making life beautiful

SA SA INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 178)

Interim Results for the six months ended 30 September 2012 Dividends and Closure of Books

Highlights

- The Group's turnover increased by 21.2% from HK$2,786.0 million to HK$3,377.5 million as compared to the same period last year
- Retail sales in Hong Kong and Macau rose by 20.3% to HK$2,564.1 million
- Retail sales in Mainland China rose by 55.4% to HK$167.7 million
- The Group's gross profit margin increased from 43.9% to 45.7%
- Profit for the period was HK$282.1 million, a rise of 25.7% from HK$224.3 million
- Basic earnings per share was 10.0 HK cents as compared to 8.0 HK cents for the same period last year
- Interim and special dividends per share were proposed at 2.5 HK cents and 4.5 HK cents respectively
- Sa Sa became a constituent member of Hang Seng Sustainability Benchmark Index for the second successive year

The Board of Directors of Sa Sa International Holdings Limited has pleasure in presenting the unaudited condensed consolidated interim financial information of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2012 as follows. The unaudited condensed consolidated interim financial information has been reviewed by the Audit Committee of the Company and the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The report on review of interim financial information will be included in the interim report for distribution to shareholders.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Unaudited Six months ended 30 September 2012 HK$'000	2011 HK$'000
Turnover	4	**3,377,465**	2,786,037
Cost of sales	6	**(1,833,851)**	(1,561,618)
Gross profit		**1,543,614**	1,224,419
Other income		**27,846**	18,996
Selling and distribution costs	6	**(1,096,438)**	(866,499)
Administrative expenses	6	**(133,742)**	(97,928)
Other gains / (losses) - net	5	**3,336**	(9,745)
Operating profit		**344,616**	269,243
Finance income		**3,616**	3,675
Profit before income tax		**348,232**	272,918
Income tax expenses	7	**(66,168)**	(48,585)
Profit for the period		**282,064**	224,333
Earnings per share (expressed in HK cents per share)	8		
Basic		**10.0**	8.0
Diluted		**10.0**	7.9
Dividends	9	**197,735**	168,516

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 September	
	2012	2011
	HK$'000	HK$'000
Profit for the period	**282,064**	224,333
Other comprehensive income / (loss)		
Fair value losses on cash flow hedges	**(69)**	-
Currency translation differences	**691**	(5,790)
Other comprehensive income /(loss) for the period, net of tax	**622**	(5,790)
Total comprehensive income for the period	**282,686**	218,543

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited 30 September 2012 HK$'000**	Audited 31 March 2012 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**377,636**	332,753
Rental deposits and other assets		**165,020**	133,340
Deferred income tax assets		**4,684**	4,640
		547,340	470,733
Current assets			
Inventories		**1,320,776**	1,191,059
Trade receivables	10	**66,263**	70,477
Other receivables, deposits and prepayments		**138,850**	135,612
Time deposits		**36,635**	35,621
Cash and cash equivalents		**371,532**	562,998
		1,934,056	1,995,767
LIABILITIES			
Current liabilities			
Trade and bills payables	11	**397,118**	450,686
Other payables and accruals	12	**339,879**	289,298
Income tax payable		**103,036**	67,746
		840,033	807,730
Net current assets		**1,094,023**	1,188,037
Total assets less current liabilities		**1,641,363**	1,658,770
Non-current liabilities			
Retirement benefit obligations		**3,094**	3,253
Deferred income tax liabilities		**3,709**	4,163
Other payables		**23,943**	20,530
		30,746	27,946
Net assets		**1,610,617**	1,630,824
EQUITY			
Capital and reserves			
Share capital		**282,175**	281,467
Reserves		**1,328,442**	1,349,357
Total equity		**1,610,617**	1,630,824

Notes

1. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 September 2012 has been prepared in accordance with Hong Kong Accounting Standard (the "HKAS") 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2012, which has been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS").

2. Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2012.

Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings.

In the current period, the Group designated certain forward foreign contracts as cash flow hedges to hedge against the Group's purchases denominated in Euro. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as cash flow hedge: hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within "other gains/(losses) – net".

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example: when the forecast purchase that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example: inventory), the gains and losses previously deferred in hedging reserve are transferred from hedging reserve and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold for inventory.

2. **Accounting policies** (continued)

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in hedging reserve and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in hedging reserve is immediately transferred to the income statement within “other gains/(losses) – net”.

a) Amendments to existing standards effective for the financial year beginning 1 April 2012 but not relevant to the Group

- HKFRS 1 (Amendment), “Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters” is effective for annual periods beginning on or after 1 July 2011.

- HKFRS 7 (Amendment), “Disclosures – Transfers of Financial Assets” is effective for annual periods beginning on or after 1 July 2011.

- HKAS 12 (Amendment), “Deferred Tax: Recovery of Underlying Assets” is effective for annual periods beginning on or after 1 January 2012.

b) The following new and revised standards and amendments to standards have been issued but are not effective for the financial year beginning 1 April 2012 and have not been early adopted

- HKFRS 7 (Amendment), “Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities” (effective for annual periods beginning on or after 1 January 2013).

- HKFRS 9, “Financial Instruments” (effective for annual periods beginning on or after 1 January 2015).

- HKFRS 7 and HKFRS 9, “Mandatory Effective Date and Transition Disclosures” (effective for annual periods beginning on or after 1 January 2015).

- HKFRS 10, “Consolidated Financial Statements” (effective for annual periods beginning on or after 1 January 2013).

- HKFRS 11, “Joint Arrangements” (effective for annual periods beginning on or after 1 January 2013).

- HKFRS 12, “Disclosure of Interests in Other Entities” (effective for annual periods beginning on or after 1 January 2013).

- HKFRS 13, “Fair Value Measurements” (effective for annual periods beginning on or after 1 January 2013).

- HKAS 1 (Amendment), “Presentation of Financial Statements” (effective for annual periods beginning on or after 1 July 2012).

- HKAS 19 (Amendment), “Employee Benefits” (effective for annual periods beginning on or after 1 January 2013).

2. **Accounting policies** (continued)

b) The following new and revised standards and amendments to standards have been issued but are not effective for the financial year beginning 1 April 2012 and have not been early adopted (continued)

- HKAS 27 (revised 2011), "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013).

- HKAS 28 (revised 2011), "Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013).

3. **Estimates**

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2012, with the exception of changes in estimates that are required in determining deferred revenue on customer loyalty programme.

At 30 September 2012, deferred revenue for customer loyalty programme amounted to HK$12,494,000 (30 September 2011: HK$32,438,000). The amount of deferred revenue recognised in each period fluctuates according to various factors including changes in estimated redemption rates and fair values of the redemption gifts.

The actual experience and the level of these deductions to revenue may deviate from the estimates. The Group reviews its estimates every six months and may adjust them in a subsequent period by referencing to the actual values experienced in prior periods.

4. **Segment information**

Executive directors of the Group review the internal reporting of the Group in order to assess performance and allocate resources. Executive directors consider the business principally from a geographic perspective and assess the performance of the geographic segments based on a measure of segments results. Business reportable segments identified are Hong Kong & Macau, Mainland China and All other segments. All other segments refer to segments results from markets in Singapore, Malaysia, Taiwan and e-commerce.

The Group is principally engaged in the retailing and wholesaling of cosmetic products. Turnover represents the invoiced sales value of goods supplied to customers.

Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash, and exclude certain corporate assets and tax. Capital expenditure comprises additions to property, plant and equipment.

4. **Segment information** (continued)

	Six months ended 30 September 2012			
	Hong Kong & Macau HK$'000	**Mainland China HK$'000**	**All other segments HK$'000**	**Total HK$'000**
Turnover from external customers	**2,630,291**	**168,275**	**578,899**	**3,377,465**
Results				
Segment results	**283,023**	**(19,826)**	**18,867**	**282,064**
Other information				
Capital expenditure	**85,100**	**14,112**	**30,051**	**129,263**
Finance income	**2,316**	**7**	**1,293**	**3,616**
Income tax expenses	**58,524**	**-**	**7,644**	**66,168**
Depreciation	**47,704**	**17,213**	**17,090**	**82,007**

	Six months ended 30 September 2011			
	Hong Kong & Macau HK$'000	Mainland China HK$'000	All other segments HK$'000	Total HK$'000
Turnover from external customers	2,205,024	108,467	472,546	2,786,037
Results				
Segment results	222,211	(19,745)	21,867	224,333
Other information				
Capital expenditure	72,022	26,341	13,087	111,450
Finance income	2,274	174	1,227	3,675
Income tax expenses	43,394	-	5,191	48,585
Depreciation	29,643	9,690	11,007	50,340

4. Segment information (continued)

	Hong Kong & Macau HK$'000	Mainland China HK$'000	All other segments HK$'000	Total HK$'000
At 30 September 2012				
Non-current assets	**350,591**	**79,012**	**107,501**	**537,104**
Current assets	**1,284,372**	**236,911**	**412,773**	**1,934,056**
Deferred income tax assets				**4,684**
Unallocated corporate asset				**5,552**
				2,481,396
At 31 March 2012				
Non-current assets	288,017	82,736	89,788	460,541
Current assets	1,396,569	224,844	374,354	1,995,767
Deferred income tax assets				4,640
Unallocated corporate asset				5,552
				2,466,500

5. Other gains / (losses) - net

	Six months ended 30 September	
	2012 HK$'000	2011 HK$'000
Net exchange gains / (losses)	**3,336**	(9,745)

6. Expenses by nature

	Six months ended 30 September	
	2012	2011
	HK$'000	HK$'000
Cost of inventories sold	**1,814,683**	1,551,281
Provision for slow moving inventories and stock shrinkage	**19,168**	10,337
Employee benefit expenses (including directors' emoluments)	**473,804**	374,839
Depreciation of property, plant and equipment	**82,007**	50,340
Write-off of property, plant and equipment	**1,919**	1,561
Operating lease rentals in respect of land and buildings		
- minimum lease payments	**338,475**	276,449
- contingent rent	**25,876**	16,627
Auditors' remuneration	**1,766**	1,650
Advertising and promotion expenses	**55,256**	47,609
Others	**251,077**	195,352
	3,064,031	2,526,045
Representing:		
Cost of sales	**1,833,851**	1,561,618
Selling and distribution costs	**1,096,438**	866,499
Administrative expenses	**133,742**	97,928
	3,064,031	2,526,045

7. Income tax expenses

Hong Kong profits tax has been provided for at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates respectively.

The amount of income tax charged to the condensed consolidated interim income statement represents:

	Six months ended 30 September	
	2012	2011
	HK$'000	HK$'000
Hong Kong profits tax		
Current	**54,437**	43,536
Under-provision in previous period	**-**	3
Overseas taxation		
Current	**12,147**	7,718
Over-provision in previous period	**-**	(340)
Deferred income tax relating to origination and reversal of temporary differences	**(416)**	(2,332)
	66,168	48,585

8. Earnings per share

(a) The calculation of basic and diluted earnings per share is based on the Group's profit for the period of HK$282,064,000 (2011: HK$224,333,000).

(b) The calculation of basic earnings per share is based on the weighted average number of 2,817,779,174 (2011: 2,805,186,118) shares in issue during the period.

(c) Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. The calculation of diluted earnings per share is based on the weighted average number of 2,817,779,174 (2011: 2,805,186,118) shares in issue during the period plus the weighted average number of 12,886,050 (2011: 20,878,870) shares deemed to be issued. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options.

9. Dividends

	Six months ended 30 September	
	2012	2011
	HK$'000	HK$'000
Interim, proposed and declared – 2.5 HK cents (2011: 2.0 HK cents) per share	**70,620**	56,172
Special, proposed and declared – 4.5 HK cents (2011: 4.0 HK cents) per share	**127,115**	112,344
	197,735	168,516

At a meeting held on 15 November 2012, the Directors proposed and declared an interim dividend of 2.5 HK cents and a special dividend of 4.5 HK cents per share. These proposed and declared dividends are not reflected as dividend payable in this condensed consolidated interim financial information, but will be recognised in shareholders' equity in the year ending 31 March 2013.

10. Trade receivables

The Group's turnover comprises mainly cash sales and credit card sales. Certain wholesale customers are granted credit terms ranging from 7 to 90 days. The ageing analysis of trade receivables is as follows:

	30 September 2012	31 March 2012
	HK$'000	HK$'000
Within 1 month	**52,337**	63,272
1 to 3 months	**12,206**	6,570
Over 3 months	**1,720**	635
	66,263	70,477

The fair values of trade receivables approximate their carrying amounts.

11. Trade and bills payables

The ageing analysis of trade and bills payables is as follows:

	30 September 2012	31 March 2012
	HK$'000	HK$'000
Within 1 month	**259,760**	256,591
1 to 3 months	**108,532**	172,192
Over 3 months	**28,826**	21,903
	397,118	450,686

The fair values of trade and bills payables approximate their carrying amounts.

12. Forward foreign exchange contracts

	30 September 2012	31 March 2012
	HK$'000	HK$'000
Included in current liabilities – cash flow hedge	**69**	-

The maturity dates of the outstanding forward foreign exchange contracts are within one year and are classified as current liabilities.

As at 30 September 2012, the notional principal amount of the outstanding forward foreign exchange contracts under cash flow hedges was HK$12,900,000 (31 March 2012: Nil). The hedges related to highly probable forecasted purchases denominated in Euro which are expected to occur at various dates within a 12-month period. Gains and losses of forward foreign exchange contracts recorded in the hedging reserve in the equity for the period ended 30 September 2012 are to be recognised within cost of sales in the consolidated income statement when the underlying hedged transactions affect the consolidated income statement.

The forward foreign exchange contracts entered for the period ended 30 September 2012 were determined to be effective hedges. There was no ineffectiveness to be recognised in the condensed consolidated income statement.

MANAGEMENT DISCUSSION & ANALYSIS

Interim Results

For the six months ended 30 September 2012 ("Period"), the Group's consolidated turnover amounted to HK$3,377.5 million, representing an increase of 21.2% from HK$2,786.0 million for the six months ended 30 September 2011 ("Previous Period"). The Group's performance benefited from the continuing strong performance of our core market Hong Kong and Macau. The Group's profit for the period was HK$282.1 million, representing an increase of 25.7% from HK$224.3 million for the previous period. On the other hand, we continued the refinement of our new product strategy, which resulted in a lowering of stock levels. Basic earnings per share amounted to 10.0 HK cents as compared to 8.0 HK cents for the previous period. The Board resolved to declare an interim dividend of 2.5 HK cents (2011: 2.0 HK cents) per share and a special dividend of 4.5 HK cents (2011: 4.0 HK cents) per share.

A highlight for the period was Sa Sa's nomination for the second successive year as a constituent member of Hang Seng Corporate Sustainability Benchmark Index.

Market Overview

Despite current macroeconomic headwinds and the relative slowdown of the Mainland China economy, the cosmetics sector in Hong Kong continued its strong sales growth momentum. Against a background of modest expansion in the Hong Kong economy, overall sales growth in the Hong Kong retail sector slowed from 24.9% for full year 2011 to 10.6% for the first nine months of 2012. Nevertheless, the cosmetics products market continued to be underpinned by favourable labour market conditions and sustained growth in inbound tourism. Sales of medicine and cosmetics outpaced the overall retail market, rising 16.8% in the first nine months of the year: a reassuring sign of cosmetics' strong attributes and resilience as daily necessities.

In China, retail sales growth moderated, but again the cosmetics sector registered above average growth of 16.3% in the first nine months of 2012, compared to the overall retail sales average of 14.1% per year. Reflecting the slowdown in the regional economies, GDP and cosmetics sector sales growth decelerated in Taiwan in the first half of the calendar year, while the Malaysia and Singapore cosmetics sectors were comparatively more buoyant.

Operations Review

Retail and Wholesale Business

Hong Kong and Macau

The Group's retail sales growth in Hong Kong for the period outperformed overall retail market and cosmetics sector, testifying to the resilience of the cosmetics sector. Turnover in Hong Kong and Macau increased 19.3% to HK$2,630.3 million. Retail sales growth momentum in Hong Kong and Macau remained strong, with the same store sales and same store number of transactions rose 16.8% and 4.7% in the period, respectively. The average sales value per ticket of Mainland China tourists grew by 10.7%, while the average spending of local consumers increased by 5.9%.

Despite a high base of sales growth in the previous period, the Group's retail sales reached new heights. This performance was buoyed by several factors. The number of Mainland China tourist arrivals continued on a steady upward path. The accompanying rise in tourist spending on cosmetics was further driven by structural changes in the tourist mix. The total number of same-day in-town Mainland China visitors for the first nine months of 2012 increased to 14 million and outgrew that of the overnight Mainland visitors, which totaled at 11 million, reflecting the increasing integration of Hong Kong and Southern China.

Overnight tourists usually buy more luxury goods while same-day tourists tend to buy more daily necessities. However, with the depreciation of the euro and cheaper listed prices for luxury goods in Europe and the USA, Hong Kong is now less attractive for purchasers of luxury brands. Weaker consumer sentiment in Mainland China has also affected spending on luxury products. Therefore, the Group's strategy to offer a wider range of lower-priced products has proved successful in further broadening our customer base and driving sales.

Building on our successful strategy of penetration into non-tourist areas in Hong Kong, the Group continued to benefit from local and Mainland China tourist demand in these areas. Further impetus to our performance was given by our Bonus Point Scheme under the Customer Relationship Management (CRM) program, which aims to build loyalty and enhance sales to VIP customers. We also benefited from our positioning as a one-stop beauty specialist with a successful store concept, clear branding and an attractive design. These attributes helped the Group to penetrate more shopping malls and cement our partnership with major property developers. In terms of branded products, the enhancement in our gross profit margin was largely due to a rise in the House Brands mix whose share of total turnover increased to 43.6% in the first half of 2012. The Group now aims to select brands that have a stronger potential to achieve higher sales levels by working with the brand owners to focus the use of resources on selected brands.

Since we are subject to the same margin-reducing operational factors as all other retailers in Hong Kong, the Group's major challenge has been rising operating costs. These include rental costs. Many global brands have high expectations of Mainland China tourists' spending potential, and their entry into the market pushed up rental costs overall. During the period, the Group's renewed leases saw steep increases while the rental level for new leases remained high despite the slowdown in retail sales growth. Frontline and back office staff costs also rose as a result of the long-standing staff shortage in the retail industry, which inevitably affected the Group. These labour concerns are being addressed through a combination of more outsourcing, staff retention programmes, more overtime pay and more hiring of part-time staff, all of which further increase costs.

During the period, we continued to upgrade our store image and renovate local stores. The Group closed down several stores due to unreasonable rental increases and the stores that replaced them generated new depreciation expenses.

Overall, the Group's performance in Hong Kong and Macau was generally strong. We continued our progressive and rational network expansion with new openings balanced between residential malls and tourist areas. We added a net seven "Sasa" stores during the period. As at 30 September 2012, there were 94 "Sasa" stores (including seven in Macau), one Suisse Programme specialty store and one La Colline specialty store.

Mainland China

In local currency term, overall turnover for our Mainland China operations grew 53.6% to RMB 137.7 million, while same store sales growth was 5.9% for the period, reflecting the overall sluggish performance of the market. We continued to allocate resources to improving productivity and efficiency, for example through the deployment of more management teams to local clusters and outsourcing part of the training function. Despite weaker consumer sentiment, we maintained the positive same store sales growth.

The Group's established store clusters in Northern and Eastern China generated stable and consistent sales during the period, supported by a steadily maturing and more professional management structure based on six district managers. Our Southern and Central clusters are in an earlier stage of development; the local management structure in these areas are still being built and the retail network is not yet large enough to generate enough critical mass to attain high productivity and efficiency. Nevertheless, the performance of these two newer clusters continued to improve and they were contributors to overheads in the period.

During the period, we continued to make strenuous efforts to improve the overall management structure in order to increase management effectiveness and build scalability in our operations in Mainland China. However, since weaker consumer sentiment made it difficult to obtain stronger contributions from the stores, the costs of these investments also resulted in a similar level of losses as for last year.

We continued to work on raising the number of stock-keeping units to cater to the demand for "made for China" mass market products, and we introduced more domestically made exclusive products with lower price points to broaden our product offerings.

The Group continues to invest prudently in Mainland China. We moderated the pace of expansion to cater to the slowdown in the economy and the more challenging macroeconomic climate. In view of the current operating and economic environment, we consolidated our network of department store counters by closing down underperforming ones, and improved on the image and personnel of the rest of the counters to prepare for our next phase of development. Following the successful increase in our footprint in the last fiscal year, beauty brands and landlords increased their support for our operations and we continued to make investments in scalability such as processes, systems and management resources.

As at 30 September 2012, our retail network in Mainland China had recorded a net increase of five "Sasa" stores, a net decrease of seven single-brand counters, and we had an overall presence in 28 cities and across 13 provinces with 53 "Sasa" stores and 13 single-brand counters.

Singapore and Malaysia

Providing enhanced service to Sa Sa's customers, partnership with beauty brands and strengthening our network continue to be our core priorities for the Singapore and Malaysia market. During the period, the combined turnover for our Singapore and Malaysia operations was HK$271.8 million, a rise of 15.9% over the previous period.

During the period, the cosmetics sector in both the Singapore and Malaysia markets proved to be more resilient. In Singapore, we focused on consolidating our store network towards more sizable stores with a more comfortable shopping environment and potential for growth. In Malaysia, Sa Sa's performance was better than that of the overall retail market. This was due to closer working relationship with beauty brands and more effective sales efforts such as targeted marketing strategies and intensive leverage on various forms of media. These strategies, together with a broadening product range, helped to widen the customer base. Focused training programmes also enhanced the quality of frontline staff's services.

Reflecting the consolidation of our retail stores, turnover in local currency for the Singapore market grew by 9.9% to SG$20.3 million, while same store growth increased by 6.6% in local currency.

During the period, we began the process of repositioning and consolidating our stores, upgrading the store size, providing a better image and a more comfortable environment, and increasing our stores' appeal. This process was well received by developers. By providing a better showcase for our brands, we continued to develop closer relationships with them and to attract more brands to our stores. As part of our enhanced branding, we unveiled a sparkling new concept lifestyle store at Jurong Point, which at 4,100 sq ft is the biggest store in Singapore. Following the store's enthusiastic reception by brands and customers, the Group will gradually introduce this new lifestyle concept to existing outlets.

As one of the Service Sector Leaders in the Singapore Retailers Association, Sa Sa was honoured to receive the GEM (Go the Extra Mile) award in the cosmetics category for the third successive year. This prestigious award focuses on raising service levels in key service sectors such as tourism, hospitality, food and beverage, retail and transport in Singapore. Sa Sa also received an EXSA (Excellent Service Award), a national award that recognizes individuals that have delivered quality service and that are truly service champions.

Due to store integration to upgrade the size of our stores during the period, the total number of "Sasa" stores in Singapore decreased from 21 to 20 as at 30 September 2012.

In local currency term, turnover of our Malaysia operations rose 28.1% to RM58.5 million, while same store sales growth increased 4.1%. Our retail sales growth exceeded that of our peers as well as the overall retail market due to the Group's expansion drive and positive same store sales contributions. This in turn resulted in a continued rise in profitability and gross profit margin.

Our strategy of building strong consumer recognition, broadening customer base and targeting new market segments continued to gain the Group market share. The Group has been proactive in entering new regions such as East Malaysia and our strong position in the market has given us a platform to further expand our network. During the period, we added a net of four stores, further enhancing Sa Sa's brand awareness and exposure in Malaysia. As at 30 September 2012, there were 49 "Sasa" stores in Malaysia.

Taiwan

Turnover in local currency in the Group's Taiwan business increased by 18.3% to TW$473.2 million during the period, same store sales in local currency slightly decreased.

The overall economy in Taiwan remained sluggish in 2012. Significant and long delayed increases in electricity charges and fuel costs stoked inflation in the broader economy and damaged consumer sentiment. However, there were some positive factors to drive our sales growth. Although the Individual Traveller Scheme has still made no significant impact on Mainland China tourist arrivals, our tourist mix increased steadily from 2.9% in the previous period to 5.1% in the period. The number of transactions and average sales value per ticket in local currency increased by 32.3% and 35.4%, respectively.

We enlarged our network to capture more customers and growth potential, particularly in the tourist areas. We also enhanced our product portfolio and increased our lower priced products offerings with the objective of increasing traffic and driving sales through cross-selling. Further initiatives included launching more effective and frequent promotions to help stimulate spending in a weak consumer environment and strengthening our training programmes for beauty consultants to enhance their sales skills and product knowledge.

Reflecting our continued market leadership in the fragrance sector, Sa Sa hosted the Oscar Fragrance Awards 2012 and successfully invited 32 famous fragrance brands to participate, which was a record high in the history of the event. We also introduced more fragrance brands including Trussardi, Coach and Valentino.

As at 30 September 2012, there were 27 “Sasa” stores in Taiwan.

E-commerce - sasa.com

Turnover for sasa.com amounted to HK$183.3 million, representing an increase of 40.2% over the previous period. During the period, we have relocated our warehouse and offices, launched a new e-commerce platform and organized more promotions to drive sales, including free shipping, which caused a decline in gross profit margin.

sasa.com continued to penetrate the diversified markets we successfully opened up last year. Sales growth and an increase in repeat customers were driven by successful reactivation of the CRM loyalty programme, more targeted marketing efforts and enhanced sales channels. Special promotions helped to build brand awareness in the region. A strong social media presence with high engagement rates and an active online community ensured that our brands remained well connected with loyal customers.

Brand Management

The Group’s sales of House Brands increased steadily by 22.4%, contributing 42.0% of the Group’s total retail sales as compared to 41.5% for the previous period. Our strategy of allocating more sales and marketing resources to House Brands with the greatest growth potential, successfully drove strong sales growth of our own-branded products.

Our emphasis on closely following market trends by launching trendy and timely new exclusive products catering to different customer segments continued to generate significant returns for the Group. We will further implement our diversification strategy in the product categories as well as to broaden our appeal to various segments.

Outlook

The coming year will undoubtedly be challenging. China's economic growth is decelerating, affecting domestic consumption as well as regional growth. However, our cosmetics business remains resilient. Our core Hong Kong and Macau market is likely to see continued sales growth due to the desire of Mainland tourists to save on purchases in a weaker economic environment. We expect to experience continued growth momentum.

Nevertheless, the Group is cautious about near term prospects due to rising costs and the shortage of retail space and labour in the Hong Kong market. Indeed, shortage of labour and rising costs are the prevalent conditions in all the markets where we operate. Due to our intensive efforts to strengthen our competitiveness, the Group has generally achieved above market performance throughout our operations. We will continue to cautiously expand our network in the region and to strengthen our brand and product portfolio through closer cooperation with beauty brand owners in order to realize our long-term vision of being the leading cosmetics retailing group in Asia.

Hong Kong and Macau

There are major infrastructural projects underway in Hong Kong: the Kai Tak International Cruise Terminal, the High Speed Railway Link, the Hongkong-Zhuhai-Macau Bridge and the expansion of Hong Kong International Airport. These developments will significantly enhance Hong Kong's connectivity with the fast growing Pearl River Delta region and beyond. This increasing integration, particularly with Southern China, together with the Chinese government's favourable policies towards Hong Kong tourism, will provide more ease and convenience for Mainland tourist shoppers in Hong Kong. This in turn will cement Hong Kong's position as China's "most popular shopping paradise".

As we have said, the skincare and cosmetics segment has proved resilient to fluctuations in the economies of Mainland China and Hong Kong. This resilience will continue to help support sales in our core operations, particularly purchases by Mainland tourists seeking to make savings by shopping in Hong Kong. Despite the high rental environment, our relatively strong growth and financial position has enabled us to secure attractive retail spaces in tourist hotspots, thereby gaining market share. Since Mainland tourists' shopping locations have now extended to non-tourist areas, we will target the high growth potential of such areas, which in turn will be buoyed by the growing influx of same-day tourists from Southern China. New stores in non-tourist residential malls will also help limit the impact of rising rental costs.

Going forward, the Group will continue to improve our exclusive brand portfolio by ensuring that a series of promising own-branded and exclusive products is always ready in the pipeline. Overall, we will continue to sharpen our competitive edge by enhancing our product portfolio, improving the quality of our service and by leveraging on marketing to further build our brand.

Mainland China
Following last year's intensive efforts to expand the Group's footprint in Mainland China, we now have an improved presence with a strengthening network for our beauty brands. Two of our four regional clusters have already taken shape. A local management structure is being built in the remaining two clusters. Given the weaker market sentiment in Mainland China, we have moderated our store opening plan. The Group's current focus is to enhance management and operational effectiveness. This includes optimizing store sizes, further developing our knowledge base, building a strong local management team, and strengthening the back end support team and human resources to ensure more effective management. We aim to deploy district managers for our Southern and Central clusters, similar to those we have deployed to our Northern and Eastern clusters. In order to strengthen recruitment and increase our training capacity, we will establish regional training centres in each of our clusters. We will also automate our processes and systems to help enhance the scalability of our operations.

Looking forward, the Group will continue to prudently invest in Mainland China to further strengthen our presence and make our operations more effective. However, we will flexibly adjust our pace of expansion in accordance with the slowing economic environment. Priority will still be given to cities where we already have a presence and where the penetration rate is low.

The Group aims to enhance our product offerings in Mainland China. We will continue to maintain close relationships with local suppliers, major global and regional beauty groups' suppliers and beauty brands to secure more renowned international beauty brands. We will also add more exclusive and own-branded products to drive for a more diversified brand portfolio and continue to increase mass market brands to cater to growing demand.

Other Markets
In Singapore, we will continue to build scalability and profit potential through enlargement of our store size and integrating our new lifestyle concept into our stores. We aim to implement our new Target Management Sustaining System to systematically improve productivity and management of our stores and retail staff. In Malaysia, we aim to identify high traffic locations for new stores and expand into new regions. We will strengthen professional training for staff and enhance our product portfolio by introducing new brands and products with strong potential.

In Taiwan, we will continue to build our network to strengthen our presence and future growth potential. Currently, our sales do not notably benefit from the influx of Mainland China tourists in tour groups. We believe that the benefits of the Mainland Chinese tourist flow will be better realized when the mix of individual travelers, as opposed to group tours, improves.

For our online business, our key strategies include further exploring potential partnerships with leading online shopping sites, increasing product offerings, strengthening core competitiveness and further enhancing our customer retention efforts. We aim to increase our social media presence and further integrate social media with our marketing campaigns.

Conclusion

The Group's success has long been based on the solidity of our financial platform, the flexibility and long-term vision of our management, and above all on our track record of resilience in challenging environment. These characteristics have enabled us to continue expanding our customer base while developing the potential both of our core Hong Kong and Macau markets, and of our Mainland China and other markets. Despite the moderation in the Hong Kong, Mainland China and regional economies, we believe that our dedication, proven strategies and our inherent resilience will ensure that Sa Sa will continue to deliver sustained growth for the rest of the fiscal year and beyond.

Human Resources

As at 30 September 2012, the Group had a total of 4,730 employees. Staff costs for the period under review were HK$473.8 million. To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. Performance bonus and share options are then offered to qualified employees. A performance-based element is included in the annual discretionary bonus for all staff as well as in share options for supervisory and managerial staff. The Group places strong emphasis on staff training and development in order to realize the full potential of our employees. In addition to supporting the graduate trainee programme, various staff development initiatives were implemented during the period through in-house and external training programmes. Financial subsidies for further studies in related fields were also provided to qualified employees.

FINANCIAL REVIEW

Capital Resources and Liquidity

As at 30 September 2012, the Group's total equity funds were HK$1,610.6 million including reserves of HK$1,328.4 million. The Group continued to maintain a strong financial position with cash and bank balances of HK$408.2 million. The Group's working capital was HK$1,094.0 million. Based on the Group's steady cash inflow from operations, coupled with sufficient cash and bank balances and readily available banking facilities, the Group has adequate liquidity and financial resources to meet the working capital requirements as well as to fund its budgeted expansion plans in the next financial year.

During the period, the majority of the Group's cash and bank balances were in Hong Kong dollars, Renminbi, Malaysian Ringit, Singapore dollar, Taiwan dollar, Euro and US dollars and deposited in reputable financial institutions with maturity dates falling within one 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

Subsequent to the payment of final and special dividends, total funds employed (representing total equity) as at 30 September 2012 were HK$1,610.6 million, which represented a 1.2% decrease over the total funds employed of HK$1,630.8 million as at 31 March 2012.

The gearing ratio, defined as the ratio of total loans less cash and bank balances to total assets, was nil as at 30 September 2012 and 31 March 2012.

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 significant borrowing during the period. Most of the assets, receipts and payments of the Group are denominated either in Hong Kong dollars, US dollars, Euro or Renminbi. Based on purchase order placed, the Group enters into foreign currency forward contracts with reputable financial institutions to hedge against foreign exchange exposure arising from non HKD denominated purchases. These hedging policies are regularly reviewed by the Group.

Charge on Group Assets

As at 30 September 2012, no Group asset was under charge to a financial institution.

Contingent Liabilities

The Group had no significant contingent liability as at 30 September 2012.

Capital Commitments

As at 30 September 2012, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$165.3 million.

INTERIM DIVIDEND AND SPECIAL DIVIDEND

The Board resolved to declare an interim dividend of 2.5 HK cents (2011: 2.0 HK cents) per share and a special dividend of 4.5 HK cents (2011: 4.0 HK cents) per share for the six months ended 30 September 2012, payable to shareholders whose names appear on the Register of Members of the Company on Tuesday, 11 December 2012.

The interim and special dividends will be paid on or around Thursday, 20 December 2012.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2012, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

CORPORATE GOVERNANCE

Corporate Governance Code

The Company has adopted the code provisions under "Corporate Governance Code and Corporate Governance Report" (Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as revised in October 2011. Please refer to the Company's Annual Report 2011/12 issued in July 2012 (the "Annual Report") for a summary of our system of corporate governance and compliance with the code provisions and the recommended best practices.

Compliance with the Corporate Governance Code
Throughout the six months ended 30 September 2012 and up to the date of this announcement, the Company has complied with all the code provisions except code provision A.2.1: separation of the roles of chairman and chief executive. Dr KWOK Siu Ming Simon is both our Chairman and Chief Executive Officer. Please refer to the detailed explanations on page 87 of the Annual Report. Nevertheless, the roles of chairman and chief executive officer are clearly set out in the terms of reference of these two positions. The Board will review the current arrangement from time to time and will consider making necessary change when appropriate.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted a policy regarding securities transactions by directors of the Company on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers. Having made specific enquiry of all directors, all of them have confirmed their compliance with such a policy throughout the reporting period.

The interim report of the Company for the six months ended 30 September 2012 containing more information on its corporate governance practices will be dispatched to the shareholders on or around Friday, 30 November 2012, and be published on the respective websites of Hong Kong Exchanges and Clearing Limited and the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining entitlement to the interim dividend and special dividend, the Register of Members of the Company will be closed from Monday, 10 December 2012 to Tuesday, 11 December 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim and special dividends, all valid documents for the transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 7 December 2012.

On behalf of the Board, I would like to extend my thanks and appreciation to all our staff for their hard work and commitment and to all of our customers, suppliers and shareholders for their continued support.

By Order of the Board
KWOK Siu Ming Simon
Chairman and CEO

Hong Kong, 15 November 2012

As at the date of this announcement, the directors of the Company are:-

Executive Directors
Dr KWOK Siu Ming Simon, *BBS, JP* (Chairman and CEO)
Dr KWOK LAW Kwai Chun Eleanor, *BBS* (Vice-chairman)
Mr LOOK Guy (Chief financial officer)

Independent Non-executive Directors
Professor CHAN Yuk Shee, *PhD, SBS, JP*
Dr LEUNG Kwok Fai Thomas, *PhD, BBS, JP*
Ms TAM Wai Chu Maria, *GBS, JP*
Ms KI Man Fung Leonie, *SBS, JP*
Mr TAN Wee Seng