# SA SA INTERNATIONAL HOLDINGS LIMITED
# 莎莎國際控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 178)**

## Annual Results for the year ended 31 March 2016
## Dividends and Closure of Books

### Highlights

- The Group's turnover decreased by 12.8% from HK$8,992.8 million to HK$7,845.9 million
- Retail sales in HK and Macau decreased by 14.2% from HK$7,259.4 million to HK$6,231.6 million
- The Group's retail network increased from 287 to 291, a net increase of 4 stores
- Profit for the year was HK$383.5 million, a decrease of 54.3% from HK$838.8 million in last year
- Basic earnings per share were 13.4 HK cents as compared to 29.5 HK cents for the previous year
- Final and special final dividends per share proposed are 14.5 HK cents (2015: 14.5 HK cents), making a total annual dividend of 23.5 HK cents per share (2015: 23.5 HK cents), payable in cash with a scrip dividend alternative

The Board of Directors of Sa Sa International Holdings Limited ("Company") has pleasure in presenting the consolidated results of the Company and its subsidiaries ("Group") for the year ended 31 March 2016 with comparative figures for the previous year as follows. The annual results have been reviewed by the audit committee of the Company.

# CONSOLIDATED INCOME STATEMENT
# FOR THE YEAR ENDED 31 MARCH 2016

| | Note | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|---|
| Turnover | 4 | **7,845,875** | 8,992,837 |
| Cost of sales | 6 | **(4,499,866)** | (4,953,590) |
| Gross profit | | **3,346,009** | 4,039,247 |
| Other income | 5 | **117,379** | 118,445 |
| Selling and distribution costs | 6 | **(2,664,059)** | (2,816,699) |
| Administrative expenses | 6 | **(341,694)** | (349,957) |
| Other gains - net | | **3,440** | 752 |
| Operating profit | | **461,075** | 991,788 |
| Finance income | | **9,380** | 18,162 |
| Finance costs | | **-** | (458) |
| Finance income – net | | **9,380** | 17,704 |
| Profit before income tax | | **470,455** | 1,009,492 |
| Income tax expense | 7 | **(86,985)** | (170,681) |
| Profit for the year | | **383,470** | 838,811 |
| Earnings per share for profit for the year (expressed in HK cents per share) | 8 | | |
| Basic | | **13.4** | 29.5 |
| Diluted | | **13.4** | 29.5 |
| Dividends | 9 | **675,381** | 668,493 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2016

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Profit for the year** | **383,470** | 838,811 |
| **Other comprehensive loss** | | |
| Item that will not be reclassified subsequently to profit or loss | | |
| Actuarial (losses)/gains on retirement benefit obligation | **(3,241)** | 302 |
| Items that may be reclassified to profit or loss | | |
| Cash flow hedges, net of tax | **61** | (17) |
| Currency translation differences of foreign subsidiaries recorded in exchange reserve | **(19,246)** | (33,541) |
| **Other comprehensive loss for the year, net of tax** | **(22,426)** | (33,256) |
| **Total comprehensive income for the year** | **361,044** | 805,555 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016

| | Note | **2016** | 2015 |
|---|---|---|---|
| **ASSETS** | | **HK$'000** | HK$'000 |
| **Non-current assets** | | | |
| Property, plant and equipment | | **321,089** | 351,493 |
| Rental deposits, prepayments and other assets | | **167,026** | 177,686 |
| Deferred tax assets | | **15,786** | 13,903 |
| | | **503,901** | 543,082 |
| **Current assets** | | | |
| Inventories | | **1,102,385** | 1,382,775 |
| Trade receivables | 10 | **79,150** | 51,492 |
| Other receivables, deposits and prepayments | | **207,060** | 249,046 |
| Time deposits | | **393,244** | 643,976 |
| Cash and cash equivalents | | **685,763** | 519,702 |
| | | **2,467,602** | 2,846,991 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payables | 11 | **261,495** | 496,196 |
| Other payables and accruals | | **321,307** | 328,190 |
| Income tax payable | | **50,496** | 36,419 |
| | | **633,298** | 860,805 |
| **Net current assets** | | **1,834,304** | 1,986,186 |
| **Total assets less current liabilities** | | **2,338,205** | 2,529,268 |
| **Non-current liabilities** | | | |
| Retirement benefit obligations | | **9,114** | 5,677 |
| Deferred tax liabilities | | **432** | 251 |
| Other payables | | **40,373** | 48,832 |
| | | **49,919** | 54,760 |
| **Net assets** | | **2,288,286** | 2,474,508 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | | **289,213** | 284,468 |
| Reserves | | **1,999,073** | 2,190,040 |
| **Total equity** | | **2,288,286** | 2,474,508 |

**Notes:**

## 1 Basis of preparation

The consolidated financial statements are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

## 2 Changes in accounting policies and disclosures

(i) Amendments of standards mandatory for the first time for the financial year beginning 1 April 2015 and were early adopted in prior years

- Amendment to HKAS 19 regarding defined benefit plans
- Annual improvement to HKFRSs, 2010-2012 cycle
- Annual improvement to HKFRSs, 2011-2013 cycle

(ii) The following new standards have been issued but are not effective for the financial year beginning 1 April 2015 and have not been early adopted

- HKFRS 9 (2014), "Financial Instruments" (effective for annual periods beginning on or after 1 April 2018)
- HKFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 April 2018)
- HKFRS 16 "Leases" (effective for annual periods beginning on or after 1 April 2019)

The Group is in the process of making an assessment of the impact of these new standards in the period of initial application and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

## 3. Estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## 4. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors of the Group who make strategic and operating decisions.

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 segment results from markets in Singapore, Malaysia, Taiwan and e-commerce.

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

The Group is mainly domiciled in Hong Kong & Macau. The breakdown of key segment information including total turnover from external customers is disclosed below.

| | For the year ended 31 March 2016 | | | |
|---|---|---|---|---|
| | **Hong Kong & Macau HK$'000** | **Mainland China HK$'000** | **All other segments HK$'000** | **Total HK$'000** |
| **Turnover** | **6,315,567** | **303,803** | **1,226,505** | **7,845,875** |
| **Segment results** | **465,700** | **(39,640)** | **(42,590)** | **383,470** |
| **Other information** | | | | |
| Capital expenditure | **60,159** | **11,632** | **45,244** | **117,035** |
| Finance income | **7,075** | **381** | **1,924** | **9,380** |
| Income tax expense | **86,591** | **-** | **394** | **86,985** |
| Depreciation | **80,905** | **11,107** | **31,279** | **123,291** |
| Impairment of property, plant and equipment | **7,776** | **2,298** | **7,175** | **17,249** |

## 4. Segment information (continued)

| | For the year ended 31 March 2015 | | | |
|---|---|---|---|---|
| | Hong Kong & Macau HK$'000 | Mainland China HK$'000 | All other segments HK$'000 | Total HK$'000 |
| Turnover | 7,356,718 | 346,962 | 1,289,157 | 8,992,837 |
| Segment results | 877,762 | (30,766) | (8,185) | 838,811 |
| Other information | | | | |
| Capital expenditure | 81,756 | 21,586 | 46,551 | 149,893 |
| Finance income | 14,558 | 778 | 2,826 | 18,162 |
| Finance costs | 458 | - | - | 458 |
| Income tax expense | 163,240 | - | 7,441 | 170,681 |
| Depreciation | 104,879 | 18,137 | 39,517 | 162,533 |
| Impairment of property, plant and equipment | 14,535 | 7,978 | 11,806 | 34,319 |

| | **Hong Kong & Macau HK$'000** | **Mainland China HK$'000** | **All other segments HK$'000** | **Total HK$'000** |
|---|---|---|---|---|
| **At 31 March 2016** | | | | |
| Non-current assets | **382,529** | **24,444** | **96,928** | **503,901** |
| Current assets | **1,877,528** | **161,389** | **428,685** | **2,467,602** |
| | | | | **2,971,503** |
| At 31 March 2015 | | | | |
| Non-current assets | 418,503 | 28,104 | 96,475 | 543,082 |
| Current assets | 2,177,511 | 206,728 | 462,752 | 2,846,991 |
| | | | | 3,390,073 |

## 5. Other income

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Slide display rental income | **62,767** | 62,376 |
| Sub-lease income | **54,612** | 56,069 |
| | **117,379** | 118,445 |

## 6 Expenses by nature

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cost of inventories sold | **4,414,612** | 4,906,235 |
| Employee benefit expenses (including directors' emoluments) | **1,076,959** | 1,142,540 |
| Operating lease rentals in respect of land and buildings | | |
| - minimum lease payments | **947,388** | 922,580 |
| - contingent rent | **65,775** | 83,404 |
| Advertising and promotion expenses | **140,868** | 167,019 |
| Depreciation of property, plant and equipment | **123,291** | 162,533 |
| Building management fees, government rent and rates | **91,005** | 84,908 |
| Provision for slow moving inventories and stock shrinkage | **85,254** | 47,355 |
| Utilities and telecom | **63,339** | 66,622 |
| Sub-lease expenses | **54,304** | 57,133 |
| Repair and maintenance | **43,031** | 36,124 |
| Impairment and write-off of property, plant and equipment | **19,916** | 37,472 |
| Donations | **4,740** | 5,420 |
| Auditors' remuneration | | |
| - audit services | **3,616** | 3,685 |
| - non-audit services | **1,369** | 2,543 |
| Others | **370,152** | 394,673 |
| | **7,505,619** | 8,120,246 |
| Representing: | | |
| Cost of sales | **4,499,866** | 4,953,590 |
| Selling and distribution costs | **2,664,059** | 2,816,699 |
| Administrative expenses | **341,694** | 349,957 |
| | **7,505,619** | 8,120,246 |

## 7 Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current tax: | | |
| Hong Kong profits tax | | |
| Current | **61,433** | 144,778 |
| Over-provision in previous years | **(321)** | (173) |
| Overseas taxation | | |
| Current | **27,982** | 35,894 |
| (Over)/under-provision in previous years | **(139)** | 88 |
| **Total current tax** | **88,955** | 180,587 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | **(1,970)** | (10,076) |
| Impact of change in Malaysia tax rate | **-** | 170 |
| **Total deferred tax** | **(1,970)** | (9,906) |
| **Income tax expense** | **86,985** | 170,681 |

## 8 Earnings per share

(a) Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue less the total number of shares held under the Share Award Scheme during the year.

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit attributable to owners of the Company | **383,470** | 838,811 |
| Weighted average number of ordinary shares in issue less shares held under the Share Award Scheme during the year (thousands) | **2,854,155** | 2,843,383 |

(b) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: share options and shares held under the Share Award Scheme during the year. For the share options, a calculation is performed 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. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. For shares held under the Share Award Scheme, awarded shares granted to the employees but not yet vested as at 31 March 2016 has been included in the number of shares.

## 8 Earnings per share (continued)

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Profit attributable to owners of the Company | **383,470** | 838,811 |
| Weighted average number of ordinary shares in issue less shares held under the Share Award Scheme during the year (thousands) | **2,854,155** | 2,843,383 |
| Adjustment for share options and awarded shares (thousands) | **1,127** | 4,248 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | **2,855,282** | 2,847,631 |

## 9 Dividends

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Interim, paid – 5.0 HK cents (2015: 5.0 HK cents) per share | **142,234** | 142,230 |
| Special, paid – 4.0 HK cents (2015: 4.0 HK cents) per share | **113,788** | 113,784 |
| Final, proposed – 9.0 HK cents (2015: 9.0 HK cents) per share | **260,292** | 256,021 |
| Special, proposed – 5.5 HK cents (2015: 5.5 HK cents) per share | **159,067** | 156,458 |
| | **675,381** | 668,493 |

For interim and special interim dividends, scrip dividend elections were offered to all shareholders. At a meeting held on 23 June 2016, the directors proposed a final dividend of 9.0 HK cents and a special final dividend of 5.5 HK cents per share. The final and special final dividends will be payable in cash with a scrip dividend alternative. These proposed dividends have not been reflected as dividend payables in these consolidated financial statements, but will be reflected as an appropriation of distributable reserve for the year ending 31 March 2017 if approved by the shareholders.

## 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 based on invoice date of gross trade receivables is as follows:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within 1 month | **48,968** | 47,861 |
| 1 to 3 months | **29,880** | 3,472 |
| Over 3 months | **2,520** | 947 |
| | **81,368** | 52,280 |

The carrying amounts of trade receivables approximate their fair values.

## 11 Trade payables

The ageing analysis based on invoice date of trade payables is as follows:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within 1 month | **148,644** | 328,837 |
| 1 to 3 months | **85,320** | 144,030 |
| Over 3 months | **27,531** | 23,329 |
| | **261,495** | 496,196 |

The carrying amounts of trade payables approximate their fair values.

# MANAGEMENT DISCUSSION & ANALYSIS

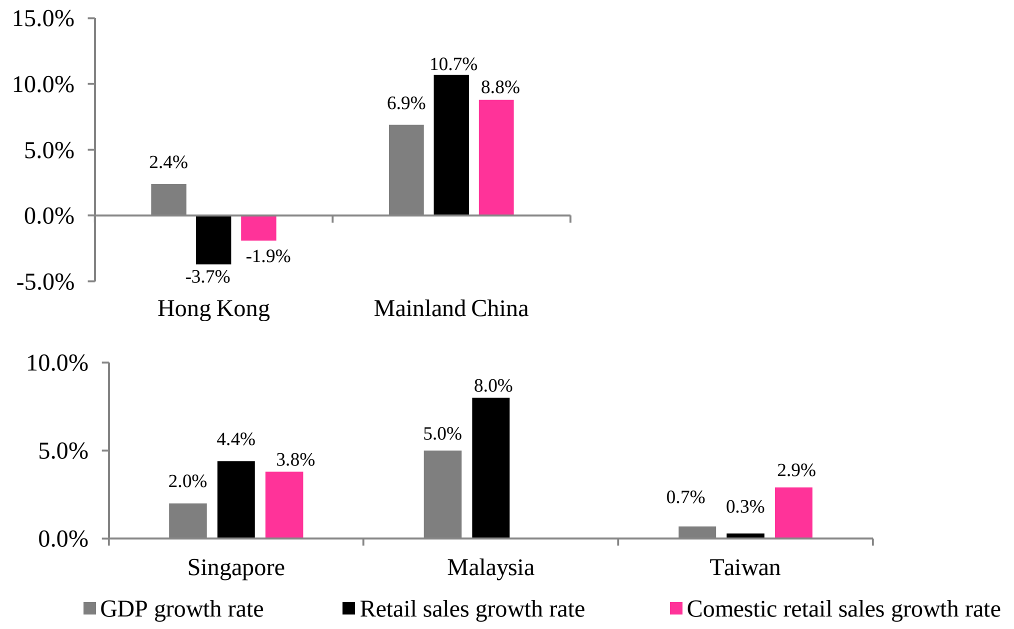
During the fiscal year, the Group's turnover decreased by 12.8% from HK$8,992.8 million in the previous year to HK$7,845.9 million. Retail sales in Hong Kong and Macau decreased by 14.2% year-on-year from HK$7,259.4 million to HK$6,231.6 million. The Group expanded its retail network from 287 to 291, a net increase of six stores for "Sasa" stores and a net decrease of two single-brand stores/counters.

The Group's profit for the year was HK$383.5 million, a decrease of 54.3% over the HK$838.8 million achieved in the last fiscal year. Basic earnings per share were 13.4 HK cents, as compared to 29.5 HK cents in the previous year. Final and special final dividends per share proposed are 14.5 HK cents (2015: 14.5 HK cents), making a total annual dividend of 23.5 HK cents per share (2015: 23.5 HK cents), payable in cash with a scrip dividend alternative.

The Company has been included in the Hang Seng High Dividend Yield Index since June 2015. The Company is a constituent member of the Hang Seng Composite MidCap and has been a constituent member of the Hang Seng Corporate Sustainability Benchmark Index for five consecutive years since 2011. The Company is also an eligible stock in Shanghai-Hong Kong Stock Connect.

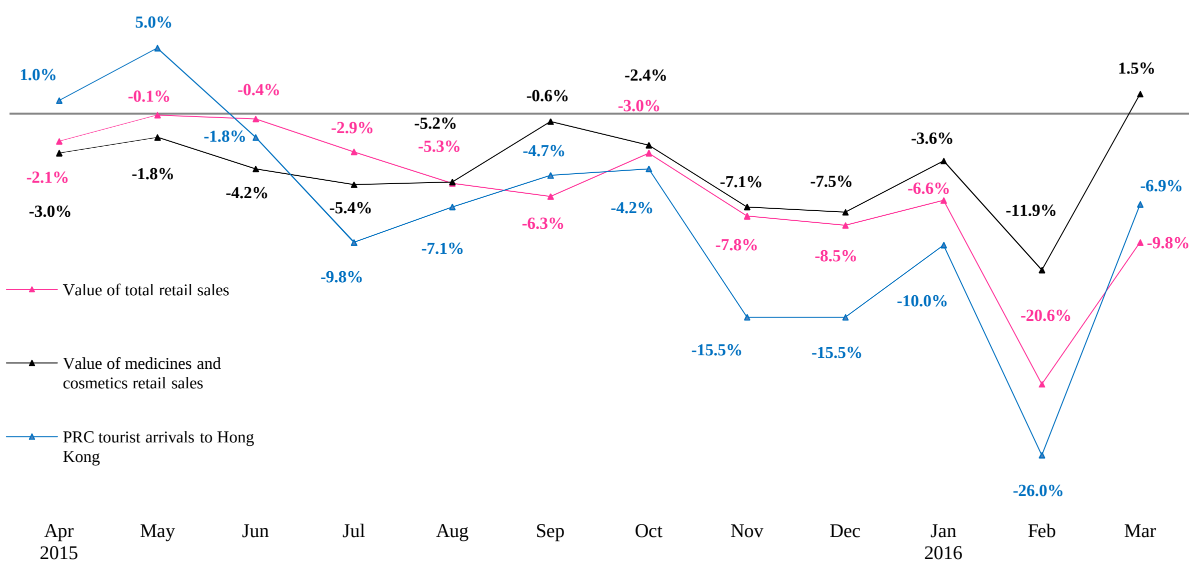
## Market Overview

**GDP / Retail Sales / Cosmetics Retails Sales Growth By Market, Year 2015**




*Notes:*
*1) There were no cosmetics retail sales statistics provided from Malaysia Government.*
*2) All of the above data were sourced from the corresponding governments' statistics bureaus.*
*3) There are some inconsistency in definition and survey methodology for cosmetics retail sales by different governments' statistics bureaus.*

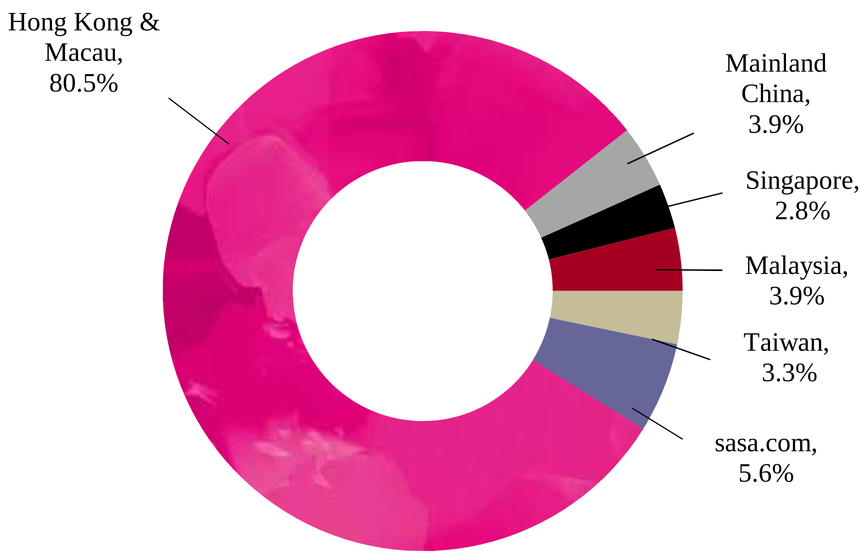
**Retail Sales Performance in Hong Kong and PRC tourist arrivals in Hong Kong (Year-on-Year Change)**




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

## Retail and Wholesale Business

**FY15/16 Turnover Mix By Market**



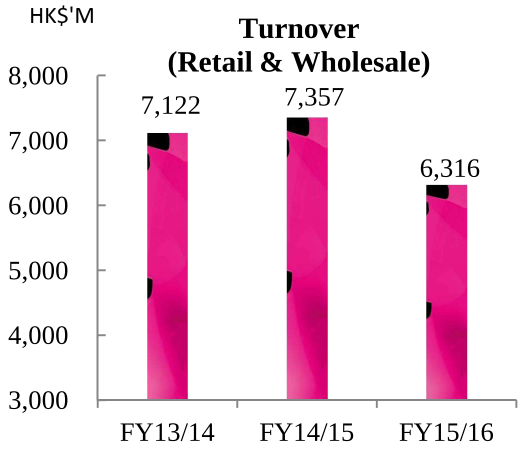

**Store Network By Market**

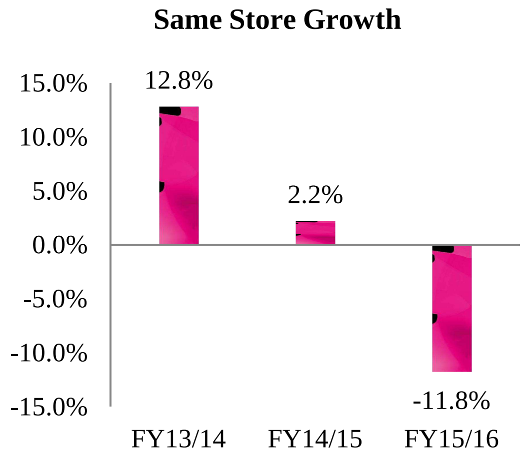
| **Multi-brand "Sasa" Stores** | As of 31 Mar 2015 | Opened | Closed | As of 31 Mar 2016 |
|---|---|---|---|---|
| Hong Kong & Macau | 107 | 12 | 8 | **111*** |
| Mainland China | 62 | 10 | 15 | **57** |
| Singapore | 21 | 7 | 5 | **23** |
| Malaysia | 59 | 10 | 4 | **65** |
| Taiwan | 32 | 5 | 6 | **31** |
| Total | 281 | 44 | 38 | **287** |

*Note:*
*As at 31 March 2016, there were two single-brand stores/counters in Hong Kong & Macau, and one each in Malaysia and Taiwan, totaling 291 retail outlets for the Group.*

**including three Sasa Boutique stores*

## Hong Kong and Macau

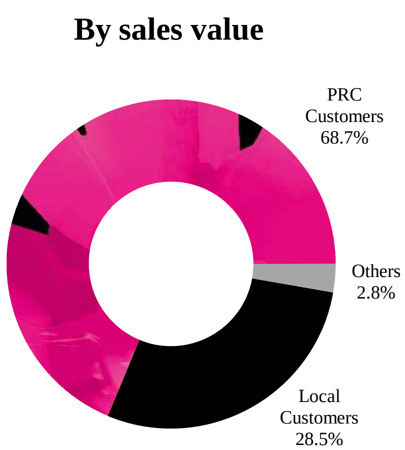


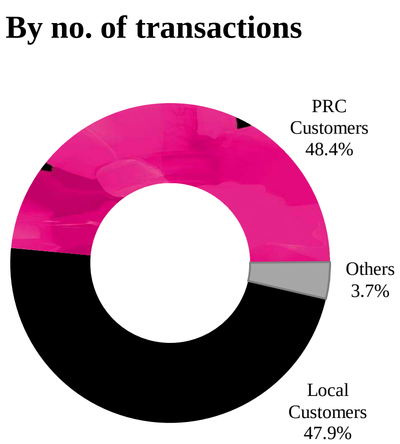




During the fiscal year, turnover in Hong Kong and Macau decreased by 14.2% year-on-year from HK$7,356.7 million to HK$6,315.6 million while same store sales fell 11.8%. The number of transactions dropped 4.4% while the total average sales value per ticket decreased by 10.2%.

To place these figures in context, the number of transactions of Mainland China tourists decreased by 7.1% while average sales value per ticket decreased by 11.2%. The number of transactions by local consumers decreased by 1.2% with an average spending decrease of 3.5%.

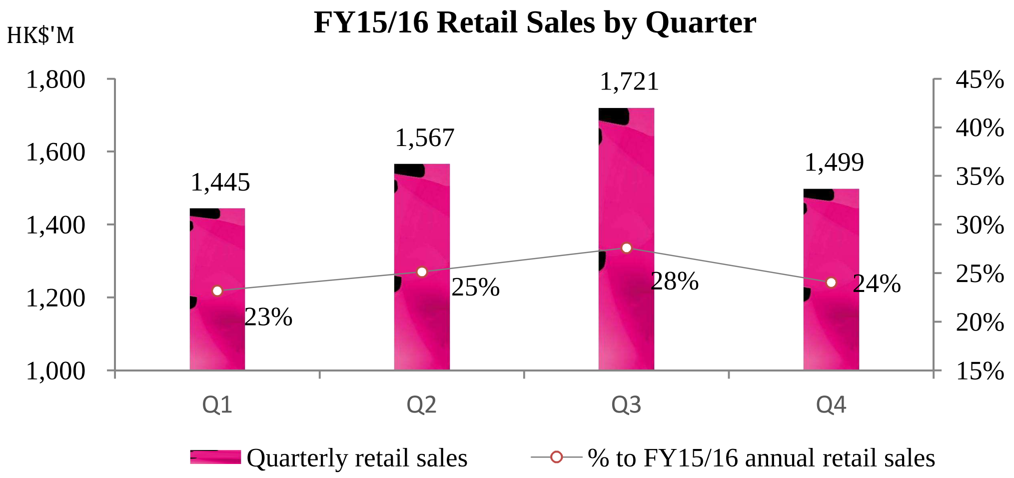
**Customer Mix (for FY15/16 retail sales)**




This performance was driven by a decrease in the total number of transactions with mainland tourists, which was in line with the overall deceleration of mainland tourist arrivals in Hong Kong by 8.6%. The weaker performance was exacerbated by the decrease in the average sales value per ticket of mainland tourists. As a result, the sales contributed by mainland tourists decreased from 71.5% last year to 68.7% this year.

Several factors have contributed to this decline in sales growth. The primary reason is the unabated decrease in mainland tourist arrivals to Hong Kong since March 2015.




*The above data excludes the impact of deferred income adjustment on customer loyalty programme

Meanwhile, the substantially strengthened tourist facilities and convenient travel policies offered by other countries have improved their attraction to mainland tourists. In addition, the strong Hong Kong dollar and depreciating Renminbi have contributed further to the slowdown in mainland visitors to Hong Kong while stimulating outbound travel by local consumers. The number of Hong Kong resident departures through the Hong Kong International Airport increased by 13.6% as compared to the previous fiscal year.

New restrictions placed on the frequency of visits by Shenzhen permanent residents, reducing from multiple-entry permits to one-visit-one-week permits upon renewal, have seriously impacted the flow of mainland tourist arrivals as the majority of mainland tourists are now day-trippers. As a result, the Mainland tourist same day visitor arrivals in Hong Kong dropped 9.1% during the year. Meanwhile structural changes in the Mainland China tourist mix towards tourists arriving from lower-tier cities in Mainland China with less spending power has impacted the average ticket size.

This change in tourist flows and in their consumption patterns has been given further impetus by the rise of cross-border e-commerce, which has facilitated much faster market penetration of cheaper and fast-to-market Korean products with concepts that are well liked by Asians, and in particular by the Chinese consumers. Sa Sa has traditionally relied on high price products with long product life cycles that derive mainly from Europe and the US, but the market preference has changed very quickly towards lower price products. These products have very fast launches and a much shorter product life cycle because of the increased efficiency of digital media, allowing the general consumer mass to become aware of new products much quicker than before. This in turn means demand rises and falls much faster than previously, and that the peak in demand is also higher.

The Group’s profitability in Hong Kong and Macau market was dragged due to margin pressures. Gross profit margin decreased from 44.8% last year to 42.6% this year. Net profit margin decreased to 7.4% from 11.9%. This performance was due to continuing promotions and discounting to support sales in a slower market as well as a lower house brand mix. In order to further strengthen the competitiveness of our product offerings, the Group adjusted our non-house brand mix in some popular product categories, for instance in Korean products, to make faster adaptation to changing consumer preferences for Korean and lower price products.

Rental costs continued to rise with rental reductions expected to be reflected in total rental costs only over an extended time span of several financial years. The frontline staff costs to sales increased as we strove to maintain our competitiveness in the salary system to retain staff in a slower market.

## Mainland China

Overall turnover for our Mainland China operations decreased to HK$303.8 million during the year, a decrease of 9.6% in local currency terms while same store sales decreased 9.9% in local currency for the year. The loss for the year amounted to HK$39.6 million.

Boutique stores of a smaller size continued to contribute to overall profitability, but a change of management in our operations team led to a slight decrease in turnover. Weak operational and product management led to a decline in turnover, as well as an increase in the inventory provision.

The Group launched a new store format: the O2O stores in Shenzhen (Qianhai) and in Shanghai. This new store format serves to broaden our product selections through online offerings, while also increasing exposure for the sasa.com brand.

## Singapore

During the fiscal year, turnover for the Singapore market was HK$222.5 million, a decrease of 2.0% in local currency terms, while same store sales dropped by 4.8% in local currency.

The challenge of filling vacancies for frontline staff, high staff turnover and Singapore's acute manpower constraints adversely affected our store productivity. The tourism industry as a whole was impacted by the strength of the Singapore dollar.

## Malaysia

The Group's turnover in our Malaysia market was HK$307.4 million, an increase of 9.1% in local currency terms, while same store sales dropped 3.2% in local currency.

The fundamentals of our business in Malaysia are strong. We are the largest beauty specialty store in the country in terms of store numbers and network coverage. We have consistently outperformed the market and are profitable, even though our performance was briefly impacted by the introduction of the Goods and Services Tax (GST) at the beginning of the year. However, this impact began to even out in the second half of the year.

## Taiwan

Turnover in the Group's Taiwan business during the year decreased to HK$254.6 million, representing a drop of 7.8% in local currency terms while same store sales fell by 10.1% in local currency.

The sales performance was impacted by changes in management, weak local consumer sentiment, and a drop in mainland tourist arrivals to the region.

## E-commerce – sasa.com

Turnover for sasa.com amounted to HK$442.0 million, a rise of 6.2% over the previous fiscal year.

Sales to the Mainland China market continued to increase with 25.9% growth. However, this performance was partly offset by a decrease in sales to other overseas markets. The growth in the Mainland China market was largely due to overall market growth and strong demand for skincare products. A new Mainland China site and Mainland China mobile site were launched during the year, which enhanced the traffic and conversion rate. Also, our performance was strengthened by more focus on flash sales and their associated purchases. However, the limitation on the system's scalability and logistics functions, together with inadequate consumer awareness of sasa.com and our small customer base hindered faster growth.

Profitability was affected due to the resulting decrease in gross profit margin, as well as increased investment and advertising and promotion expenses, such as search engine display advertisements.

### Brand Management

During the year, the Group's sales mix of own-label and exclusively distributed products, collectively referred to as House Brands, decreased from 43.3% to 41.0%.

Overall, our strategy aimed at expanding our choices to offer a wider range of parallel import products that are faster time to market, thereby strengthening our competitiveness in a slower market. Due to consumers' preference for mid-to low-price products and Korean products, our high-price house brand products that represent a large percentage of our house brand sales mix recorded a weak performance.

However, on the positive side, in response to the popularity of Korean products, we began to offer a broader range of Korean products, which saw sales of such products rising by 25.8% in Hong Kong and Macau. Leveraging on non-house brand Korean products' faster launches, sales of non-house brand Korean products outperformed sales of our house brand Korean products.

## Outlook and Strategies

The Group expects the Hong Kong retail market will continue to face a number of challenges. The strength of the Hong Kong dollar has seen a marked increase in outbound travel by local people and a marked decrease in Mainland China inbound tourism. This trend is likely to continue in the coming year. Local consumption sentiment is expected to remain weak due to a slowdown in the Hong Kong economy, poor stock market performance and a declining property market. At the same time, the Mainland economy will remain weak and face a slowdown in consumption and hence lower average ticket sales per transaction. The one-visit-one-week permits on Shenzhen residents for travel to Hong Kong will continue to have an impact on tourist arrivals, particularly day-trippers, and may lead to fewer transactions.

Overall, consumer preferences are trending more towards lifestyle products and enhancement with budgets increasingly allocated to interesting experiences rather than to shopping. A change in demographics will continue to impact spending, with consumers focusing on low-or-mid price new concept products with short product life cycles. We expect cross border e-commerce and new product trends will also complicate the retail picture, while competition and deleveraging will put pressure on profitability. The political situation in Hong Kong as well as anti-mainland tourist sentiment will add further uncertainty. As a result, our FY16/17 quarter-to-date (i.e. period up to 19 June 2016) retail sales and same store sales in Hong Kong and Macau declined by 5.1% (FY15/16 1st Quarter: -8.8%) and 4.6% (FY15/16 1st Quarter: -6.8%) year-on-year respectively.

In response to these concerted challenges, the Group has improved the management of our stores in the markets beyond Hong Kong to improve our competitiveness and profitability. For example, we have expanded our Malaysian store network, and integrated our Singapore management with the Malaysia team. We have also begun to operate an O2O business model to enhance the shopping experience and to tap the potential of cross-border e-commerce opportunities.

In Hong Kong itself, we have improved the cost effectiveness of our stores by repositioning and rationalizing our store portfolio, optimising store sizes, and centralising operations. We have leveraged the customer base of our physical stores and of our strong product offerings while tapping the potential of our increasingly important online marketing operations. The O2O initiative will significantly broaden our product offerings in our physical stores through online sales and cross border fulfillment. New store concepts will also attract new customer segmentations.

## Hong Kong and Macau

In addition to the challenges mentioned above, the Group faces intensifying competition within the cosmetics industry in Hong Kong due to the increasing number of players and ongoing discount and promotional offers, all of which have impacted our profitability. In response, we propose to take the following measures:

In order to implement effective cost controls, we will continue our policy of store consolidation with aggressive rental cuts targeted at tourist stores or through complete closures. We will reposition our stores more in residential areas with better growth prospects and returns, as well as locating them in the New Territories districts near the Mainland border. We will optimise our store network to maximise store profitability, and we will simplify and centralise workflows at store level to increase productivity and reduce costs. In terms of stock management, we will reduce SKUs more aggressively and clear slow moving stocks to better display new and productive SKUs.

In Macau, we are optimistic about retail sector growth, since the Central Government has listed Macau tourism as a key sector for economic stimulus. At the same time, tourist attractions in Macau are growing rapidly to attract and accommodate tourists.

In order to drive sales and capture new customer segments, we will introduce fresh store formats, enhance productivity with optimised product offerings and displays, develop more lifestyle and trendy offerings to capture young and male customers, and accelerate new product launches.

In order to improve the overall shopping experience, we will emphasise innovative products and product displays to cater to new demand trends, provide a more comfortable shopping environment, facilitate more browsing, and attract impulse purchasers.

## Mainland China

The dynamics of the cosmetics market in Mainland China continue to change, with Internet retailing growing at a rapid pace. The Group recognises the need to improve our management resources in the Mainland market. We have appointed a new management team and recruited new staff to serve a revitalised structure while also seconding experienced staff from Hong Kong to improve the attractiveness of our product offerings and our inventory management. We will continue to build the management structure, improve matrix reporting, upgrade the control process and compliance levels, raise the standard of reports, and improve training.

Going forward, we will roll out a trendy and innovative as well as lower cost and more effective boutique store format, which is already being welcomed by customers and landlords. The new format strives to enhance profitability and accelerate O2O business development to match government guidelines.

In terms of new product strategy for the Mainland market, we will introduce fast moving and trendy items, especially those of Korean origin, as traffic builders to generate sales by increasing the number of transactions. As the dynamics of the market rapidly change towards Internet retailing, with cheaper products attracting increased attention online, more expensive products have to work harder to compete. We will launch well-known and good quality brands through store activities and incentives. We will work with key suppliers to understand their new product launch plans to ensure that new items are in stores at the same time as other retailers launch them and with sufficient stock support from suppliers. We will also leverage our Hong Kong resources to introduce brands that offer a wider and more differentiated range.

## Singapore

The Group has restructured our management team for this market, merging the team with the Malaysia team for cost control purposes. Results are already being seen in new synergies and marked improvements in store management.

## Malaysia

The Group will continue to focus on team building and succession planning in this market, building out our store network and product portfolio, and broadening our customer base to target the wider Malaysian population.

## Taiwan

The business environment remains unfavorable in Taiwan. The Group recognises there are internal weaknesses that need to be addressed. The Group will proactively adjust our management structure and implement new policies to update our operations.

## E-commerce – sasa.com

Up to the present moment, sasa.com operated its warehouse and logistic functions based in Hong Kong. The resulting high delivery costs and long fulfillment lead times meant that we had to focus on large basket size orders from customers with higher spending power. Our business was essentially focused on a narrow customer segmentation with low marketing returns and growth. In particular, sasa.com missed out on the high growth segment of customers with lower but rising spending power.

We believe that a new Free Trade Zone warehouse in China will help us overcome these challenges. The shortened fulfillment time of this warehouse will be in line with that of the market. The resulting lowered fulfillment costs will also allow us to serve customers with a small basket size while our marketing returns will increase due to a broader target audience.

Going forward, we will place more emphasis on e-commerce and also begin to gradually integrate our online and offline operations to increase competitiveness. We will offer an improved O2O shopping experience to customers and we will be able to better serve Mainland tourists who visited our stores in Hong Kong after they have returned home.

## Ongoing Initiatives

Our immediate priority priorities are to link our online and offline CRM systems and to launch a new mobile app to enable our effective O2O development and help us drive the growth of our business. We will also develop and improve our backend systems to build scalability and improve agility, such as our order management system, to allow for an easy interface with different external platforms in order to support operational effectiveness.

## Brand Management

In order to enhance our brand management, we will establish a new dedicated team to source innovative and trendy products. We will establish new functions in our sourcing department and marketing department with fresh structures and new teams, as well as strengthen our overseas sourcing resources.

Overall, we will target new consumer trends and gaps in our product offerings. We will also restructure our house brands to satisfy the market preference for Asian products, focus more immediately on Agent Products, and develop own label products with a certain time lag.

## Human Resources

As at 31 March 2016, the Group had close to 5,000 employees. The Group's staff costs for the year under review were HK$1,077.0 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 2016.

## Financial Review

### Capital Resources and Liquidity

As at 31 March 2016, the Group's total equity funds amounted to HK$2,288.3 million including reserves of HK$1,999.1 million. The Group continued to maintain a strong financial position with cash and bank balances of HK$1,079.0 million. The Group's working capital amounted to HK$1,834.3 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 year, the majority of the Group's cash and bank balances were in Hong Kong dollar, Renminbi, US dollar, Malaysian Ringgit, Singapore dollar, New Taiwan 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 2016 were HK$2,288.3 million, representing a 7.5% year-on–year decrease.

The gearing ratio, defined as the ratio of total borrowings to total equity, was zero as at 31 March 2016 and 31 March 2015.

### 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 US dollar denominated purchases. These hedging policies are regularly reviewed by the Group.

### Charge on Group Assets

As at 31 March 2016, no asset of the Group was under charge to a financial institution.

### Contingent Liabilities

The Group had no significant contingent liability as at 31 March 2016.

### Capital Commitments

As at 31 March 2016, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$139.2 million.

## Conclusion

For many years, Sa Sa has continued to strengthen performance and profits despite many difficult economic environments and cross-currents. We believe we can continue to sharpen our competitiveness in the future and convert challenges into opportunities, such as those offered by O2O, by adapting to new consumer patterns and by leveraging on our proximity to southern China. We remain committed to a vision that builds on the flexibility and scalability of our business model, with its ability to rapidly respond to new markets, situations and trends — a vision that will continue to support our position as a leading provider of beauty products in the Asia-Pacific region. We believe that the flexibility and resourcefulness of our loyal staff and the long-term vision of our dedicated management team will ensure that we continue to deliver sustained, world-class growth for many years to come.

# FINAL DIVIDEND AND SPECIAL FINAL DIVIDEND

The Board recommends a final dividend of 9.0 HK cents (2015: 9.0 HK cents) per share and a special final dividend of 5.5 HK cents (2015: 5.5 HK cents) per share for the year ended 31 March 2016. Such dividends will be proposed for approval at the annual general meeting ("AGM") of the Company on Tuesday, 30 August 2016, and, if approved, are payable to shareholders whose names appear on the Register of Members of the Company on Tuesday, 6 September 2016.

Subject to approval by the Company's shareholders at the AGM, the final dividend and special final dividend will be payable in cash, with a scrip dividend alternative which will give shareholders an opportunity to increase their investment in the Company without incurring brokerage fees, stamp duty and related dealing costs. The scrip dividend alternative will also benefit the Company to the extent that such cash as would otherwise have been paid to shareholders who elect to receive the dividends in scrip, in whole or in part in lieu of a cash dividend, will be retained for use by the Company as working capital or to fund new investments. To facilitate shareholders' reinvestment of their dividends into the Company's shares, the Board has resolved to offer a five (5) per cent discount on the subscription price for eligible shareholders who elect to receive the dividends in scrip. The new shares to be issued pursuant to the scrip dividend alternative are subject to the Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the new shares to be issued. Further details will be set out in a circular which will be despatched to shareholders together with an election form in the middle of September 2016. The final and special final dividends are expected to be paid on or around Monday, 17 October 2016.

# REVIEW OF ANNUAL RESULTS

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and the annual results for the year ended 31 March 2016. The figures in respect of the preliminary announcement of the Group's results for the year ended 31 March 2016 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by

PricewaterhouseCoopers Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers Hong Kong on this preliminary announcement.

# BUY-BACK, SALE OR REDEMPTION OF SHARES

During the year ended 31 March 2016, there was no buy-back, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

# CORPORATE GOVERNANCE

The Company believes that its business can only be sustainable and beautiful to its stakeholders in the broadest sense when guided by a strong corporate governance culture. The Company is committed to maintaining high standards of corporate governance and strives to integrate the principles of good corporate governance practices into our operations, making corporate governance part of our culture.

## Compliance with the Corporate Governance Code ("CG Code")

Throughout the year ended 31 March 2016 and up to the date of this announcement, the Company has complied with all the code provisions in the CG Code except code provision A.2.1 recommending the separation of the roles of chairman and chief executive. In respect of the one deviation from the CG Code, the roles of the chairman and chief executive officer are currently held by the same individual, namely, Dr KWOK Siu Ming Simon. The division of responsibilities between the two roles are, however, clearly established and set out in writing in the respective terms of reference for the chairman and the chief executive officer. With the high level of independence of our board, there are sufficient checks and balances despite the roles of the chairman and chief executive officer being one person. Dr Kwok, being one of the founders of the Group, has superior knowledge of our business and is a veteran in the retail industry. The board is therefore of the view that vesting the roles of chairman and chief executive officer in the same person facilitates the execution of the Group's business strategies and maximizes the effectiveness of our operations. We will, nevertheless, periodically review the Board's structure going forward in light of the evolving needs of the Group and consider segregation of the two roles if and when appropriate.

## Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")

The Company has adopted a code regarding securities transactions by directors of the Company on terms no less exacting than the required standard set out in the Model Code. This code applies to all directors and certain relevant employees who, because of their office or employment, are likely to be in possession of unpublished inside information in relation to the Company or its shares. Having made specific enquiry of all directors and the relevant employees, all of them have confirmed that they have complied with the provisions set out in the code throughout the reporting period.

The annual report of the Company for the year ended 31 March 2016 containing more information on its corporate governance practices will be dispatched to the shareholders on or around Friday, 22 July 2016, 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 determining shareholders' eligibility to attend and vote at the AGM, and entitlement to the final and special final dividends (if payable), the Register of Members of the Company will be closed in accordance with the following timetable:

(i) For determining shareholders' eligibility to attend and vote at the AGM:

| | |
|---|---|
| ● Latest time to lodge transfer documents for registration | 4:30 p.m. on Friday, 26 August 2016 |
| ● Closure of Register of Members | Monday, 29 August 2016 to Tuesday, 30 August 2016 (both dates inclusive) |
| ● Record date | Tuesday, 30 August 2016 |

(ii) For determining entitlement to the final and special final dividends (if payable):

| | |
|---|---|
| ● Latest time to lodge transfer documents for registration | 4:30 p.m. on Friday, 2 September 2016 |
| ● Closure of Register of Members | Monday, 5 September 2016 to Tuesday, 6 September 2016 (both dates inclusive) |
| ● Record date | Tuesday, 6 September 2016 |

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the AGM, or to qualify for the final and special final 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 and transfer office, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than the time set out above.

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
**Sa Sa International Holdings Limited**
**KWOK Siu Ming Simon**
*Chairman and chief executive officer*

Hong Kong, 23 June 2016

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

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

***Non-executive Director***
Ms LEE Yun Chun Marie-Christine

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