



SA SA INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2002

The Board of Directors of Sa Sa International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September 2002.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited	
		Six months ended	
		30th September	
		2002	2001
	<i>Note</i>	HK\$'000	HK\$'000
Turnover	<i>1</i>	760,377	719,929
Cost of sales		<u>(416,680)</u>	<u>(403,767)</u>
Gross profit		343,697	316,162
Other revenues		11,943	15,517
Staff costs		(144,919)	(137,997)
Depreciation and amortisation		(22,750)	(28,140)
Other operating expenses		<u>(153,731)</u>	<u>(147,630)</u>
Operating profit		34,240	17,912
Finance costs		<u>(123)</u>	<u>(212)</u>
Profit before taxation	<i>1</i>	34,117	17,700
Taxation	<i>2</i>	<u>(8,222)</u>	<u>(3,336)</u>
Profit after taxation		25,895	14,364
Minority interests		<u>5,994</u>	<u>528</u>
Profit attributable to shareholders		<u>31,889</u>	<u>14,892</u>
Dividends	<i>3</i>	<u>25,334</u>	<u>13,257</u>
Basic earnings per share	<i>4</i>	<u>2.5 cents</u>	<u>1.1 cents</u>

Notes:

1. Segment information

The Group is principally engaged in the retailing and wholesaling of a wide range of brand name cosmetic products and the provision of beauty and health club services.

(a) Primary reporting format – business segments

	Six months ended 30th September 2002		
	Retail and wholesale HK\$'000	Beauty and health club services HK\$'000	Total HK\$'000
Turnover	682,606	77,771	760,377
Results			
Segment results	39,601	(12,173)	27,428
Interest income	5,750	1,062	6,812
Interest expense	(106)	(17)	(123)
Profit/(loss) before taxation	<u>45,245</u>	<u>(11,128)</u>	<u>34,117</u>
Taxation			<u>(8,222)</u>
Profit after taxation			<u>25,895</u>
Minority interests			<u>5,994</u>
Profit attributable to shareholders			<u><u>31,889</u></u>
	Six months ended 30th September 2001		
	Retail and wholesale HK\$'000	Beauty and health club services HK\$'000	Total HK\$'000
Turnover	644,274	75,655	719,929
Results			
Segment results	5,526	1,015	6,541
Interest income	10,933	438	11,371
Interest expense	(166)	(46)	(212)
Profit before taxation	<u>16,293</u>	<u>1,407</u>	<u>17,700</u>
Taxation			<u>(3,336)</u>
Profit after taxation			<u>14,364</u>
Minority interests			<u>528</u>
Profit attributable to shareholders			<u><u>14,892</u></u>

(b) *Secondary reporting format – geographical segments*

The Group operates in Greater China, Taiwan and South Asia. Greater China comprises Hong Kong, Macau and Mainland China. South Asia comprises Thailand, Malaysia and Singapore.

	Six months ended 30th September 2002			
	Greater China HK\$'000	Taiwan HK\$'000	South Asia HK\$'000	Total HK\$'000
Turnover	654,707	35,414	70,256	760,377
Results				
Segment results	29,391	527	(2,490)	27,428
Interest income	6,186	23	603	6,812
Interest expense	(106)	–	(17)	(123)
Profit/(loss) before taxation	<u>35,471</u>	<u>550</u>	<u>(1,904)</u>	<u>34,117</u>
	Six months ended 30th September 2001			
	Greater China HK\$'000	Taiwan HK\$'000	South Asia HK\$'000	Total HK\$'000
Turnover	597,138	50,617	72,174	719,929
Results				
Segment results	10,208	(5,124)	1,457	6,541
Interest income	10,460	133	778	11,371
Interest expense	(198)	–	(14)	(212)
Profit/(loss) before taxation	<u>20,470</u>	<u>(4,991)</u>	<u>2,221</u>	<u>17,700</u>

2. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits for the period. Taxation on overseas profits have been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the group operates.

The amount of taxation charged/(credited) to the condensed consolidated profit and loss account represents:

	Six months ended 30th September	
	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax	6,357	1,829
Overseas taxation	1,865	1,547
Deferred taxation	–	(40)
	<u>8,222</u>	<u>3,336</u>

3. Dividends

	Six months ended 30th September	
	2002	2001
	HK\$'000	HK\$'000
Interim, proposed – 1.0 HK cent (2001: 1.0 HK cent) per ordinary share	12,667	13,257
Special, proposed – 1.0 HK cent (2001: Nil) per ordinary share	12,667	–
	<u>25,334</u>	<u>13,257</u>

At a meeting held on 9th December 2002, the Directors declared an interim dividend of 1.0 HK cent and a special dividend of 1.0 HK cent per ordinary share. These proposed dividends are not reflected as dividend payables in these condensed accounts, but will be reflected as appropriation of retained earnings for the year ending 31st March 2003.

4. Earnings per share

- (a) The calculation of basic earnings per ordinary share is based on the Group's profit attributable to shareholders of HK\$31,889,000 (2001: HK\$14,892,000).
- (b) The basic earnings per ordinary share is based on the weighted average of 1,289,242,226 (2001: 1,333,442,144) ordinary shares in issue during the period.
- (c) No diluted earnings per share has been presented as there is no potential dilutive ordinary share during the period.

OPERATIONS REVIEW

For the six months ended 30th September 2002, Sa Sa International Holdings Limited achieved a substantial improvement in profitability and looks forward to further growth in the future. The Group's total turnover amounted to HK\$760.4 million, representing an increase of 5.6%. This can be mainly attributed to the growth recorded by Sa Sa's retail business in Hong Kong. Retail and wholesale turnover growth of Sa Sa in Hong Kong reached 9.6% for the six-month period. The Group's profitability was also enhanced. The Group's net profit showed a significant increase of 114 %, from HK\$14.9million for the corresponding period of last year to HK\$31.9 million for the six months under review. Such a robust performance can be attributed to two main factors. Firstly, the steady development of the Group's retail operations in the region improved revenue generation, in particular, in Hong Kong where operations continue to benefit from the burgeoning number of PRC tourists. Secondly, the cost control and strategic measures taken during the last fiscal year considerably improved the profitability of the Group's operations.

Highlights of the Group's interim results for the six months ended 30th September 2002, as compared to the corresponding period of last year, are:

- Group turnover increased by 5.6%, from HK\$ 719.9 million to HK\$760.4 million
- The Group's retail and wholesale business recorded a growth in turnover from HK\$644.3 million to HK\$682.6 million, representing a 5.9% increase
- Sa Sa's retail and wholesale business in Hong Kong achieved a growth of 9.6% in sales, rising from HK\$534.5 million to HK\$585.9 million

- The Group's gross profit increased by 8.7% from HK\$316.2 million to HK\$343.7 million
- The Group's operating profit significantly increased by approximately 91.2% from HK\$17.9 million to HK\$34.2 million
- Net profit for the Group substantially increased by 114% from HK\$14.9million to HK\$31.9 million
- The gross profit for the Group's retail and wholesale business improved from 37.3% in the corresponding period of last year to approximately 39%
- Operating expenses for the Sa Sa's retail business were reduced by HK\$7.2 million, representing a 3.2% decrease
- The Group's net cash and bank balances plus held-to-maturity securities increased to HK\$675.8 million, after outflow for share buybacks amounting to HK\$38.8 million and the distribution of dividends amounting to HK\$50.7 million

Sa Sa is therefore pleased with its performance during the six-month period under review, and looks forward to reaching even higher performance levels in the future.

Retail and Wholesale Business

In the six months ended 30th September 2002, the Group's retail and wholesale turnover reached HK\$682.6 million, representing an increase of 5.9%. The gross profit of the Group's retail and wholesale business increased to approximately 39%, as compared to 37.3% in the corresponding period of last year. These figures indicate a recovery of gross profit margin in the retail and wholesale business following stringent inventory management over last year. Currently, the Group's number of turnover days stands at 91, and efforts continue to be made to further improve inventory management. These efforts are continuous in nature, involving fine-tuning of inventory management, and are not expected to negatively affect gross profit. As a result of such rigorous cost-reduction programs, the operational costs of Sa Sa's retail and wholesale business were successfully reduced by HK\$7.2 million, and overall profitability was enhanced.

During the six months under review, the Group leveraged its strong management capabilities to add a number of new brands, including Pupa, Diesel and Killer Loop, to its portfolio of exclusively distributed products.

Hong Kong and Macau

The Hong Kong and Macau retail and wholesale business performed impressively over the six months under review, despite adverse market conditions. By leveraging on its solid and loyal customer base, the Group managed to sustain stable growth in its core retail business, and consumer spending by PRC tourists made a substantial impact. As a result, Sa Sa's retail and wholesale turnover for the first half of the fiscal year 2002 for Hong Kong and Macau increased by 9.6% to HK\$585.9 million. Sa Sa also adapted to the poor market conditions by strategically adjusting its merchandising and pricing policy in order to sustain the loyalty and purchases of local consumers.

The total number of Sa Sa stores in Hong Kong and Macau was 35 as at 30th September 2002, including one Selective store and two La Colline stores.

Taiwan

The total turnover for the Taiwan operations decreased as compared to the corresponding period of last year. This was largely the result of the closure of five stores in the second half of the last fiscal year. However, such measures effectively turned around our business in Taiwan, which began to generate a modest profit, and same store turnover growth increased by 5.8%.

Singapore and Malaysia

Turnover in Singapore and Malaysia was HK\$40.8 million, and the operations broke even despite the adverse retail environment throughout Asia. At the end of September 2002, the total number of stores in Singapore and Malaysia was maintained at nine and seven, respectively. The Group remains committed to expanding its share of these two markets when their economies start to pick up again.

E-tailing – Sasa.com

Turnover for the Group's e-commerce platform was HK\$5.5 million. The logistics and product mix was enhanced during the six-month period to improve the gross profit margin, and an effective cost reduction program was put in place, which resulted in narrowed operating losses. The Group will continue to expand the product range available on the internet, strengthen market awareness for the website through increased promotions, exercise cost control measures and drive improvement in its gross profit margins.

As a multilingual 24-hours sales platform, sasa.com is extremely user-friendly and highly effective in improving Sa Sa's public profile and international market penetration.

Sa Sa Ebeca

Turnover for Shenzhen Sa Sa Ebeca Enterprise Limited ("Sa Sa Ebeca") reached HK\$18.6 million for the six months ended 30th September 2002, as compared to the three-month period of last year when HK\$11.9 million was recorded.

As Sa Sa Ebeca's profitability was lower than the level set by the Group at the time of its acquisition in June 2001, in accordance with the acquisition agreement, the purchase price for the company was reduced by HK\$7.1 million. This amount was held in an escrow account and has now been returned to the Group. Accordingly, there will be a write back of HK\$7.1 million in the Group's accounts. As the Group is not fully satisfied with the performance of Sa Sa Ebeca, it is considering various strategies for improvement.

Beauty Services

Phillip Wain

The loss sustained by Phillip Wain's operations was reduced as compared to the second half of the last fiscal year, although turnover of beauty treatments and membership for the period under review was HK\$71.6 million, representing a slight decrease as compared with the second half of the last fiscal year. However, the total value of new signed contracts increased due to the strategic adjustment in marketing promotions.

Sa Sa Beauty+

Since the opening of the Group's first Sa Sa Beauty+ salon in July 2002, there was a growth in the number of new customers and contracts signed. Net operating cash flow was positive, and the total value of contracts signed during the period under review exceeded the Group's initial investment.

Employees

As at 30th September 2002, the Group had a total of 1,967 employees. To ensure that the Group is able to attract and retain talented staff, remuneration packages are reviewed on a regular basis and share options, as part of basic remuneration packages, were offered to key employees. Staff development initiatives were implemented through in-house training programs and the provision of financial subsidies for external training courses.

Outlook

Retail and Wholesale Business

During the period under review, the Group's retail and wholesale sales in Hong Kong and Macau, which represent approximately three-quarters of the Group's turnover, achieved a more than satisfactory growth, especially in light of the poor economic environment. Looking forward, the Group remains optimistic that this momentum will be sustained and that Sa Sa will further benefit from the influx of PRC tourists into the territory, due to the relaxation of PRC visitor quotas for Hong Kong. The Group will continue to adjust its merchandise selection and pricing policy to meet the demands of such tourists.

Exclusive Distributorship and Private Labels

Sa Sa believes that the continuous development of private labels and the expansion of its exclusive-brand portfolio will provide a strong base for future development. The Group's performance is likely to be enhanced by Sa Sa's increasing competitiveness in terms of its ability to service the market directly through its dual role as both a retailer and sole agent. Sa Sa will further grow its business by using the extra revenue gained to market and promote products, and by responding effectively to the direct feel of the market through its retail outlets. The Group looks forward to providing ever improving services to its customers through a widening range of distribution outlets, allowing the brand owners it represents not just to serve customers at traditional department store counters, but at Sa Sa shops and beauty salons, where the Group's highly trained beauty consultants can give greater attention to the customers and thereby provide sustained support to the brands.

Elizabeth Arden

On 1st October 2002, the Group was appointed sole agent in Hong Kong and Macau of Elizabeth Arden, one of the world's leading cosmetics brands. Sa Sa will be responsible for the sales and promotion of Elizabeth Arden's full range of products in this market. Elizabeth Arden's appointment affirms the Group's strong and diverse brand management capabilities. The Group offers extensive channels of distribution for Elizabeth Arden through its retail network that spans 33 stores and four beauty centers in Hong Kong and Macau, including differentiated retail outlets that range from Sa Sa Cosmetics stores to a "Selective" store, from 3 Phillip Wain clubs, to the Sa Sa Beauty+ salon, as well as to an Elizabeth Arden image store that will be opened in the near future. Furthermore, Sa Sa enjoys strong brand recognition synonymous

with customer service and professionalism and commands a vast, loyal customer base that will increase Elizabeth Arden's exposure in the market. Backed by an experienced management team, over 400 well-trained and experienced beauty consultants in Hong Kong and strong training support, the Group is poised to enhance Elizabeth Arden's popularity and market share in the region.

Recognizing Sa Sa's strong management capabilities, Elizabeth Arden's appointment acknowledges the effectiveness of the Group's business model, sales network and capabilities. By leveraging on the strength of its existing portfolio of top quality exclusively distributed brands, the Group aims to expand its business in exclusive distributorship and private labels to increase its retail sales, competitiveness and gross profit margins, as well as to enhance its corporate image. By introducing more new products and quality brands, Sa Sa looks forward to robust growth in its retail business. The Group is committed to extending its portfolio of exclusively distributed top international cosmetics brands and also aims to secure more such arrangements in the region, in order to strengthen the Group's presence and capabilities throughout Asia, including China.

Beauty Services

The first Sa Sa Beauty+ salon was opened in July to extend the Group's range of services to its loyal customer base. The concept of Sa Sa Beauty+ addresses the synergies that exist between beauty services and the Group's core retail business, appealing to the same customer base by offering both beauty treatments and products. Complementing this, the premium ladies' beauty and health clubs of Phillip Wain widen the reach of Sa Sa's operations. Looking forward, the Group intends to extend its range of beauty services and treatments in order to become a true one-stop-shop for 'beauty + health' services.

Growth in the PRC

The PRC market is accelerating and growing at a rapid pace. Given the impetus added by accession to the World Trade Organization, the landscape is full of opportunity. Sa Sa already enjoys strong brand recognition in the PRC as a reputable and renowned cosmetics retailer, with a unique one-stop-shop philosophy in regard to beauty products. As the disposable income of consumers increases, the demand for overseas cosmetics brands in China continues to grow. Sa Sa is therefore well-positioned to capitalize on this lucrative emerging market. The Group is committed to PRC expansion and plans to set up a network of retail operations in China in the near future.

Overall, Sa Sa's outlook for the future is positive, especially in light of the Group's strong position in Hong Kong. Its core operations continue to register solid growth. In addition to the success of its retail operations, the Group looks forward to the continued expansion of its exclusive distributorship and private label business, as well as to extending the Group's presence in Asia, including China.

FINANCIAL REVIEW

Capital Resources and Liquidity

	30th September 2002 HK\$'000	31st March 2002 HK\$'000
Held-to-maturity securities	77,488	–
Cash and bank balances	601,782	656,970
Total	<u>679,270</u>	<u>656,970</u>

The Group's total shareholders' funds were HK\$735.5 million, of which reserves were HK\$608.7 million at the period end. As at 30th September 2002, the Group continued to maintain a strong financial position; cash and bank balances plus held-to-maturity securities were HK\$679.3 million. The Group's working capital plus held-to-maturity securities were HK\$696.2 million. With solid recurring cash flow from operations and existing cash and bank facilities, the Group has adequate financial resources to fund its future investment and expansion.

Held-to-maturity securities were composed of Corporations' bonds and Banks' notes with maturity dates within two years periods. It is the Group's policy only to invest in investment grade securities with maturity period of less than two years.

Most of the cash and bank balances were deposited in six leading banks during the period.

Financial Position

Total funds employed (including shareholders, bank loans and overdrafts, and obligations under finance leases) for the six months ended 30th September 2002 were HK\$739.4 million, which represented a 7.9% decrease over the figure of HK\$803.0 million for the year ended 31st March 2002.

The gearing ratio, defined as the ratio of total loans less cash balances to total assets, was nil as at 30th September 2002 and 31st March 2002.

Treasury Policies

The Group continued to adopt a conservative approach to financial risk management. The majority of the Group's borrowings were in Hong Kong dollars and were arranged on a floating rate basis. The Group does not have significant exposure to foreign exchange fluctuations as most of its assets, receipts and payments are in Hong Kong or U.S. dollars. However, the Group will monitor its foreign exchange position and, when appropriate, the Group will hedge its foreign exchange exposure by way of forward foreign exchange contracts.

The Group's treasury management policy is not to engage in any highly leveraged or speculative derivative products.

Charge on Group Assets

The assets of certain Group subsidiaries, including fixed assets with a net book value of HK\$11.7 million, have been pledged to secure general banking facilities amounting to HK\$2.7 million, of which HK\$2.2 million has currently been utilized. As at 30th September 2002, a property of a subsidiary with a net book value of HK\$2.9 million had been pledged against an installment loan.

Contingent Liabilities

The Group's contingent liabilities as at 30th September 2002 were HK\$37.4 million, comprising letters of credit, bank guarantees issued in lieu of deposits, and foreign exchange forward contracts committed for payment in foreign currencies in the coming periods.

DIVIDENDS

The Board of Directors has resolved to declare an interim dividend of 1.0 HK cent (2001: 1.0 HK cent) and a special dividend of 1.0 HK cent (2001: Nil) per ordinary share for the six months ended 30th September 2002 to be payable to shareholders whose names appear on the Register of Members of the Company on 31st December 2002.

The interim and special dividends will be paid on around 8th January 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 30th December 2002 to 31st December 2002, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the aforementioned interim and special dividends, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrars, Abacus Share Registrars Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on 27th December 2002.

DIRECTORATE

As a result of the completion of the Service Agreement of Mr. KING, Roger on 10th May 2002, Mr. King ceased to be an executive director of the Company. At the Annual General Meeting of the Company held on 29th August 2002, Mr. CHENG, Ming Fun, Paul retired as an independent non-executive director of the Company and Professor CHAN, Yuk Shee was re-elected as an independent non-executive director of the Company. Mr. LOOK, Guy was appointed as an executive director of the Company with effect from 10th September 2002.

As at 30th September 2002 and at the date of this announcement, the members of the Board of Directors are:

Executive Directors

Mr. KWOK, Siu Ming, Simon (Chairman)
Mrs. KWOK, Law Kwai Chun, Eleanor (Vice-Chairman)
Mr. LOOK, Guy

Independent Non-executive Directors

Professor CHAN, Yuk Shee
Mrs. LEE, Look Ngan Kwan, Christina
Dr. LEUNG, Kwok Fai, Thomas

ISSUE OF SHARES

During the six months ended 30th September 2002, the Company issued and allotted a total of 1,166,672 shares of HK\$0.10 each of the Company to an ex-director being the remuneration shares issued pursuant to his Service Agreement. The issue of shares to the ex-director constituted a connected transaction for the purposes of Chapter 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and was approved by shareholders of the Company at the extraordinary general meeting on 14th September 1999.

REPURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th September 2002, the Company has repurchased at HK\$38,789,703 for a total of its 51,548,000 fully paid up shares on the Stock Exchange, all of which had been duly cancelled, as follows:

Month of Repurchase	No. of shares repurchased	Total consideration (Note) HK\$	Purchase price per share	
			Highest HK\$	Lowest HK\$
April 2002	10,888,000	8,366,239	0.80	0.66
May 2002	11,550,000	8,904,789	0.79	0.72
June 2002	24,700,000	18,942,204	0.78	0.75
July 2002	700,000	390,641	0.57	0.55
August 2002	3,360,000	1,984,511	0.59	0.58
September 2002	350,000	201,319	0.58	0.56
	<u>51,548,000</u>	<u>38,789,703</u>		

Note: The total consideration included the purchase price, brokerage, transaction levy, trading fee, contract stamp, stock withdrawal fee and CCASS charge.

On 8th February 2002, the Stock Exchange has granted to the Company a waiver pursuant to Rule 10.06(2)(g) of the Listing Rules in respect of the 25 percent monthly share repurchases restriction set out in Rule 10.06(2)(a) of the Listing Rules. The waiver expired on 8th August 2002.

As the directors believe that the share repurchases will lead to an enhancement of the Group's future earnings per share and to add liquidity in the interests of the market generally, the Company seeks approval from the Stock Exchange to grant a fresh waiver. On 18th October 2002, the Stock Exchange has granted to the Company a new waiver pursuant to Rule 10.06(2)(g) of the Listing Rules in respect of the 25 percent monthly share repurchases restriction set out in Rule 10.06(2)(a) of the Listing Rules. The waiver is effective for a period of six months from 18th October 2002 to 17th April 2003.

Apart from the above, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's listed securities during the six months ended 30th September 2002.

AUDIT COMMITTEE

As Mr. CHENG, Ming Fun, Paul retired at the Annual General Meeting of the Company held on 29th August 2002, the existing members of the Audit Committee are Professor CHAN, Yuk Shee and Dr. LEUNG, Kwok Fai, Thomas.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the Unaudited Interim Financial Statements.

CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not or was not for any part of the period ended 30th September 2002 in compliance with the Code of Best Practice, except that one independent non-executive director was not appointed for a specific term as recommended under paragraph 7 of Appendix 14 of the Listing Rules but is subject to retirement by rotation at the Annual General Meeting in accordance with the Articles of Association of the Company.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

A detailed results announcement containing all the information required by paragraph 46(1) to 46(6) of Appendix 16 of the Listing Rules of the Stock Exchange will be published on the website of the Stock Exchange in due course.

By Order of the Board
Kwok Siu Ming, Simon
Chairman

Hong Kong, 9th December 2002

“Please also refer to the published version of this announcement in SCMP”.