Sa Sa Announces Interim Results 2020/21

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COVID-19 Speeds Up Development of E-commerce
Accelerates Expansion of Retail Network in Mainland China

(19 November 2020 - HONG KONG) - **Sa Sa International Holdings Limited** ("Sa Sa" or the "Group", stock code: 0178) announced its interim results for the six months ended 30 September 2020 (the "Period").

COVID-19 dealt a heavy blow to the Group, causing the turnover at its continuing operations to decrease by 62.1% to HK$1,286.1 million. Sales of retail and wholesale in Hong Kong and Macau SARs decreased by 70.4% year-on-year to HK$856.0 million. Taking into account the discontinued operation, the Group incurred a loss of HK$242.0 million for the Period, compared to a loss of HK$36.5 million recorded for the previous period. Excluding the provision for impairment of HK$46.1 million made in accordance with Hong Kong Accounting Standard 36 ("HKAS 36") that applied to retail store assets (including right-of-use assets and property, plant and equipment), a loss for the Group of HK$201.8 million was recorded for the continuing operations during the Period. The total number of the Group's retail outlets in its continuing operations decreased from 244 last year to 231 as of 30 September 2020.

In order to retain sufficient working capital and maintain liquidity, the Group's top priority is to implement stringent inventory and cost management. During the period, the Group conducted clearance sales of products with high inventory levels, shorter shelf-lives or lower turnover rates. As a result, the Group's inventory decreased to HK$825.7 million as of 30 September 2020, which was a reduction of HK$180.2 million as compared to the end of March 2020. As of 30 September 2020, cash and bank balances totalled HK$593.6 million. These are adequate to meet the needs of the Group's current business operations.

Basic loss per share was 7.8 HK cents (2019: 1.2 HK cents). In view of the challenging and uncertain business environment in its operating markets, the Board does not propose an interim dividend (2019: Nil).

<u>Business Review</u>

Since early 2020, the COVID-19 outbreak together with escalating Sino-US tensions have aggravated the already weakened local consumption in **Hong Kong and Macau SARs**. To impede the spread of COVID-19 during the Period, the Hong Kong and Macau SAR governments introduced border control measures and suspended the individual visit scheme for Mainland Chinese visitors. In the process they literally put a stop to tourist arrivals and substantially curtailed the entire retail industry, which relies heavily on tourism. This inevitably struck a heavy blow to the Group's business in Hong Kong and Macau SARs. The Group's retail sales dropped by 70.8% year-on-year in the first half of FY2020/21 in the Hong Kong and Macau SARs, while same-store sales there declined by 66.9% year-on-year. A breakdown of the data shows a year-on-year decrease of 98.2% and 11.9% in sales to Mainland Chinese tourists and locals respectively.

On a positive note, the Macau SAR government rolled out a consumption subsidy scheme in two phases to stimulate local consumption. As the Macau SAR reopened its borders for visitors from multiple cities in Mainland China in mid August, and further extended the measures to all Mainland Chinese visitors at the end of September, tourist arrivals increased quarter on quarter. The Group's overall sales in the second quarter increased by 95.6% compared to the first quarter of the financial year. While the Hong Kong SAR maintained stringent border control measures, the performance of the Group's business in the Hong Kong SAR did not improve notably in the second quarter of the financial year.

To cope with the challenging business environment, the Group has actively rationalized its store network since September last year. It closed down stores with poor performance in the tourist areas or stores with unsatisfactory rental reduction in order to reduce cost of the physical retail network. The Group closed six more stores, with the majority of them located in Hong Kong SAR's tourist districts such as Tsim Sha Tsui and Causeway Bay, in the first half of the financial year as their leases expired. This followed the closure of nine stores in the second half of the Group's previous financial year. During the first half of the Group's financial year, rental concessions increased HK$57.4 million year-on-year. Total savings from the above together with store closures, and shop rental reductions upon contract renewals amounted to HK$150.3 million in the first half of the year as compared to the same period last year. Meanwhile, the Group further streamlined its operations and strengthened digitalisation and automation in order to reduce costs and enhance operational efficiency. During the Period, staff costs of the Group's operations in the Hong Kong and Macau SARs were reduced by HK$185.8 million.

During the Period, the Group introduced various products in response to market demand and trends to cater for local customers' needs and preferences, including protective products, personal care and health supplement products. The Group also improved its in-store product displays to drive sales, launched a diverse line-up of promotional activities, and enhanced promotion through social media. All these measures were aimed at stimulating consumption by locals in order to build a stable and loyal local customer base. Considering that inventory levels as at the end of September declined significantly year-on-year, the Group has proactively introduced new products since the second quarter to increase gross profit margin and enhance sales performance, therefore gross profit margin started to rebound in October.

At the Group's operations in **Mainland China**, total turnover during the Period decreased by 10.0% year-on-year in local currency terms to HK$117.3 million, while same-store sales in local currency terms dipped by 1.0% year-on-year. The Group's operations there continued to be affected by the pandemic as the Chinese government continued with strict preventive measures, which led to a decline in footfall at its stores during the Period. Following the stabilisation of the pandemic situation, sales of the Group started to pick up steadily with a narrowing decline in same store sales. Consequently, same store sales in the first half year slightly dropped 1.0% year-on-year.

Another noteworthy development was that the COVID-19 outbreak accelerated the growing trend towards online shopping. Turnover at the Group's **e-commerce** business increased by 9.5% year-on-year to HK$186.1 million during the Period. The Group's social commerce activities developed rapidly, while sales at its online-to-offline ("O2O") operations have become the growth engine of the Group's e-commerce business. Turnover from the O2O business amounted to HK$37.5 million and accounted for 20.2% of the turnover of the Group's e-commerce business during the Period, compared with the nearly zero in the previous period. The Group conducted a series of internal structural integrations for its e-commerce operations, encompassing areas such as sales channels, products and e-commerce teams, in order to improve its supply chain, product mix and competitiveness. In the Hong Kong SAR, the Group launched protective products on its Hong Kong-based website in May in response to the pandemic. The move stimulated growth in both traffic and sales at its own shopping website. In the second quarter of the Group's financial year, following the remarkable growth of social commerce in Hong Kong SAR and Mainland China, as well as our own website in Hong Kong SAR, sales at the Group's e-commerce business increased by 36.0% year-on-year and 38.7% quarter-on-quarter.

Turnover at the Group's operations in **Malaysia** decreased by 35.4% year-on-year in local currency terms to HK$126.7 million. The country issued the Movement Control Order to contain the COVID-19 outbreak. As a result, the Group's stores were forced to close temporarily for more than one month during the Period. Retail sales at the Group's operations in Malaysia decreased by 42.4% year-on-year in the first quarter of the financial year. However, the Group's sales performance improved in the second quarter of the financial year thanks to the six-month blanket loan moratorium launched by the government in April. As the Group resumed the operation of its existing stores and opened new store, the year-on-year decline in sales narrowed to 28.9% in the second quarter of the financial year.

Outlook and Strategies

The management expects the business of the Group will continue to be dominated by local customers in the coming months even after the reopening of the border, given the number of visitors to Hong Kong SAR can hardly return to normal levels in the short term while a longer time period is anticipated for the tourism industry to recover. In the Macau SAR, the government resumed issuing tourist visas to residents of various provinces and cities in Mainland China starting from late September. This followed the issuance of consumption e-vouchers to the residents of Macau and the reopening of the border with Zhuhai. The Macau SAR government also launched a stimulus campaign in an attempt to expand the customer base, boost the economy and secure employment, setting its sights on accelerating the economic pick-up and stabilising the employment rate. This resulted in a speedier internal recovery as compared to Hong Kong SAR. Meanwhile, casinos in

Macau have leveraged their opportunities and intensified promotions in order to attract more visitors. The Group will proactively seize more business opportunities during the golden shopping periods of Christmas and Chinese New Year, in the hope of causing sales to rebound at its business in the Macau SAR.

Aiming to fuel further business growth, the Group will make the most of its O2O business to reduce operating risks and increase business flexibility. By adopting rental cost saving measures, including adjusting and rationalising the store network (particularly stores located in Hong Kong SAR's tourist areas that have suffered substantial losses) as well as seeking rental relief, the Group will be able to reduce the overall operating costs of its store network to improve profitability. In addition, in order to boost efficiency and perform stringent cost controls, the Group will expedite the progress of automation in stores and offices to improve and simplify work processes.

Sa Sa has actively adapted to the new normal in the retail industry. It has gained the overwhelming support and collaborative efforts of its frontline and back office employees in traditional retail departments. They have been working to help the Group enhance its O2O business and unleash the advantages of e-commerce and physical stores as complementing one another. To support the development of e-commerce business, the Group has directed additional expertise to oversee its digitalisation and e-commerce business. Looking ahead, the Group will continue to bolster the team and build a solid foundation for its e-commerce business.

To capitalize on the growing trends towards online shopping and social commerce, the Group will make use of the WeChat mini-programme to interact with Mainland customers, striving to improve customer loyalty and promote sales through WeChat's enormous public and private domain traffic. The Group will redouble its efforts to develop third-party platform business and establish partnerships with more well-known e-commerce platforms. The Group will also continue to expand its e-commerce sales channels and broaden its target customer base in the Hong Kong SAR and Southeast Asia.

In response to the necessity for changes in the product mix to cater to the market dominated by local customers, the Group has set aside its previous strategies that focused on trendy products, and opted for enhancing its procurement strategies through effective product category management complemented by improved product display. The Group will ramp up its digital marketing strategy, capitalising on live broadcasts and other promotional channels to attract more customers, whilst bolstering the loyalty of its customers by utilising its VIP and customer relationship management systems.

The China market presents tremendous growth potential. With the pandemic being largely contained in Mainland China, life has gradually returned to normal, thereby driving domestic demand. The continued improvement in internal management and product procurement teams in Mainland China has enabled the Group to expedite store openings. Same store sales in the second quarter and October consequently recorded positive growth with satisfactory sales performance achieved in new stores during the second quarter. Since it is easier to negotiate lease terms with landlords, the Group has set its sights on further expanding its market coverage in Mainland China by focusing resources on developing pivotal regions and core city clusters, aiming to enhance store management and operational efficiency. Meanwhile, through giving full play to its online channels, the Group will gradually march towards its ultimate goal of growing its O2O business network right across Mainland China in the long run.

Dr. Simon Kwok, *SBS, JP,* Chairman and Chief Executive Officer of the Group, concluded, “COVID-19 has brought enormous challenges and evolution to the entire retail industry as well as to Sa Sa. In recognition of the gradually shifting of consumption patterns from traditional retail channels to online platforms, the Group is determined to stride into the new retail era and reduce its reliance on physical stores. By investing more resources on social commerce and hastening the integration of O2O business, the Group will strive to improve the overall efficiency of its online and offline operations, with the ultimate goal of providing a seamless O2O shopping experience to its customers. While adjusting the business model, the Group will continue to strengthen its brand, adjust its product mix and comprehensively improve the customer shopping experience, thereby increasing its competitiveness in the market and supporting the Group to overcome adversity in a flexible manner."

<u>FY20/21 Q3 operational sales data (continuing operations)</u>

For the third quarter from 1 October to 15 November 2020, the Group's retail and wholesale turnover decreased by 34.8% compared to that for the same period last year. The year-on-year changes in retail sales and same-store sales are shown below:

In local currencies	YoY Change (%)	
	Retail Sales	Same-store Sales
Hong Kong & Macau SARs	-48.7%	-44.3%
Mainland China	23.9%	9.7%
Malaysia	-39.9%	-36.4%
E-commerce	143.2%	
Group turnover	-34.8%	

Remarks: The above data include the impact of Deferred Income Adjustment for VIP bonus points and has not been reviewed nor audited by the auditors of the Company.

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