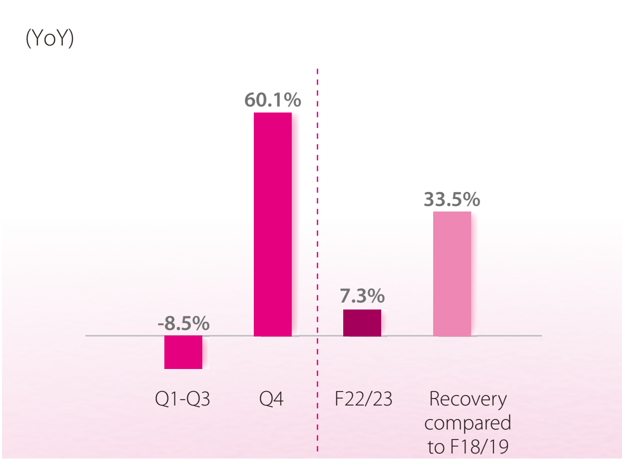


CHART 7: Offline Sales Performance



Offline Sales in Hong Kong and Macau SARs increased by 7.3% to HK$2,373.3 million for the Financial Year, while same store sales increased by 13.5%.

For the first three quarters of the Financial Year, HK and Macau SARs sales performance was 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 insignificant (see CHART 3 and CHART 4 above). For the nine-months ended 31 December 2022, Offline Sales in 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%.

Improving local consumer spending power and product category needs providing solid base for growth in Hong Kong SAR

Hong Kong SAR

CHART 8: Same Store Sales Performance

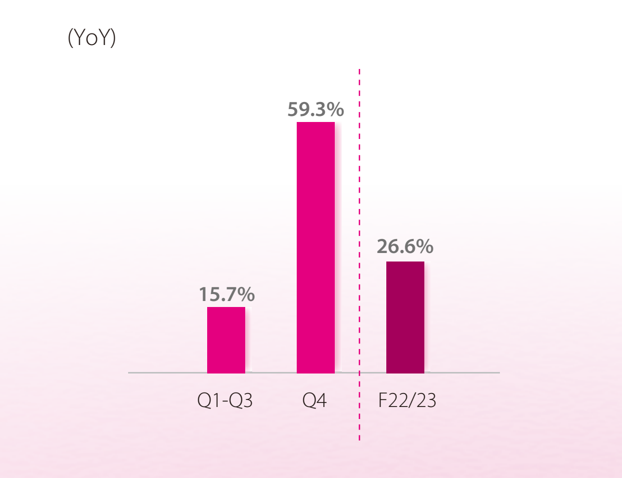
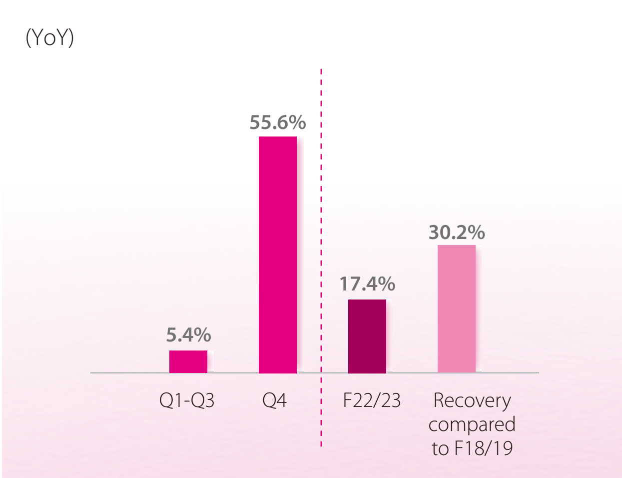


CHART 9: Offline Sales Performance



For the first three quarters of the Financial Year, prior to the boundary reopening, sales to local consumers accounted for 95% of our Offline Sales in Hong Kong SAR growing by 3.0% as compared to the same period in the previous financial year. Following the return of tourists in the fourth quarter, despite local sales mix reducing to 75%, growth of sales to local consumers grew by 19.7% compared to the same period in the previous year that was heavily impacted by the fifth wave of Covid-19 in Hong Kong SAR.

The Hong Kong SAR Government continued with the Consumption Voucher Scheme ("CVS") in April, August and October 2022 to bolster local consumer spending. While we are seeing the positive impact of such scheme to local retail spending diminishing with each time as the amount of the CVS reduces, it is a welcome jolt to local retail.

The Group leveraged the gradual improvement in local consumer sentiment during the Financial Year and the CVS 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.

The Group further bolstered sales growth throughout the Financial Year by targeting trending product categories. During the first three quarters, 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, and demand for make-up, colour cosmetics and fragrance moved swiftly upwards.

Re-opening of boundaries with Mainland China and relaxation of social distancing in the fourth quarter

Covid-19 pandemic measures in Hong Kong SAR were eased on 8 January 2023 with partial resumption of cross-boundary travel between Hong Kong SAR and Mainland China while boundaries were fully free of restrictions from 6 February 2023. Hong Kong SAR reported 0.3 million, 1.1 million and 1.9 million tourist visits in January, February and March 2023, respectively. While Covid-19 remains, consumers are adapting to the new norm and sentiment towards Covid-19 has somewhat relaxed.

Similarly, Macau SAR reduced the requirement of visitors to provide a negative polymerase chain reaction ("PCR") test within 24 hours of arrival to 72 hours of arrival with effect from 19 December 2022, and further removed the requirement for Hong Kong residents on 23 December 2022 and then for Mainland residents from 8 January 2023.

Following the relaxation of these measures, and hence reopening of boundary with Mainland China, Offline Sales in Hong Kong and Macau SARs in the fourth quarter ended 31 March 2023 increased 60.1% year-on-year and 41.1% as compared to the previous quarter. Sales mix of Mainland Chinese tourists in Hong Kong and Macau SARs recovered to 41.1% in the fourth quarter which compares with approximately 70% during the pre-pandemic period.

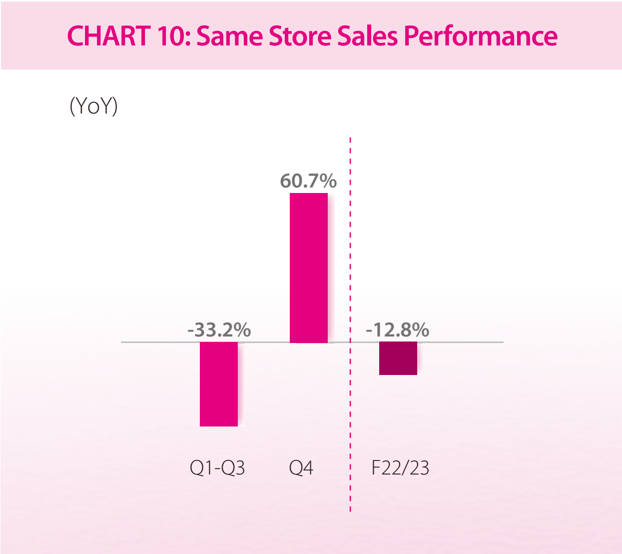
Accelerated growth in Hong Kong SAR driven by tourism

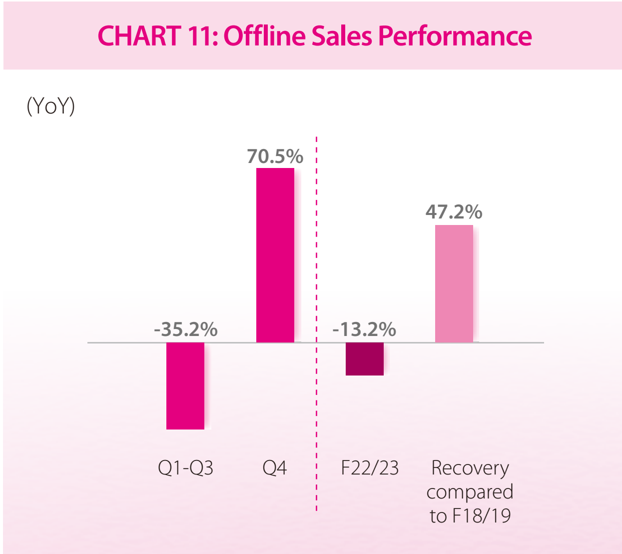
For the fourth quarter ended 31 March 2023, benefiting from the return of the Mainland Chinese tourists, Offline Sales in Hong Kong SAR increased by 55.6% year-on-year or 25.1% compared to the previous quarter ended 31 December 2022. Compared with the same period of the pre-pandemic period, turnover has recovered to approximately 40%.

We expect the return of Mainland China tourists to continue at a gradual pace as the Mainland China economy also emerges from the pandemic, consumer spending power recovers and people begin to travel once again. This will have an ongoing positive impact on our performance in Hong Kong SAR as it ranks consistently within the top holiday destinations for Mainland Chinese while beauty products also feature high on their travel shopping basket.

On the other hand, with open boundaries, we have also seen a sharp increase in outbound travel from Hong Kong residents during long holiday stretches such as Christmas 2022 and New Year 2023, Chinese New Year 2023 and Easter 2023. Outbound travel numbers as reported by the government of the Hong Kong SAR for these holiday periods were approximately 0.50 million, 0.05 million, 0.45 million and 0.40 million, respectively. It is clear that sales to local customers are significantly impacted by changing policy measures and that there is a period of adaptation and transition as the economy rebalances move towards a new norm.

Macau SAR





Rapid return of Mainland Chinese tourists to Macau SAR driving sales growth in the fourth quarter

Macau SAR has a population of approximately 0.67 million as of 31 March 2023 and its economy relies on tourism and its status as Asia's gaming hub. During the first three quarters, Macau SAR was impacted by intermittent Covid-19 outbreaks which led to a tightening of social distancing measures including quarantine for inbound tourists. Accordingly, the number of inbound Mainland Chinese visitors was significantly reduced compared with that of pre-pandemic period, see CHART 4. Consequently, Offline Sales in Macau SAR 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, we saw a rapid return of Mainland Chinese tourists to Macau SAR and at a much faster pace compared with Hong Kong SAR. Sales for the fourth quarter increased 70.5% year-on-year to or an increase of 93.8% compared to the previous quarter and representing a recovery of approximately 77% compared to the pre-pandemic period.

We currently operate nine stores in Macau SAR and eight are located in key tourist locations. These are of a larger format allowing for a larger handling capacity.

Store network strategy – Positioning store network for market recovery

Offline Sales in Hong Kong SAR increased by 17.4% during the Financial Year, while same store sales increased by 26.6% despite a net decrease of six stores to 70 as at 31 March 2023. The Group successfully generated same store sales growth in Hong Kong SAR throughout the first three quarters of the Financial Year prior to reopening of boundaries, which then spiked at 59.3% for the fourth quarter due to a return of tourism.

The stickiness of our loyalty programme, particularly in respect of local consumers, driven by Sa Sa's team of professional in-store beauty consultants is one of the core reasons the Group can deliver same store sales growth and overall sales growth from less stores. This provides much more attractive unit economics in terms of both rental and frontline staff cost efficiency.

In accordance with our network strategy, during the Financial Year, 11 expiring leases in prime tourist districts in 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 related depreciation in the future. In addition, the Group relocated two stores in a residential area in Hong Kong SAR and one in Macau SAR. The Group is on the lookout for stores of the right-size located in local areas and also heavy footfall stores in core tourist districts in Hong Kong SAR that complement our existing store network, and which make economic sense. Collectively, these initiatives will further optimise our retail network and position Sa Sa to benefit as the market continues to recover.

Core tourist districts in Hong Kong SAR remain Tsimshatsui, Mongkok, Causeway Bay and cross-boundary travel hubs at West Kowloon station and Lok Ma Chau station. As at 31 March 2023, the Group had a total of 26 stores located in core tourist areas in Hong Kong and Macau SARs (pre-pandemic period: 46 stores). By the fourth quarter of the Financial Year, our tourist sales mix in total was 43.3% compared with 70% in the pre-pandemic period giving confidence over the future growth trajectory. Post end of the Financial Year, the Group signed 3 new leases with 2 in core tourist districts in Hong Kong SAR. The new stores will be opened for business in the first quarter of the new financial year.

Online Sales – Hong Kong & Macau SARs

CHART 12: Online Sales Mix

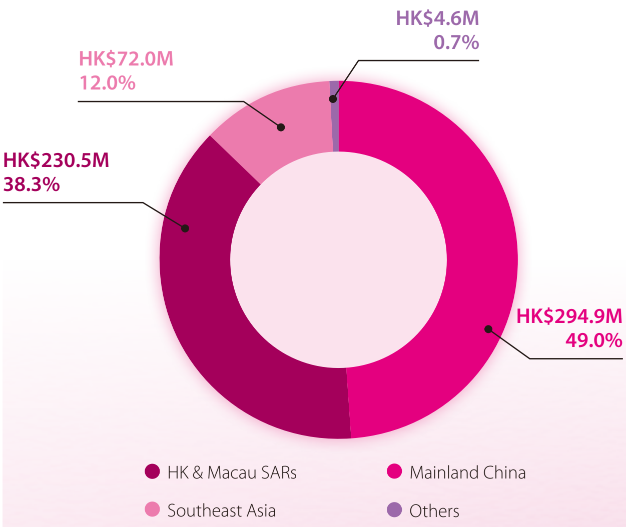
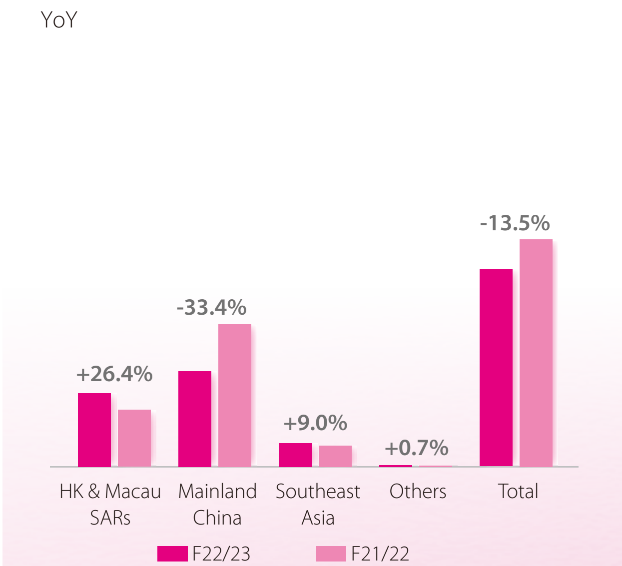


CHART 13: Online sales growth in different regions



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

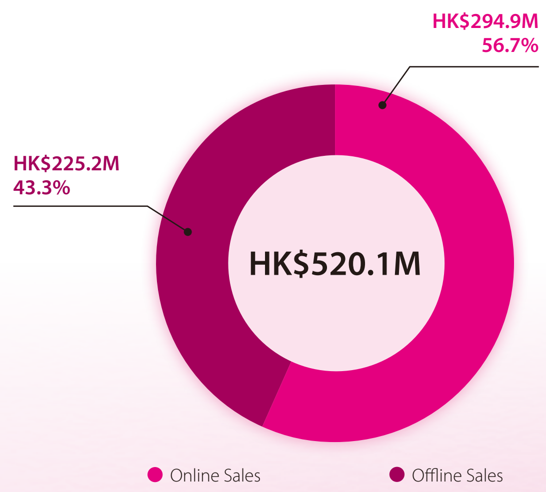
Total online sales in Hong Kong and Macau SARs through our own channels and third-party platforms increased by 26.4% year-on-year to HK$230.5 million, accounting for 38.3% of the Group's total online sales. Consumer adoption of new retail formats and growth of online sales in Hong Kong and Macau SARs continued to accelerate at pace. Our online penetration has improved rapidly since pre-pandemic period with online sales mix as a percentage of total sales in Hong Kong and Macau SARs for the Financial Year increasing to 8.9% from 7.6% in the previous year. Online sales in Hong Kong and Macau SARs recorded a profit of HK$11.6 million for the Financial Year (2022: HK$15.0 million).

Apart from own managed channels, the Group is also present on third-party platforms, such as HKTV Mall, and continues to explore new retail models. Although still in its infancy, the Group's online-merge-offline ("OMO") strategies are contributing towards online sales growth and the Group is looking to accelerate its OMO development over the next financial year. Buy online pick-up in store ("BOPIS") is proving to be a popular route-to-consumer where customers can also experience the comprehensive and caring services provided by our professional beauty consultants when they pick up the products in person and receive a truly seamless OMO experience.

The engagement between professional beauty consultants and customers has been extended to online channels where customers can contact our professional beauty consultants and the Group is looking to enhance its Customer Relationship Management ("CRM") programme and CRM infrastructure going forward to be able to provide a more personalised omni-channel shopping experience.

2. Mainland China

CHART 14: Mainland China Turnover (Online and Offline Channels)



Mainland China severely hampered by Covid-19 outbreak and social distancing measures

Mainland China endured a tumultuous year, virtually the world's last outpost until Covid-19 began to rear its head in April 2022. At first limited to a few cities, it gradually appeared across the country. Strict social distancing and quarantine policies were adopted in response until December 2022, when social distancing measures were relaxed.

Offline Sales – Mainland China

Mainland China

CHART 15: Same Store Sales Performance*

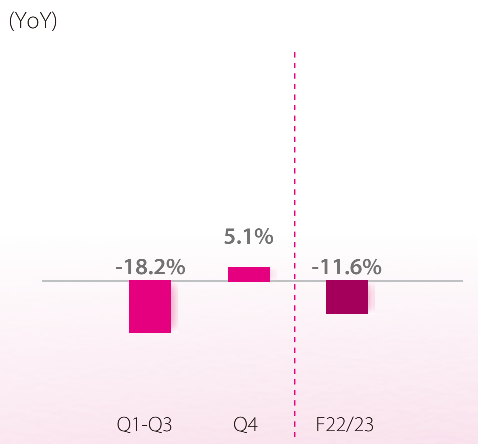
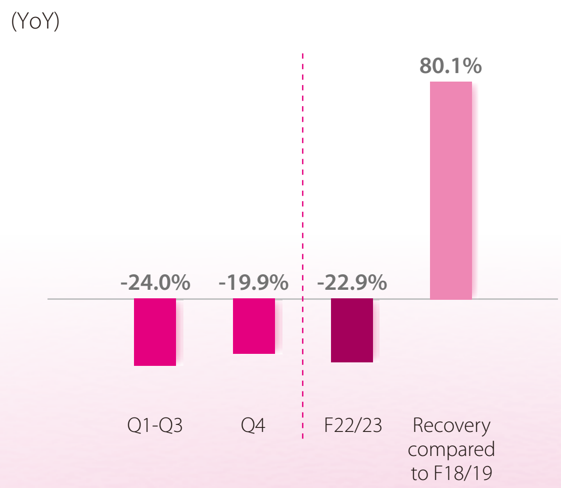


CHART 16: Offline Retail Sales Performance*



* In local currency

Pandemic outbreaks in various parts of Mainland China period lowered foot traffic in our retail stores and prompted lockdowns in affected cities and towns in more severe cases. For the first three quarters, there was a total of 758 lost operating days across our store network due to quarantine.

Market	As of 31 Mar 2022	Opened	Closed	As of 31 March 2023
Mainland China	77	–	40	**37**

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 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) as operating efficiencies and stickiness of our membership programme kicked-in. While it will take time for consumer sentiment to improve, this is an encouraging step.

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 to a lesser extent by 11.6%. The Group's loss in Mainland China for the Financial Year decreased by 69.2% to HK$44.5 million compared to the previous year with the loss in the second half of the Financial Year narrowing significantly to HK$0.9 million from HK$43.6 million in the first half of the Financial Year.

Online Sales – Mainland China

The majority of our online sales in Mainland China is conducted via a cross-boundary model on the Group's Wechat mini-store and third-party platforms.

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 significantly continues to contribute the highest to the Group's total online sales at 49.0%, but this has decreased significantly from 63.6% in the previous financial year due to Covid-19 disruptions in Mainland China and Hong Kong SAR online sales growing significantly.

The first half of the Financial Year saw Covid-19 severely disrupting cross-boundary logistics arrangements into Mainland China, 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.

Key online shopping festivals including 618, double 11 and double 12 in June, November and December respectively, were severely challenged given Covid-19 impact on the economy. Unhealthy price competition became a theme as brands and retailers sought to deplete inventories. The Group also reduced inventories but also strived to avoid excessive price competition and this challenged topline growth but reduced losses.

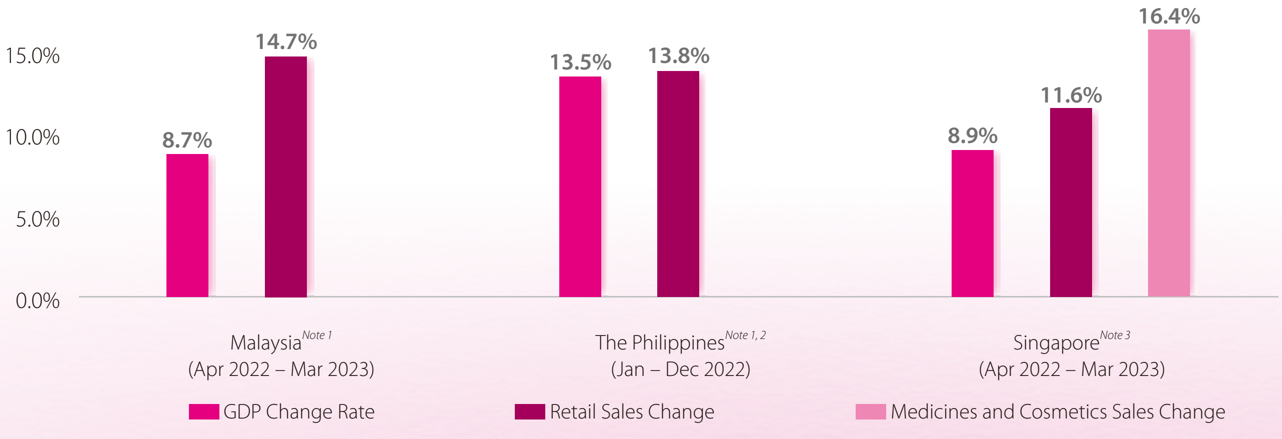
With social distancing measures relaxed by the fourth quarter, logistics challenges began to ease. It will, however, take time for consumer sentiment to recover, to re-engage with customers and for customers to rebuild confidence in cross-boundary delivery.

Due to these factors, the Group's online business in Mainland China recorded a loss of HK$28.0 million for the Financial Year. However, cost control measures and margin management policies meant a turnaround from loss to a marginal profit of HK$2.7 million by the fourth quarter.

3. Southeast Asia

Offline Sales – Southeast Asia

CHART 17: GDP/Retail Sales/Medicines and Cosmetics Sales (year-on-year change)

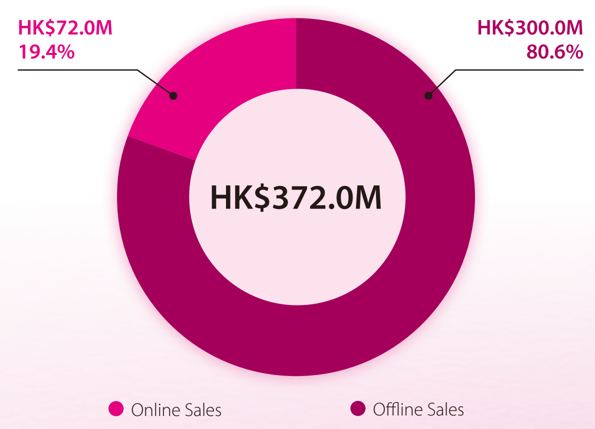


Note:

1. No cosmetics retail sales statistics are provided by the governments of Malaysia and the Philippines.
2. This is the figure of Retail and Wholesale Trade since there was no individual figures for wholesale or retail provided by the government of the Philippines.
3. "Cosmetics, Toiletries and medical goods" as classified by the government of Singapore.

Our offline presence in Southeast Asia is through a network of 70 stores in Malaysia (2022: 72). 1 April 2022 marked the beginning of the transition to the post pandemic economy for Malaysia. A new set of standard operating procedures was introduced by the Malaysian government, and restrictions on the opening hours of retail shops were removed, interstate travel was allowed and fully vaccinated overseas visitors could enter Malaysia without quarantine. GDP growth for the Financial Year was 8.7% reflecting the positive outcomes for the economy from this policy relaxation.

CHART 18: Turnover of Southeast Asia (Online and Offline Channels)



Southeast Asia

CHART 19: Same Store Sales Performance*

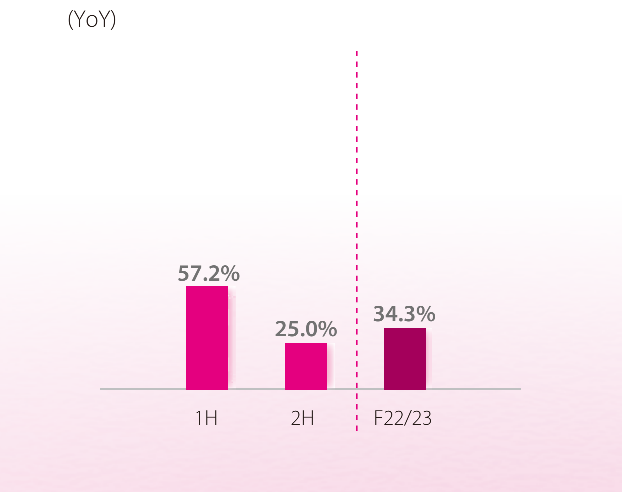
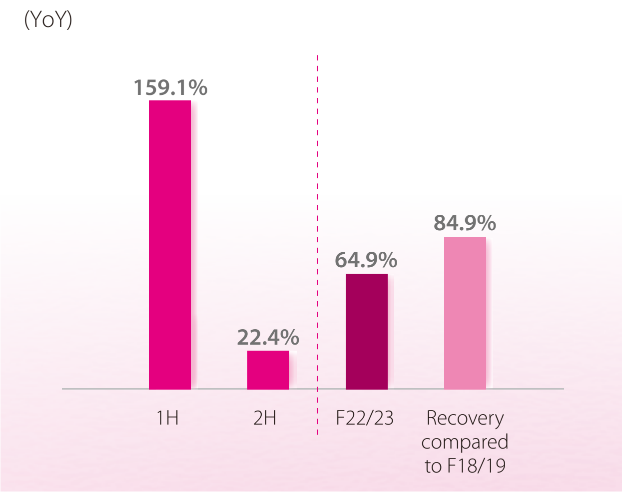


CHART 20: Offline Sales Performance*



* In local currency

Offline Sales in Malaysia increased significantly by 64.9% in local currency to HK$300.0 million for the Financial Year, while same store sales increased by 34.3%.

Market	As of 31 Mar 2022	Opened	Closed	**As of 31 Mar 2023**
Malaysia	72	4	6	**70**

During the worst of the Covid-19 outbreak in Malaysia, the Group aggressively trimmed operating costs and increased productivity and hence was well placed to act with agility and took advantage of the government's policy relaxation. While sales continued to recover during the Financial Year, the Group kept operating costs low, resulting in a profit of HK$22.9 million in Malaysia during the Financial Year compared to a loss of HK$7.5 million in the previous financial year.

The business unit has been actively progressing the Group's ethos of "building brands" and collaborated with brand partners during the Financial Year to operate pop-up sales events in trending malls, for example, Mercedes-Benz Parfum "Celebrate Together" Christmas Roadshow held at Sunway Pyramid from 6 to 11 December 2022 and, "Sa Sa Scent Sensation Fragrance Roadshow" held at IOI City Mall from 6 to 12 March 2023 and again at Mid Valley from 8 to 14 May 2023. For these events, the Group partnered with multiple brands such as Marc Jacobs, Hugo Boss, Calvin Klein, Davidoff, MCM, Versace, Marina de Bourbon, Mercedes-Benz Parfum, etc. The roadshows helped to drive awareness for the brands involved and Sa Sa, and also resulted in direct sales.

Online Sales – Southeast Asia

Our online presence in the region is mainly through two third-party platforms, Shopee and Lazada, reaching Singapore, Malaysia and the Philippines. The Group had been consistently ranked number one on both platforms in Singapore and Malaysia among cross-border merchants in the beauty and health category. Total online sales in Southeast Asia amounted to HK$72.0 million for the Financial Year growing at 9.0%.

Other Jurisdictions

The Group's online sales in markets outside Hong Kong SAR, Macau SAR, Mainland China and Southeast Asia are conducted via online third-party channels and an international website, which are currently at a preliminary stage.

Future Outlook

Sustainable profits and long-term growth

The Group adopted a mindset of achieving sustainable profit in spite of the tough operating environment during the first nine-months of the Financial Year 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. These initiatives remain in place and enhance the Group's competitiveness and ability to be more resilient and achieve sustainable business growth as tourists return.

The Group continued to streamline its physical store network and negotiate fair rent on lease renewals during the Financial Year. The Group also minimised unnecessary and non-productive expenses to reduce fixed costs of our offices and stores. The Group implemented a series of initiatives to optimise its operations including acceleration of digitalisation, optimise people structures and enhance operational efficiency. One such initiative is the creation of Centres of Excellence to centralise administration and management functions while expediting the progress of digitalisation.

As at 31 March 2023, the Group's net cash (after deducting utilised bank borrowings) increased by HK$79.0 million to HK$273.3 million. With further unutilised banking facilities of approximately HK$240.2 million, the Group has adequate funding for its operating needs. In addition, Dr Kwok Siu Ming Simon and Dr Kwok Law Kwai Chun Eleanor, the executive directors and controlling shareholders of the Company, continue to make a revolving loan facility of up to HK$200.0 million available to the Group thereby strengthening the Group's financial position, as well as demonstrating the support from the controlling shareholders and their confidence in the long-term prospects of the Group's business.

Hong Kong and Macau SARs

Tourist traffic is so far concentrated in our stores in traditional core tourist areas of Tsimshatsui, Causeway Bay and Mongkok as well as cross-boundary travel hubs at West Kowloon station and Lok Ma Chau station and has yet spread to other areas. The Group currently has 26 stores (pre-pandemic period: 46 stores) in core tourist areas in Hong Kong and Macau SARs.

Our tourist sales mix in the fourth quarter of the Financial Year in total was 43.3% compared with 70% in the pre-pandemic period. 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 77% of pre-pandemic levels during the fourth quarter and we expect that market to fully recover eventually.

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.

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 frontline staff and new leases, 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 is more engaging in the offline environment, 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 BOPIS, engage consumers with related promotions and build a holistic shopping experience. As far as BOPIS is concerned, the Group has innovated new packaging that will significantly reduce both our carbon footprint and the size of packaging for pick-up in store. In so doing, it will reduce the in-store space required to hold these packages and increase capacity to provide this service. The Group will also continue to provide industry-leading training to frontline professional beauty consultants strengthening our competitive edge.

To cater for the trend of livestreaming in the region that tends to attract younger consumers, the Group will explore collaborations that will drive profitable sales.

Mainland China

Mainland China remains a core focus of the Group's long-term strategy. Clear of market uncertainty caused by the Covid-19 social distancing policy, the Group is now able to conduct business under normal plannable operating conditions. 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 around exclusive brands and invest to increase the product assortment.

In sync with the offline business, the online business will also 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. While technically online allows the Group to provide an "endless aisle", the Group will explore how it manages Group inventory in the region to enhance efficiencies and reduce inventory holding costs.

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. The Group will leverage this team to further enhance its CRM programme and drive OMO opportunities. The Group introduced a new Skin Detection device in its Mainland China stores in December 2022, which provides a personalised skin analysis report to customers via Wechat to address their needs and digitally connect with them. This allows product recommendations to be provided and brings closer the relationship between Sa Sa professional beauty consultants and customers.

The Group has established a project team to enhance its CRM programme through integrating member pools from online and offline channels in Hong Kong and Macau SARs as well as Mainland China, to better position ourselves to track consumer preferences and shopping behaviour, where permission is granted and in accordance with the law, through data collected and analysis, and leverage digital marketing tools to provide personalised recommendations and targeted marketing campaigns. These initiatives will enhance customer loyalty and repurchase rate to achieve higher return on marketing investments. Through the data collected over time, the Group will enhance labelling and provide personalised product recommendations to further enhance customer experience. While this is in its infancy, we are seeking to leverage our CRM and communicate with customers with a view to increasing member activity and raising customer lifetime value.

One of the Group's core strategic pillars is to enhance and nurture a portfolio of brands. To this end the Group will invest in exclusive products, strengthening promotion on popular social media platforms and digital channels, enhancing brand image and highlighting product features, collaborating with influencers to promote and increase brand awareness, and credibility among target consumers. The Group will launch online brand flagship stores for selected exclusive brands, which will increase market awareness and allow for tailored brand management and sales penetration. While customer acquisition remains important, exclusive brands will better enable the Group to maintain customer loyalty. The Group will also focus on fostering an online Sa Sa community sharing user experience and promoting user product reviews, interacting with consumers to strengthen word-of-mouth marketing.

The Group will continue to optimise website and mobile application design to enhance the customer shopping experience, improve the user journey, shorten the time and clicks required to locate desired products and complete purchase.

Southeast Asia

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 the Group is on the lookout for possible new store openings that will add to the Group's store portfolio and enable the Group to grow further. The Group is also actively seeking to open one or two flagship stores in Singapore to complement the Group's online presence in the region.

The Malaysian economy has been facing some macro headwinds, (i) the national minimum wage was raised by 25% to RM1,500 per month from 1 May 2022, which impacts directly Sa Sa's labour cost which will in turn fuel increases in other costs; (ii) a weak Malaysia Ringgit; and (iii) in November 2022, Bank Negara raised the overnight policy rate ("OPR") by 25 basis points to 2.75%, the fourth increase in a year. Accordingly, Malaysian households faced reduced purchasing power due to higher monthly loan repayments while consumer spending is driven by higher expenditure on transport, housing, and utilities.

The main challenge for the local economy is the rising cost of living for consumers. 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 CRM and strengthening brand relationships to build a portfolio of exclusive brands and unique product offerings.

Other Jurisdictions
The Group leverages existing infrastructure and collaboration mainly with third-party ecommerce platform, Amazon.com, to reach ethnic Chinese community living abroad in Australia, New Zealand and the North America, with whom the Sa Sa brand carries brand awareness. Average order value for these jurisdictions tends to be much higher to cover the cost of delivery while customer loyalty is also proving to be sticky. Sales growth is expected to be steady yet marginally profitable.

Financial Year 2023/24 Q1 Sales Data
For the first quarter from 1 April to 11 June 2023, the Group's total turnover increased by 31.9% compared to same period of last year. Online and Offline Sales, as well as year-on-year changes of turnover of different regions are shown in the table below:

	Turnover				
HK$ Million	**Offline**	**Online**	**Total**	**Year-on-year change**	**% of Group Turnover**
HK & Macau SARs	$664.8	$37.4	$702.2	+51.2%	82.6%
Mainland China	$37.8	$38.9	$76.7	-27.0%	9.0%
Southeast Asia	$56.5	$12.9	$69.4	-7.6%	8.2%
Others	–	$2.0	$2.0	+3,570.0%	0.2%
Total	$759.1	$91.2	$850.3	+31.9%	100.0%

Human Resources
As at 31 March 2023, the Group had approximately 2,600 employees. The Group's staff costs for the year under review were HK$661.9 million. Details on our human resources initiatives, training and development will be set out in the environment, social and governance report and the enterprise risk management report sections of the annual report for the year ended 31 March 2023.

Financial Review

Capital Resources and Liquidity
As at 31 March 2023, the Group's total equity amounted to HK$1,041.2 million including reserves of HK$730.9 million. The Group continued to maintain a strong financial position with working capital of HK$404.9 million that included net cash and bank balances of HK$273.3 million, while unutilised banking facilities were approximately HK$240.2 million. In addition, a revolving loan facility of up to HK$200 million was also made available to the Group on 31 March 2022 by Dr Kwok Siu Ming Simon and Dr Kwok Law Kwai Chun Eleanor, the executive directors and controlling shareholders of the Company. The facility has further strengthened the Group's financial position, demonstrating the support from the controlling shareholders and their confidence in the long-term prospects of the Group's business. After taking into account the anticipated cash inflow from operations and the continued availability of the Group's banking and shareholder loan facilities, the Group has adequate liquidity and financial resources to meet its working capital requirements and operating needs in the next twelve months from the balance sheet date.

During the year, the majority of the Group's cash and bank balances were in Hong Kong dollar, Malaysian Ringgit, Renminbi, US dollar and Macau Pataca, and deposited in reputable financial institutions with maturity dates falling within a year. This is in line with the Group's treasury policy to maintain liquidity of its funds and continue to contribute a relatively stable yield to the Group.

Financial Position
Total funds employed (representing total equity) as at 31 March 2023 were HK$1,041.2 million, representing a 5.9% increase over the funds employed of HK$982.9 million as at 31 March 2022.

The gearing ratio, defined as the ratio of total borrowings to total equity, was 2.9% as at 31 March 2023 (31 March 2022: 10.4%).

Treasury Policies

It is the Group's treasury management policy not to engage in any highly leveraged or speculative derivative products. In this respect, the Group continued to adopt a conservative approach to financial risk management. Most of the assets, receipts and payments of the Group are denominated either in Hong Kong dollar, US dollar, Euro, Renminbi or Malaysian Ringgit. Based on purchase orders placed, the Group enters into forward foreign exchange contracts with reputable financial institutions to hedge against foreign exchange exposure arising from non-Hong Kong dollar or non-US dollar denominated purchases. These hedging policies are regularly reviewed by the Group.

Charge on Group Assets

As at 31 March 2023, land and buildings with carrying value amounted to HK$100.6 million (31 March 2022: HK$106.1 million) was pledged for banking facilities made available to the Group.

Contingent Liabilities

The Group had no significant contingent liability as at 31 March 2023.

Capital Commitments

As at 31 March 2023, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$4.2 million.