Management Discussion & Analysis

Group's Turnover*

HK$ 3,043.0 million

▼46.8%

Turnover in HK & Macau SARs

HK$ 1,999.8 million

▼57.8%

Loss before Store Impairments*

HK$ 301.6 million

LY Loss: HK$204.6 million

* For continuing operations

Consolidated Income Statement for the Year Ended 31 March 2021

	Full year		First half		Second half	
	2021 HK$'000	2020 HK$'000	**2021 HK$'000**	2020 HK$'000	**2021 HK$'000**	2020 HK$'000
Continuing Operations						
Turnover	**3,043,029**	5,717,283	**1,286,128**	3,394,664	**1,756,901**	2,322,619
Cost of sales	**(1,991,198)**	(3,634,818)	**(867,212)**	(2,113,505)	**(1,123,986)**	(1,521,313)
Gross profit	**1,051,831**	2,082,465	**418,916**	1,281,159	**632,915**	801,306
Other income	**142,343**	64,373	**93,896**	35,191	**48,447**	29,182
Selling and distribution costs	**(1,325,402)**	(2,151,949)	**(643,535)**	(1,189,242)	**(681,867)**	(962,707)
Administrative expenses	**(208,533)**	(278,868)	**(112,309)**	(145,849)	**(96,224)**	(133,019)
Impairment of right-of-use assets and property, plant and equipment	**(57,679)**	(270,455)	**(46,130)**	(4,273)	**(11,549)**	(266,182)
Other gains – net	**5,959**	1,009	**3,118**	834	**2,841**	175
Operating loss	**(391,481)**	(553,425)	**(286,044)**	(22,180)	**(105,437)**	(531,245)
Finance income	**6,449**	17,447	**4,083**	10,083	**2,366**	7,364
Finance costs	**(16,449)**	(26,020)	**(8,957)**	(13,410)	**(7,492)**	(12,610)
Loss before income tax	**(401,481)**	(561,998)	**(290,918)**	(25,507)	**(110,563)**	(536,491)
Income tax credit/(expense)	**42,183**	86,916	**43,033**	1,718	**(850)**	85,198
Loss for the year from continuing operations	**(359,298)**	(475,082)	**(247,885)**	(23,789)	**(111,413)**	(451,293)
Profit/(loss) for the year from discontinued operation	**7,930**	(40,854)	**5,884**	(12,741)	**2,046**	(28,113)
Loss for the year attributable to owners of the Company	**(351,368)**	(515,936)	**(242,001)**	(36,530)	**(109,367)**	(479,406)

During FY2020/21 ("year under review", "year" or "financial year"), the Group's turnover decreased by 46.8% to HK$3,043.0 million for the continuing operations. Sales of retail and wholesale in Hong Kong and Macau SARs reduced by 57.8% to HK$1,999.8 million. The Group's retail outlets for the continuing operations decreased from 235 last year to 232 as of 31 March 2021.

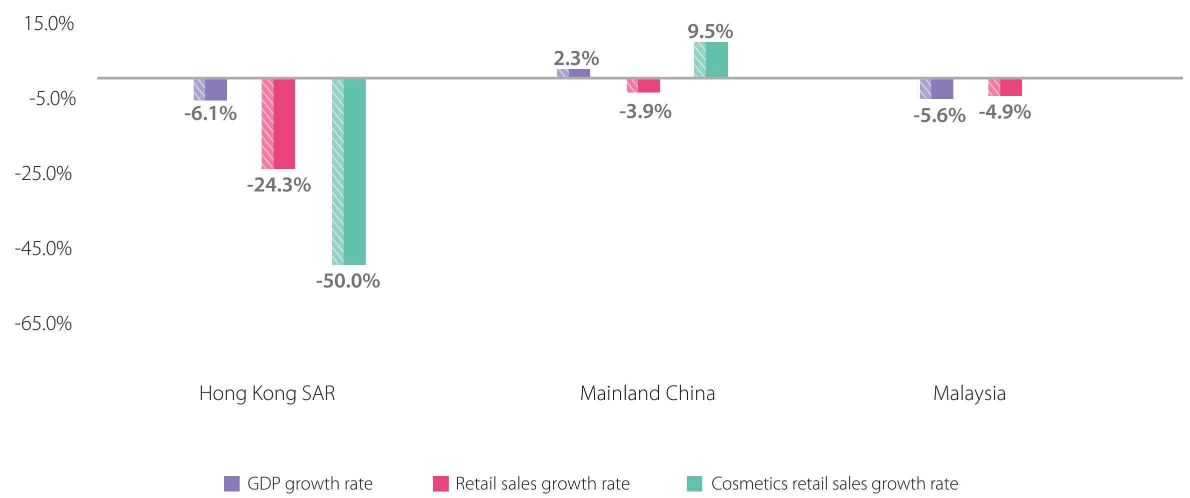
The Group incurred a loss for the year amounting to HK$351.4 million, compared to a loss of HK$515.9 million last year. Excluding the provision for impairment made in accordance with the HKAS 36 that applies to retail store assets (including right-of-use assets and property, plant and equipment) and the results from discontinued business, the Group's loss for the financial year was HK$301.6 million, as compared to a loss of HK$204.6 million last year.

Basic loss per share amounted to 11.3 HK cents (2020: 16.7 HK cents). In view of the challenging and uncertain operational environment in markets where we operate, 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 under the current operating environment (2020: Nil).

The Group is included in the FTSE World Index Series, MSCI Index Series and S&P Index Series. We have been a constituent member of the Hang Seng Corporate Sustainability Benchmark Index since 2011.

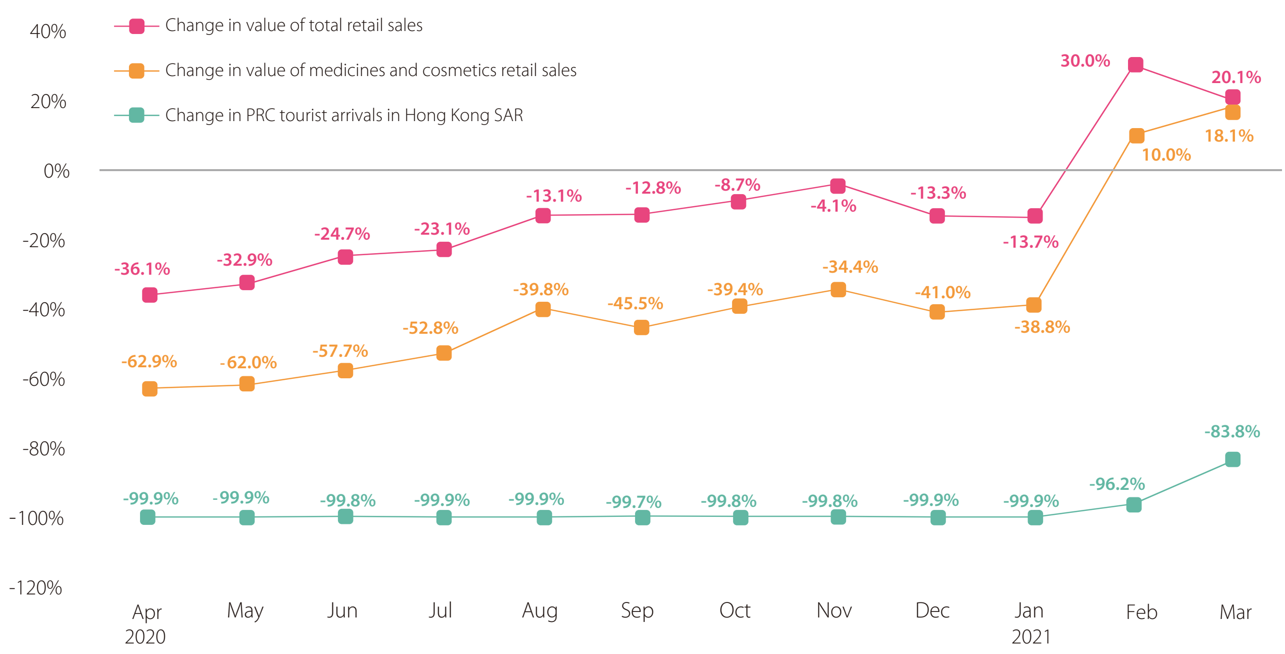
Market Overview

GDP/ Retail Sales / Cosmetics Retail Sales in 2020 (year-on-year change)



Note:
1. There were no cosmetics retail sales statistics provided by the Malaysian Government.
2. All of the above data were sourced and estimated from statistics published by corresponding governments' statistics bureaus.
3. There are some inconsistencies in definition and survey methodology for cosmetics retail sales by different government statistics bureaus.

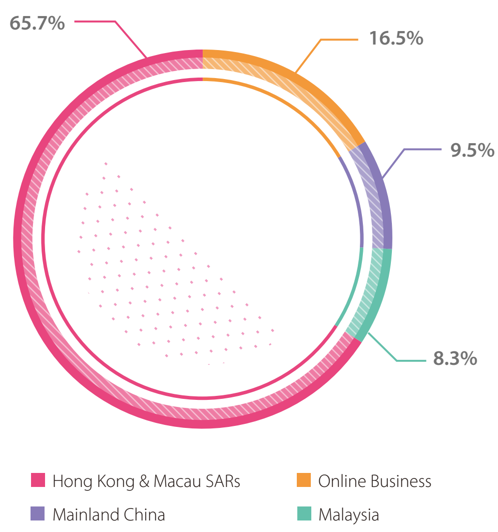
Retail Sales Performance and Mainland Tourist Arrivals in Hong Kong SAR (year-on-year change)



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

Retail and Wholesale Business

FY2020/21 Turnover Mix by Market



Store Network by Market

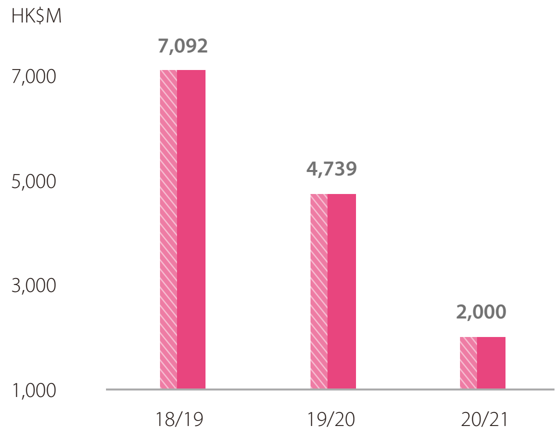
Market (Continuing operations)	As of 31 Mar 2020	Opened*	Closed*	**As of 31 Mar 2021**
Hong Kong & Macau SARs	112	2	14	**100**
Mainland China	44	17	4	**57**
Malaysia	79	2	6	**75**
Total	235	21	24	**232**

*Note:

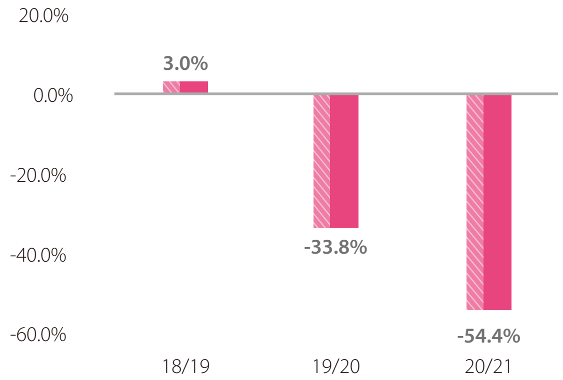
- The number of stores opened and closed within 12 months between 1 April 2020 and 31 March 2021.

Hong Kong and Macau SARs

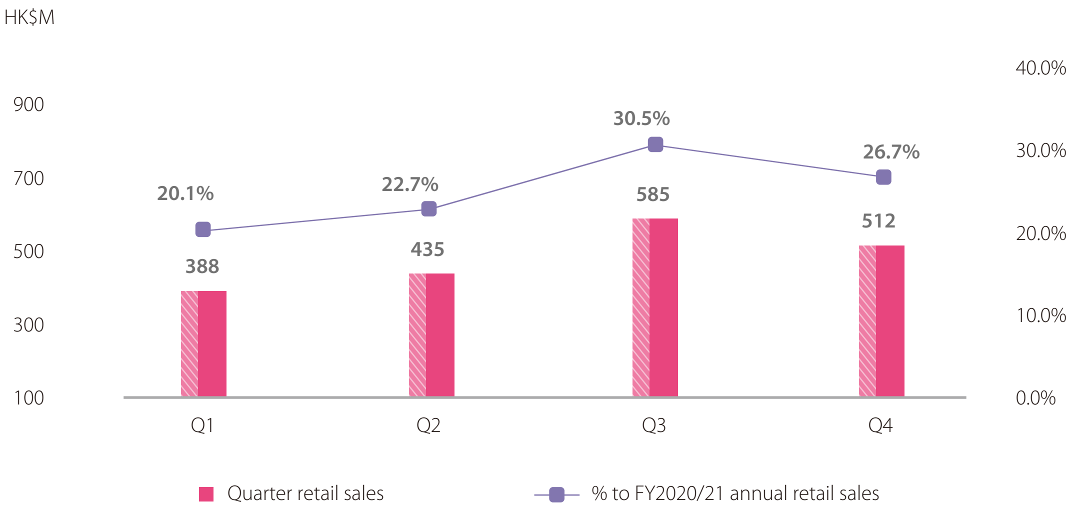
Turnover (Retail & Wholesale)



Same Store Sales Change



FY2020/21 Retail Sales by Quarter



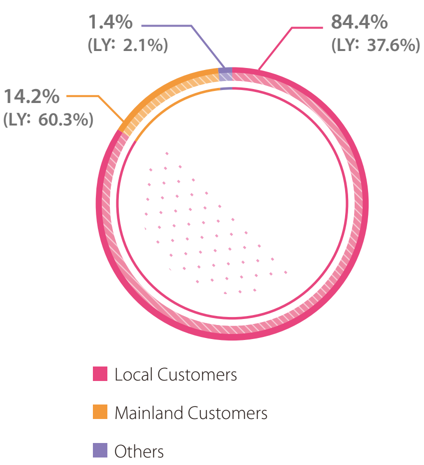
During the year under review, Novel Coronavirus Disease ("COVID-19" or "pandemic") alongside uncertain geopolitical risks dealt an unprecedented blow to the economies in Hong Kong and Macau SARs.

In order to contain the spread of the pandemic, many countries implemented stringent border control measures during the year. Data from the Hong Kong Tourism Board showed that the cumulative number of visitors from Mainland China plummeted to nearly zero in 2020, severely hindering the sales of the Group contributed by Mainland Chinese visitors. Several stores of the Group that were temporarily closed for at least 14 days when diagnosed cases of frontline staff were found also affected operations and sales. Meanwhile, local customers dominating the Group's sales during the year was affected by various levels of gathering bans and social distancing initiatives imposed by the Hong Kong SAR government. The market downturn amidst the pandemic led to high underemployment and unemployment rates, leading residents to become more prudent in spending due to growing concerns about job security and economic prospects. Consequently, consumption sentiment remained sluggish despite cash subsidies provided by the government in the middle of 2020.

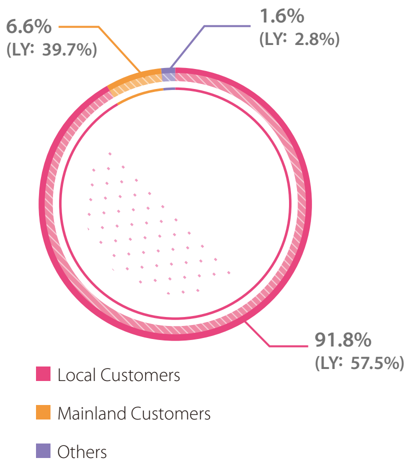
In Macau SAR, subsequent to the suspension of the Individual Visit Scheme for Mainland Chinese visitors in January 2020, quarantine measures for inbound travellers were tightened in late March, resulting in near-zero tourist arrivals to the city in the first half of the year. That battered the Macau SAR market where tourists used to heavily dominate sales. With the pandemic gradually being brought under control, Macau SAR resumed the Individual Visit Scheme for Mainland Chinese visitors in mid-August 2020, and extended the scheme to the entire Mainland China at the end of September. With consistent increase of Mainland Chinese visitors, sales of the Group from these customers saw a gradual recovery thereafter with the year-on-year decline narrowing down in the second half of the year. Moreover, Macau SAR government successively launched two phases of consumer subsidy scheme, the Group leveraged on these opportunities to further drive sales of local customers. As a result, the proportion of sales from Macau SAR out of the total in Hong Kong and Macau SARs increased from 12.6% in the first quarter to 37.1% in the fourth quarter. The Group expects that the trend is likely to continue until Hong Kong SAR re-opens its border as tourist arrivals from Mainland China continue to pick up in Macau SAR.

Sales Mix (FY2020/21 Retail Sales)

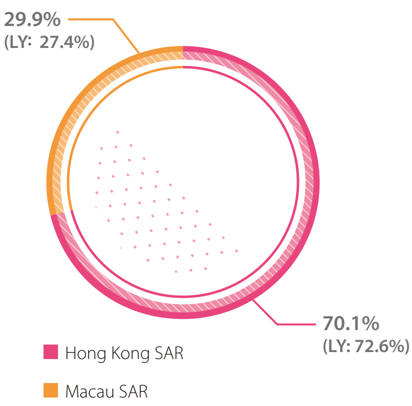
Customer Mix By Sales Value



Customer Mix By No. of Transactions



Geographical Mix



Overall, same-store sales in Hong Kong and Macau SARs declined by 54.4% year-on-year in the financial year, while retail sales witnessed decreases of 58.1% and 72.6% as compared to FY2019/20 and FY2018/19 respectively. The decrease in sales narrowed notably following the re-opening of border in Macau SAR, coupled with the low base effect in the fourth quarter, the decline in sales in Hong Kong and Macau SARs narrowed from 70.8% in the first half of the year to 38.0% in the second half. When compared with FY2018/19, sales recorded a decrease of 68.8% in the second half of the year, demonstrating improvement from the 76.4% decline in the first half of the year.

Retail stores in Macau SAR started to record profits from the second half of the year and turned the whole year into profits while Hong Kong SAR's retail stores remained loss making. For the combined Hong Kong and Macau SARs markets, despite government subsidies received in the first half of the year exceeded that of the second half, losses in the second half of the year were lowered by 52.1% (or HK$124.3 million) compared to that in the first half of the year. This market incurred a loss of HK$352.9 million for the year under review, compared to a loss of HK$413.6 million last year. Excluding the provision for impairment made in accordance with the HKAS 36 that applied to retail store assets (including right-of-use assets and property, plant and equipment), the Group recorded a loss of HK$296.5 million in this market compared to a loss of HK$148.2 million last year.

Following the launch of COVID-19 vaccination programme, we hope that the worst of the pandemic is behind us. However, Hong Kong SAR's operating environment will remain uncertain until the border re-opens, and local consumption sentiment will continue to be affected by the pandemic. The Group is determined to manage costs and optimise cost structure, in order to expedite a profit turnaround and enhance its long-term profitability.

Rationalising Store Network to Streamline Cost Structure

The substantial decline in tourist arrivals brought a drastic impact to the retail stores in tourist areas. The Group continued to streamline its store network and close heavily-overlapping stores in tourist districts based on the premise of retaining its customers while lowering rental and other costs of physical retail stores. As of 31 March 2021, total number of Sa Sa's retail stores in Hong Kong and Macau SARs was reduced from the peak of 118 two years ago to 100, with a net decrease of 12 as compared to previous year. All closed stores were located in Hong Kong SAR, among which over 80% were located in tourist districts such as Tsim Sha Tsui, Causeway Bay and Mong Kok, etc.

For the stores remaining in operation, the Group negotiated for temporary rental concessions and rental reduction upon renewals, in an effort to cut rental costs in accordance with the respective stores' sales performance and business demand in the districts. Together with store closures, total savings from actual rental expenses amounted to HK$238.4 million in the year as compared to previous year. In addition to rental costs, store closures also reduce other store expenses including staff costs, as well as water and electricity bills.

There will be 38 retail leases expiring in the financial year ending 31 March 2022 in Hong Kong SAR. Given that landlords have pushed back from offering temporary rental relief, the Group will focus on rationalising its store network and reducing store expenses to pursue its long-term goal of optimising cost structure. It is expected to close 15 to 20 stores throughout the year.

In view of the increasing pace of consumer traffic moving towards online platforms, the Group has re-doubled its efforts to expand its online business and further integrate online to offline ("O2O") operations (For details, please read the Online Business section), to serve customers who now turn to shop online. The Group actively reduced its reliance on brick-and-mortar stores by adopting O2O operating model, thereby lowering fixed overheads and overall operating costs, and arriving at a more flexible cost structure. Such approach helps lower the breakeven point of Hong Kong and Macau SARs' businesses, so that Sa Sa can promptly return to profitability.

Retaining Working Capital

The Group has implemented strict inventory and cost management policies to cater for operating needs and future development. The inventory level and shelf-lives of products are reviewed in a timely manner. During the year, we conducted clearance sales accordingly in the first half of the year to cater for excessive inventory. As we resumed replenishment in the third quarter, a stringent inventory control was still in place. As of 31 March 2021, the Group's inventory was HK$766.1 million, representing a decrease of HK$239.8 million from last year.

In response to the unprecedented influence of the pandemic, the Group applied for the Hong Kong SAR government's "Employment Support Scheme" during the year to alleviate the burden of labour costs. The Group received subsidies of a total of HK$112.4 million and used them entirely for paying wages. In addition, the Group executed a host of cost control measures, including salary reduction, furlough, as well as encouraging staff to clear outstanding leaves. Furthermore, the Group sped up digitalisation and automation to optimise operational process to further reduce operating costs and enhance operational efficiency. Unnecessary and non-productive expenses were also cut, allowing us to reduce office expenses by approximately one-third as compared to previous year.

As of 31 March 2021, the cash and bank balances stood at HK$526.4 million, a reduction of HK$115.1 million as compared to previous year. This is adequate for the current operating needs of the Group. The Group is increasing its revolving loan facilities as working capital reserve in light of market uncertainty. Such facilities remained unused as of 31 March 2021.

Catering to Market Driven by Local Customers

During the year, the Group adapted to the evolving trend of local customers and expanded product categories that address their needs and preferences, such as protective products as well as personal care. The Group also improved the in-store product display to impress local customers, with the aim to drive sales and effectively enhance customer loyalty.

In order to further attract local customers, stimulate consumption and effectively reduce inventory, the Group launched a wide variety of promotional activities, such as VIP offers, clearance sales, collaboration with payment solution providers and local credit card companies, and strengthened promotions through social media. The promotions, however, put pressure on our gross profit margin, which dropped to 29.6% in the first half of the year.

The Group ceased aggressive price reduction after the inventory has reached a reasonable level since the end of September. Gross profit margin gradually recovered to 34.9% in the fourth quarter. Nevertheless, it could not completely cancel out the impact of clearance sales that took place in the first half of the year. The Group recorded a gross profit margin of 32.5% in the year, compared to 35.4% in previous year.

Online business

Turnover of the Group's online business in the financial year reached a record high of HK$501.3 million, representing increases of 45.4% and 27.9% as compared to FY2019/20 and FY2018/19, respectively. Its contribution to the Group's total turnover for the continuing operations jumped from 6.0% last year to 16.5%.

With sales from its third-party platforms and O2O business showing year-on-year growth, the Group's online business achieved a profit in the second half of the year, outweighing the loss in the first half of the year and resulting in a turnaround for the whole year. The pandemic has driven more online consumption across the globe, including that of local consumers in Hong Kong SAR. The Group will invest more resources in expanding online business and take full advantage of our physical stores through accelerating the collaboration of online platforms and offline store network, with a view to providing customers with seamless O2O shopping experience in the future.

Sales of online business in the second half of the year increased by 80.5% year-on-year, and grew 52.6% as compared to the same period of FY2018/19. Such growth was powered by third-party platforms in Mainland China and was much higher than the 9.5% year-on-year growth in the first half of the year. Driven by shopping festivals such as "Double 11", "Double 12" and "Black Friday" in the second half of the year, sales in third-party platforms in the third quarter increased by 63.8% year-on-year. For the fourth quarter, with the low base resulting from the disruption of delivery caused by the pandemic last year, a substantial year-on-year increase of 116.5% was witnessed. In addition, the Group deepened its collaboration with Shopee and established a collaborative partnership with Lazada at the end of the financial year. By partnering with these well-known e-commerce platforms in Southeast Asia, the Group is able to broaden its customer base and revenue source. Sales contribution from third-party platforms for the year was approximately 71.2%.

The accelerated growth in the second half of the year was also attributable to the O2O business launched in the second half of 2019. While the Group's WeChat mini-programme was drawing more sales in Mainland China, the Group extended its O2O business to customers in Hong Kong SAR at the end of May last year, driving sales of O2O business in the second half of the year to jump by close to 14 times year-on-year. Turnover contribution from O2O business to the overall online business increased from 1.8% last year to 18.4%.

In response to changes in consumers' online shopping behaviour, the Group strategically closed its own shopping website that served Mainland Chinese consumers last April, redirecting these customers to the WeChat mini-programme. In May last year, the Group launched protective products on its Hong Kong SAR website and successfully boosted website traffic, increasing sales of Hong Kong SAR website by nearly five times year-on-year. Overall, sales of the Group's own channel fell by 47.1% year-on-year, and turnover contribution from own channel decreased from 28.6% last year to 10.4%.

Mainland China

During the financial year, turnover of the Group's Mainland China business increased by 15.9% in local currency terms to HK$289.9 million, while same store sales increased by 5.4% in local currency terms. As of 31 March 2021, total number of stores operated by the Group in Mainland China was 57, representing a net increase of 13 year-on-year.

The pandemic has been well managed in Mainland China as compared to the rest of the world. Although some stores were temporarily closed or otherwise affected by the sporadic outbreak in several cities, the consumption in the post-pandemic era fuelled the Group's positive growth in the third quarter and supported the Group's process of opening new stores. Retail sales in the second half of the year increased by 46.4% year-on-year, and increased by 12.4% as compared to the same period of FY2018/19.

Following the successful restructuring of the Group's product procurement team in Mainland China, the product portfolio becomes more competitive. Average basket size in the financial year increased by 8.0% year-on-year. The Group introduced a new personnel management system and optimised the structure of human resources and training teams to further enhance management efficiency and strengthen the service and sales capabilities of frontline employees, aligning with its strategy of rapid development in Mainland China.

Building on the established foundation of the management team, the Group grasped the opportunities to speed up new store openings. During the year, the Group opened 17 new stores, among which seven are located in Southern China, the Group's core development region. Five of the new stores are located in Western China, mainly in Chongqing and Chengdu. In addition, the office and logistics centre in Chengdu commenced operation in the financial year to support the Group's business development in Western China. By strategically concentrating resources on opening new stores in key city clusters, the Group benefits from effective centralised management, higher store cost effectiveness and operational efficiency, resulting in a narrowed loss of HK$12.7 million during the year.

Malaysia

The Group's turnover from the Malaysian market decreased by 34.9% year-on-year in local currency terms to HK$252.0 million, while same store sales in local currency terms decreased by 29.4%. As of 31 March 2021, the Group operated 75 stores, as compared to 79 stores last year.

In response to the COVID-19 outbreak, the Malaysian government has implemented a number of different movement control orders over time, starting from March last year. Being classified as non-essential business, all our stores were required to close temporarily during the most difficult period. During the year, the Group's stores were temporarily closed for nearly 100 days in total.

In face of the unprecedented challenges, the Group continued to carry out a series of cost reduction measures, including seeking rental reduction, adjusting manpower and postponing shop decoration, achieving reduction of store and office expenses by around 30% year-on-year. The Group received a subsidy of RM1.1 million (approximately HK$2.0 million) from the Malaysian government, which further alleviated our cost burdens for operation. To avoid over-stocking, clearance sales were introduced and successfully lowered the inventory level by 18.3% year-on-year.

To address the pressing local demand for protective and personal care products during the pandemic outbreak, the Group strategically switched its focus to popular product categories including food, healthcare and sanitising products. During the year, the Group offered various shopping discounts and collaborated with different third parties such as shopping malls, telecom companies and banks to boost foot traffic and sales. As more citizens are shifting towards online shopping under the pandemic, the Group launched an online home delivery service in March last year and collaborated with seven online platforms during the year, allowing customers across Malaysia to purchase Sa Sa's beauty products while staying home.

Outlook and Strategies

Management believes that online business will continue to gain prominence after the pandemic subsides as consumers' adoption of online shopping has been hastened significantly. The Group strives to accelerate the development of both its brick-and-mortar and online businesses with additional emphasis on digital marketing techniques and enhance the complementary aspects between them, to provide customers with seamless O2O customer experience to capitalise on the unrelenting and fast-growing online shopping extravaganza.

In FY2021/22, the Hong Kong SAR market will continue to face great uncertainties, with its prospects highly dependent on the successful management of COVID-19 locally and the timing of the re-opening of the border with Mainland China. The high rental cost of the running retail leases in tourist areas means that it is unlikely that the Group can realise a fiscal balance during the year. Fortunately, the Group expects that the Macau SAR business will continue to improve and increase its profit growth after turning profitable in the second half of the year under review. Our online business has made significant progress, and is expected to further improve on its positive profit contributions. The Mainland China market is anticipated to gradually increase in profitability during its current active development stage. As regards the Malaysian market, the business is expected to rebound quickly and achieve a breakeven once the pandemic is over.

Setting its sights on achieving a more diversified and sustainable business and capitalise on market opportunities, the Group will expedite its market development beyond Hong Kong and Macau SARs, especially the online business and Mainland China market, which both possess promising growth potential. The Group's long-term vision is to grow businesses beyond the brick-and-mortar businesses in Hong Kong and Macau SARs from approximately 35% in the financial year to above 50%.

Hong Kong & Macau SARs

In Macau SAR, tourist arrivals from Mainland China have been picking up gradually since the re-opening of border for Mainland Chinese visitors last September. According to the Macao Government Tourism Office, the city strives to attract more Mainland Chinese visitors given the easing of the pandemic in Mainland China and the roll-out of vaccination. The Macau SAR government has also brought forward a new phase of local consumption stimulation scheme, which includes distribution of consumption e-vouchers, in the hope of stimulating further economic pick-up and stabilising the local employment, thus creating a favourable business environment for the recovery of the retail sector.

Although the COVID-19 vaccination plan has already started in Hong Kong SAR in February this year, the pandemic is still not fully under control. As a result, the inbound tourism industry has continued to experience a complete cessation of activities. The Hong Kong SAR government predicts that the inbound tourism industry will remain sluggish in the short term. Assuming that the vaccination programme achieves its intended results, local economic activities will steadily recover in the second half of 2021. While uncertainties surrounding the pandemic outbreak will dictate how fast the economy can recover, and the erratic US-China relations and rising geopolitical tensions also needs a watchful eye, the worst of winter has, hopefully, passed.

To revive local consumption and support local businesses amid current adversities, the Hong Kong SAR government has announced the launch of the consumption voucher scheme. Sa Sa expects that the voucher scheme will repeat the success of the similar programme in Macau SAR, and will invigorate local consumption, thus helping to stabilise the economy and employment.

The management anticipates that the Hong Kong SAR business will continue to be driven by local customers in the short term. Meanwhile, the Group will prepare and position itself for the opportunities brought by the return of Mainland Chinese visitors. In adapting to changes in the customer base and latest product trend, the Group will adjust its product mix in a timely manner, while bolstering the loyalty of our customers by utilising its customer relationship management systems currently under development, thus improving Sa Sa's business performance.

The Group will also actively accelerate the development of its online business, which can broaden its customer base, reduce operating risks and allow greater flexibility for operations. The O2O business model has the added advantage of saving expensive rents for physical stores; its fees and operating costs are also generally lower than that of e-commerce platforms while offering the advantage of direct customer contact.

Growing share of sales from online platforms can help the Group reduce its reliance on brick-and-mortar stores. Through persistently adjusting and rationalising the store network, in particular the stores located in Hong Kong SAR's tourist districts that have endured substantial losses, the Group could improve its overall cost structure and lower the breakeven point for the traditional retail business, thus reinforcing its competitiveness and profitability in the long term.

The role of offline physical stores will change in the new retail era. Instead of being merely traditional points of sales, physical stores will also play a pivotal role in improving customer experience in Sa Sa's O2O operating model by complementing the online business. Currently, the decline in rents creates favourable conditions for Sa Sa to improve customer experience at store level. At similar or lower costs, Sa Sa can develop customer experience zones in designated physical stores, where customers can try out beauty and healthcare products, and enjoy more personal services and exclusive in-store experience. By extending the time customers spend in store, the Group would be able to effectively boost sales by stimulating consumption inclination. The Group is currently deploying pilot stores in Hong Kong and Macau SARs, which are expected to be opened in FY2021/22.

Looking ahead, the Group plans to enhance customer experience by pushing forward retail technologies in its stores. That includes the roll-out of mobile checkout devices, which allows frontline staff to complete the checkout process anywhere and anytime at stores, freeing customers from hassles of waiting at specific checkout counters. If the trial succeeds, the Group will explore the possibility of replacing the specific checkout counters by customer experience or introducing product display zones in certain stores. It will add value to the space and reduce the proportion and related costs of non-sales staff in stores. The checkout devices are expected to enhance the stores' operating efficiency and empower our operations in Hong Kong and Macau SARs to better serve customers including Mainland Chinese visitors when they return.

Human capital is vital to the Group's sustainable development and plays an important role in business transformation. In order to support the Group's social commerce and O2O business expansion, the Group will double its efforts in training frontline and back-office employees of our traditional retail team, in aspects like social media livestreaming, online interaction with customers, and so on. Commission and reward system will also be improved to enhance the employees' performance and productivity, so as to keep pace with Sa Sa's O2O development.

Online Business

We expect that consumers' online shopping behaviour will persist beyond the pandemic and this structural change tends to be irreversible.

Sa Sa has made good progress in its O2O business during the year, thanks to the collaborative efforts of frontline and back-office employees across the board. For customers, this has meant better shopping experience and for Sa Sa, the O2O business offers more favourable gross margin and basket size due to the added personal service element when compared to customers' unassisted online browsing. It also saves the Group rent and online platform fees. All these mean a more attractive profit margin for the O2O business, an area that the Group will wish to develop to its fullest potential.

The Group will work to further realise the complementary effects of combining advantages of online business and physical stores to improve both customer experience and the Group's profitability. Further integration of online and offline operations, improvements in inventory and logistic arrangements will all help to provide a seamless O2O customer experience. Our revamped shopping website in Hong Kong SAR which was launched this January enables Sa Sa's frontline staff to engage with customers for offering personalised services, whilst providing click-and-collect service offers customers with more flexibility and convenience. The Group plans to centralise and consolidate online and offline customer databases in the Hong Kong and Macau SARs utilising the membership management function of our new shopping website, enabling the Group to provide personal services more effectively, and with the aim of raising customers' loyalty and repurchase rate.

Our beauty consultants will be able to engage Mainland Chinese visitors when they visit our physical stores upon the re-opening of border at Hong Kong SAR, and by doing so, allowing us to quicken the growth of the online customer base of our O2O business. The Group seeks to get prepared to attract this batch of Mainland Chinese visitors as we speed up our development of the new retail model.

Third-party platforms have their own healthy and fast-growing ecosystems and currently account for the highest proportion of our online sales. Sa Sa will continue to leverage on the popularity and customer base of e-commerce platforms, collaborating with existing ones and entering new ones to gain extra market exposure and broaden our customer base.

Mainland China

Mainland China is an enormous market which is diversified and fast-growing. Further growth in domestic demand is expected riding on accelerated recovery of market activities as the pandemic remains under control and the economy continues to manifest its tremendous potential. According to the "Report of Market Prospect and Investment Analysis on China Cosmetics Industry (2021)" of The Chinese Academy of Industry Economy Research, the cosmetics industry is in a phase of rapid growth. It is estimated that the market size of cosmetics industry in Mainland China will exceed RMB800 billion in 2024, with a compound annual growth rate of about 11.6% from 2019 to 2024.

Sa Sa will continue to improve internal management and product procurement to capitalise on the opportunities in Mainland China. Meanwhile, we will also take the opportunity of a weaker rental market to negotiate for more reasonable rent in the post-pandemic era, thereby progressively increasing our coverage in Mainland China. The Group will focus its resources on expanding in core city clusters (especially cities in the Greater Bay Area) and strategic regions with the aim to realise local management effectiveness and efficiency in these key clusters. The Group will also target to develop O2O integration in Mainland China, optimising our mapping of online and offline businesses through adopting a dual-track model, thus maximising our coverage in Mainland China as well as serving our customers with seamless shopping convenience.

Our persistent business expansion will deepen our collaboration with local suppliers which is also conducive to enlisting cooperation with new suppliers. The Group will focus on accommodating customer demand by tracking the latest market trends and improve the attractiveness and competitiveness of our products. This will lay a solid foundation for the overall growth in sales and profitability.

Malaysia

Considering that the pandemic is yet to be over, uncertainties continue to curtain the retail industry. The Group remains prudent in store opening in the near term, and will focus on improving store efficiency by optimising its existing store network. In the short term, since it takes time for the shop traffic to return to the normal level, the Group will focus resources on boosting basket sizes, including offering discounts in collaboration other third parties in order to stimulate sales. The Group will closely monitor the market trend and customer preferences, so as to introduce new popular items and adjust product mix in a timely manner, thus attracting customer traffic and boosting sales.

In response to the evolving market trend, the Group will further develop its online platform and enhance its delivery services, so that customers can shop from home. Also, the Group will continuously carry out digital marketing on platforms that have proved to be effective, and actively launch new promotions on social media, in order to attract our target customer base which is young and possesses greater potential in terms of consumption.

FY2021/22 Q1 Operational Sales Data (Continuing Operations)

For the first quarter from 1 April to 9 June 2021, the Group's retail and wholesale turnover increased by 55.1% compared to the same period of last year. The year-on-year changes of retail sales and same store sales are shown in the table below.

In local currencies	**YoY Change (%)**	
	Retail Sales	**Same Store Sales**
HK & Macau SARs	53.5%	56.3%
Mainland China	30.7%	6.7%
• *Excluding CRM impact*	*40.1%*	*13.9%*
Malaysia	3.5%	Not applicable
Online business	131.2%	–
Group Turnover	55.1%	–

Human Resources

As at 31 March 2021, the Group had closed to 3,200 employees. The Group's staff costs for the year under review were HK$646.0 million. Details on our human resources programs, 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 2021.

Financial Review

Capital Resources and Liquidity

As at 31 March 2021, the Group's total equity funds amounted to HK$1,330.1 million including reserves of HK$1,019.8 million. The Group continued to maintain a strong financial position with cash and bank balances of HK$526.4 million. The Group's working capital amounted to HK$731.6 million. Based on the Group's steady cash inflow from operations, coupled with sufficient cash and bank balances and readily available banking facilities and considering the potential impact of COVID-19 outbreak on the Group's operation, the Group has adequate liquidity and financial resources to meet its working capital requirements 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, Macau Pataca, Renminbi, US dollar and Swiss Franc 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 2021 were HK$1,330.1 million, representing a 20.1% decrease over the funds employed of HK$1,664.3 million as at 31 March 2020.

The gearing ratio, defined as the ratio of total borrowings to total equity, was zero as at 31 March 2021 and 2020.

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 with no borrowings during the year. Most of the assets, receipts and payments of the Group are denominated either in Hong Kong dollar, US dollar, Euro or Renminbi. 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 2021, no asset of the Group was under charge to any financial institution.

Contingent Liabilities

The Group had no significant contingent liability as at 31 March 2021.

Capital Commitments

As at 31 March 2021, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$13.6 million.

Conclusion

COVID-19 has brought about untold human disaster and unprecedented medical, social and business challenges to the world, Sa Sa is no exception and has been under tremendous pressure. With rapid adaptation becoming the new normal in the industry, the Group adopts various reform measures, with a view to enhancing its business to better cater for consumers' current shopping behaviour. The Group also continues to exercise stringent cost control and strives to establish a leaner cost structure in the long term to increase profitability, while reducing losses in the short term.

Online business has become the new focus of retail industry as consumers continue to shift to online shopping. The Group is dedicated to expediting its development in the new retail landscape by investing more resources in online business and accelerating the integration of O2O operations, thereby creating seamless O2O shopping experience for our customers and effectively improving Sa Sa's overall O2O business effectiveness.

The Group will keep abreast of the evolving market trend and extensively analyse market demand, while unceasingly strengthening its brand and adjusting product portfolio. The Group will also proactively propel businesses beyond its core markets in Hong Kong and Macau SARs and promote the online business, thus diversifying and expanding the Group's revenue portfolio and customer base.

The road to recovery for the retail industry is expected to be bumpy ahead. As a leading beauty product retailing group in Asia, Sa Sa will continue to capitalise on its solid business foundation, excellent products and flexible business strategies. Through relentlessly implementing strategic reform plans and responding to market changes quickly and flexibly, the management believes that Sa Sa will be able to navigate through adversity, creating long-term value to its stakeholders.