

Saisai

Cosmetics

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

Interim Report 2002/03



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

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

## CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited 30th September 2002 HK\$'000	Audited 31st March 2002 HK\$'000
<b>Fixed assets</b>	6	<b>101,367</b>	110,394
<b>Intangible assets</b>	7	<b>18,544</b>	26,187
<b>Investment securities</b>		<b>63,398</b>	1,070
<b>Current assets</b>			
Inventories		<b>218,185</b>	216,644
Trade receivable	8	<b>17,769</b>	23,784
Other receivables, deposits and prepayments	9	<b>50,296</b>	56,883
Tax recoverable		<b>2,223</b>	2,220
Investment securities		<b>15,160</b>	–
Cash and bank balances	15	<b>601,782</b>	656,970
		<b>905,415</b>	956,501
<b>Current liabilities</b>			
Trade and bills payables	10	<b>100,000</b>	62,743
Other payables and accrued charges		<b>78,710</b>	71,274
Taxation payable		<b>16,779</b>	10,146
Current portion of receipts in advance		<b>75,878</b>	70,833
Current portion of obligations under finance leases		–	30
Current portion of bank loan – secured	12	<b>162</b>	156
Bank overdrafts – secured		–	851
		<b>271,529</b>	216,033
<b>Net current assets</b>		<b>633,886</b>	740,468
<b>Total assets less current liabilities</b>		<b>817,195</b>	878,119

## CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		<b>Unaudited</b>	Audited
		<b>30th September</b>	31st March
		<b>2002</b>	2002
	Note	<b>HK\$'000</b>	HK\$'000
<b>Financed by:</b>			
<b>Share capital</b>	11	<b>126,795</b>	131,833
<b>Reserves</b>		<b>583,404</b>	609,451
<b>Proposed dividend</b>		<b>25,334</b>	50,894
<b>Total capital and reserves</b>		<b>735,533</b>	792,178
<b>Minority interests</b>		<b>385</b>	6,379
<b>Non-current liabilities</b>			
Receipts in advance		<b>73,523</b>	71,095
Deferred taxation		–	393
Provision for long service payments		<b>4,477</b>	4,697
Bank loan – secured	12	<b>3,277</b>	3,377
		<b>81,277</b>	79,562
		<b>817,195</b>	878,119

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th September</b>	
	(Restated)	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Net cash inflow from operating activities	<b>111,205</b>	108,559
Net cash outflow from investing activities (Note)	<b>(161,447)</b>	(31,202)
Net cash outflow from financing activities	<b>(89,749)</b>	(63,449)
(Decrease)/increase in cash and cash equivalents	<b>(139,991)</b>	13,908
Cash and cash equivalents at 1st April	<b>656,119</b>	593,053
Effect of foreign exchange rate changes	<b>544</b>	567
Cash and cash equivalents at 30th September	<b>516,672</b>	607,528
Analysis of cash and cash equivalents:		
Cash and bank balances	<b>516,672</b>	608,732
Bank overdrafts	<b>–</b>	(1,204)
	<b>516,672</b>	607,528

Reconciliation of cash and cash equivalents in respect of cash and bank balances:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Cash and bank balances	<b>601,782</b>	608,732
Cash and bank balances over three months to maturity	<b>(85,110)</b>	–
Cash and cash equivalents	<b>516,672</b>	608,732

Note:

Net cash outflow from investing activities represents:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Increase in investment securities	<b>(77,488)</b>	–
Increase in cash and bank balances over three months to maturity	<b>(85,110)</b>	–
Other investing activities	<b>1,151</b>	(31,202)
Net cash outflow from investing activities	<b>(161,447)</b>	(31,202)

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	
At 1st April 2002	131,833	725,360	6,501	(25,163)	(46,353)	792,178
Issuance of shares	117	–	–	–	–	117
Repurchase of own shares	(5,155)	(33,635)	5,155	–	(5,155)	(38,790)
Exchange differences	–	–	–	871	–	871
Profit for the period	–	–	–	–	31,889	31,889
Final dividend paid	–	–	–	–	(50,732)	(50,732)
<b>At 30th September 2002</b>	<b>126,795</b>	<b>691,725</b>	<b>11,656</b>	<b>(24,292)</b>	<b>(70,351)</b>	<b>735,533</b>
Representing:						
Share capital						126,795
Reserves						583,404
Proposed dividend						25,334
<b>At 30th September 2002</b>						<b>735,533</b>

	Unaudited					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained earnings HK\$'000	
At 1st April 2001 as previously reported	133,720	736,660	3,957	(23,348)	40,602	891,591
Effect of adopting SSAP 9 (revised)	–	–	–	–	53,535	53,535
At 1st April 2001 as restated	133,720	736,660	3,957	(23,348)	94,137	945,126
Exercise of share options	482	1,775	–	–	–	2,257
Repurchase of own shares	(1,289)	(6,793)	1,289	–	(1,289)	(8,082)
Exchange differences	–	–	–	285	–	285
Profit for the period	–	–	–	–	14,892	14,892
Final dividend paid	–	–	–	–	(53,536)	(53,536)
At 30th September 2001	132,913	731,642	5,246	(23,063)	54,204	900,942
Representing:						
Share capital						132,913
Reserves						754,772
Proposed dividend						13,257
At 30th September 2001						900,942

Notes:

## 1. Principal accounting policies

These unaudited consolidated condensed interim accounts (“interim accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants, (as applicable to condensed interim accounts) and Appendix 16 of the Listing Rules of the Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st March 2002 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	“Presentation of financial statements”
SSAP 11 (revised)	:	“Foreign currency translation”
SSAP 15 (revised)	:	“Cash flow statements”
SSAP 25 (revised)	:	“Interim financial reporting”
SSAP 34	:	“Employee benefits”

The changes to the Group’s accounting policies and the effect of adopting these new policies is set out below:

- (a) SSAP 1 (revised): “Presentation of financial statements” and SSAP 15 (revised): “Cash flow statements”

Certain presentational changes have been made upon the adoption of SSAP 1 (revised) and SSAP 15 (revised).

- (b) SSAP 11 (revised): “Foreign currency translation”

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior periods, the profit and loss of foreign enterprises was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss of foreign enterprises in prior periods has not been restated as the effect of this change is not material to the current and prior periods.

- (c) SSAP 34: “Employee benefits”

- (1) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date. The adoption of this new accounting policy has resulted in a reduction in the profit and loss account for the period by HK\$7,798,000.

Employee entitlements to sick leave and maternity or paternity leave are not recognized until the time of leave.

## (2) Profit sharing and bonus plans

Provisions for profit sharing and bonus plans due wholly within twelve months after balance sheet date are recognized when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

## (3) Pension obligations

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Company to the fund.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

## (4) Equity compensation benefits

Share options are granted to some directors, senior executives and employees. The options are granted at the market price of the shares on the date of the grant and are exercisable at that price. No compensation cost is recognized. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

## (d) SSAP24: "Investment securities"

## Held-to-maturity securities

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognized in the profit and loss account as an expense immediately.



## 2. 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
<b>Turnover</b>	<b>682,606</b>	<b>77,771</b>	<b>760,377</b>
<b>Results</b>			
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	<b>45,245</b>	<b>(11,128)</b>	<b>34,117</b>
Taxation			<b>(8,222)</b>
Profit after taxation			<b>25,895</b>
Minority interests			<b>5,994</b>
Profit attributable to shareholders			<b>31,889</b>

  

	Six months ended 30th September 2001		
	Retail and wholesale HK\$'000	Beauty and health club services HK\$'000	Total HK\$'000
<b>Turnover</b>	644,274	75,655	719,929
<b>Results</b>			
Segment results	5,526	1,015	6,541
Interest income	10,933	438	11,371
Interest expense	(166)	(46)	(212)
Profit before taxation	<b>16,293</b>	<b>1,407</b>	<b>17,700</b>
Taxation			<b>(3,336)</b>
Profit after taxation			<b>14,364</b>
Minority interests			<b>528</b>
Profit attributable to shareholders			<b>14,892</b>

**(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.

	<b>Six months ended 30th September 2002</b>			
	<b>Greater China</b> HK\$'000	<b>Taiwan</b> HK\$'000	<b>South Asia</b> HK\$'000	<b>Total</b> HK\$'000
<b>Turnover</b>	<b>654,707</b>	<b>35,414</b>	<b>70,256</b>	<b>760,377</b>
<b>Results</b>				
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	<b>35,471</b>	<b>550</b>	<b>(1,904)</b>	<b>34,117</b>
	Six months ended 30th September 2001			
	Greater China	Taiwan	South Asia	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>	597,138	50,617	72,174	719,929
<b>Results</b>				
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	20,470	(4,991)	2,221	17,700

**3. 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:

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

#### 4. Dividends

	Six months ended 30th September	
	2002 HK\$'000	2001 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	–
	<b>25,334</b>	13,257

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.

#### 5. 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.

#### 6. Fixed Assets

	HK\$'000
At 1st April 2002	110,394
Additions	14,251
Disposals/write-off	(1,346)
Depreciation	(22,224)
Exchange adjustments	292
<b>At 30th September 2002</b>	<b>101,367</b>

## 7. Intangible assets

	<b>Goodwill HK\$'000</b>
At 1st April 2002	26,187
Amortisation	(526)
Adjustments (Note)	(7,117)
<b>At 30th September 2002</b>	<b>18,544</b>

Note:

On 30th June 2001, the Group reached an agreement with Shenzhen Ebeca Enterprise Company Limited ("the Agreement") to obtain a 55% interest in Shenzhen Sa Sa Ebeca Enterprise Limited and its subsidiary ("Sa Sa Ebeca Group"). According to the Agreement, Sa Sa Ebeca Group is subject to a guaranteed profit for a twelve month period from the date of the Agreement on 30th June 2001. The Group will receive a refund of purchase consideration of HK\$7,000,000 and accrued interest if Sa Sa Ebeca Group is not able to meet the guaranteed profit. As at 30th June 2002, Sa Sa Ebeca Group was not able to meet the guaranteed profit. A refund of HK\$7,000,000 and accrued interest of HK\$117,000 was received in September 2002, accordingly the goodwill was reduced by HK\$7,117,000.

## 8. Trade receivable

Majority of the Group's turnover are cash or credit sales. The aging analysis of trade receivable was as follows:

	<b>30th September 2002 HK\$'000</b>	31st March 2002 HK\$'000
Within 1 month	15,301	16,741
1 – 3 months	1,926	4,632
Over 3 months	542	2,411
	<b>17,769</b>	<b>23,784</b>

## 9. Other receivables, deposits and prepayments

Included in other receivables are amounts due from ex-directors of a subsidiary and their related company.

	<b>30th September 2002 HK\$'000</b>	31st March 2002 HK\$'000
Gross amount	27,853	26,816
Less: Provision	(27,853)	(26,816)
Net amount	–	–

Particulars of these amounts are as follows:

Name of borrower	Edwin John Phillips (Note)	Barry Richard Wain (Note)	Platinum Corporation (Note)
Connected parties	Edwin John Phillips	Barry Richard Wain	Edwin John Phillips and Barry Richard Wain
Position	Ex-director of a subsidiary	Ex-director of a subsidiary	Ex-directors of a subsidiary
Terms			
– Duration and repayment terms	On or before 31st August 2001	On or before 31st August 2001	On or before 31st August 2001
– Interest rate on or before 31st August 2001	8.5% per annum	8.5% per annum	Interest free
– Interest rate on or after 1st September 2001	Prime lending rate + 3% per annum	Prime lending rate + 3% per annum	Interest free
– Security	Unsecured	Unsecured	Unsecured
Balance (including interest receivable)			
– At 30th September 2002	HK\$3,671,000	HK\$2,092,000	HK\$22,090,000
– At 31st March 2002	HK\$3,123,000	HK\$1,603,000	HK\$22,090,000
Maximum balance outstanding during the period	HK\$3,671,000	HK\$2,092,000	HK\$22,090,000
Accrued interest			
– At 30th September 2002	HK\$2,151,000	HK\$2,019,000	Nil
– At 31st March 2002	HK\$1,603,000	HK\$1,530,000	Nil

Note:

The amount due from Platinum Corporation represents historical advances made by Lisbeth Enterprises Limited ("Lisbeth"), a non-wholly owned subsidiary of the Company, prior to the Group's completion of its investment in Lisbeth on 31st August 2000.

To secure repayment of the advances made to Platinum Corporation, Mr. Phillips and Mr. Wain, each of Mr. Phillips and Mr. Wain signed two promissory notes ("the Promissory Notes") on 31st August 2000 in the aggregate amount of HK\$12,024,573 and HK\$12,014,472 respectively in favour of Lisbeth. Of the total loan balances, HK\$1,168,683 is interest-bearing at 8.5% per annum. The remaining loan balances are interest free. All the loans are unsecured and are repayable upon the earlier of (i) one year from 31st August 2000 or (ii) date of completion of the first Option Agreement. In the event that the amount due under the Promissory Notes are not paid in full when due, Lisbeth is entitled to charge interest on such unpaid amount (to the extent permitted by applicable law) for the period from the date such amount was due until such amount shall have been paid in full at such interest rate per annum as is equal to 3% per annum over the prime lending rate quoted from time to time by The Hongkong & Shanghai Banking Corporation Limited ("Default Interest Charges"). Both Mr. Phillips and Mr. Wain defaulted in payment of the Promissory Notes when they were due on 31st August 2001. As a result of the default in payment by Mr. Phillips and Mr. Wain, Default Interest Charges on the Promissory Notes were raised against Mr. Phillips and Mr. Wain with effect from 1st September 2001.

As the Directors of the Company are uncertain about the ultimate recoverability of the above amounts, full provision for the outstanding amounts has been made in the Group's financial statements for the period ended 30th September 2002.

## 10. Trade and bills payables

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

	30th September 2002 HK\$'000	31st March 2002 HK\$'000
Within 1 month	42,525	49,622
1 – 3 months	53,802	9,365
Over 3 months	3,673	3,756
	<b>100,000</b>	<b>62,743</b>

## 11. Share capital

	Note	Authorised Ordinary shares of HK\$0.1 each No. of shares	HK\$'000
At 30th September 2002 and 1st April 2002		8,000,000,000	800,000
		Issued and fully paid Ordinary shares of HK\$0.1 each	
At 1st April 2001		1,337,203,172	133,720
Issuance of shares		4,823,332	482
Repurchase of shares		(12,894,000)	(1,289)
As 30th September 2001 and 1st October 2001		1,329,132,504	132,913
Issuance of shares		1,749,996	175
Repurchase of shares		(12,550,000)	(1,255)
At 31st March 2002 and 1st April 2002		1,318,332,500	131,833
Issuance of shares	(a)	1,166,672	117
Repurchase of shares	(b)	(51,548,000)	(5,155)
<b>At 30th September 2002</b>		<b>1,267,951,172</b>	<b>126,795</b>

### (a) Issuance of shares

During the six months ended 30th September 2002, a total of 1,166,672 ordinary shares were issued at par in lieu of cash remuneration to an ex-director pursuant to the terms of his Service Agreement.

### (b) Repurchase of shares

During the six months ended 30th September 2002, the Company repurchased 51,548,000 of its own shares in the open market through The Stock Exchange of Hong Kong Limited, all of which have been duly cancelled. The total purchase price of the shares was HK\$38,789,703 with the maximum and minimum prices paid for each share being HK\$0.80 and HK\$0.55 respectively.

### (c) Share Option Scheme

On 29th August 2002, the shareholders of the Company approved the termination of the share option scheme adopted by the Company on 22nd May 1997 (the "Old Scheme") and the adoption of a new share option scheme (the "New Scheme"). Upon the termination of the Old Scheme, no further options will be offered under the Old Scheme but the provisions of the Old Scheme will remain in full force and effect in respect of the existing options granted. Details of the New Scheme were disclosed in the circular to shareholders dated 31st July 2002.

The movements in the number of share options under the Old Scheme, the New Scheme, and the Service Agreement entered between the Company and an ex-director during the six months ended 30th September 2002 are as follows:

	(i) Under the Old Scheme	(ii) Under the New Scheme	(iii) Under the Service Agreement with an ex-director
As at 1st April 2002	12,572,626	–	23,692,246
Add: share options granted during the six months ended 30th September 2002	13,791,285	–	3,821,341
Less: share options lapsed during the six months ended 30th September 2002	(217,391)	–	–
<b>As at 30th September 2002</b>	<b>26,146,520</b>	<b>–</b>	<b>27,513,587</b>

(i) Under the Old Scheme

On 24th April 2002, the Company granted to two employees share options under the Old Scheme to subscribe for an aggregate of 13,791,285 shares in the Company at a price of HK\$0.80 per share, one of whom was appointed as an executive director of the Company with effect from 10th September 2002. During the six months ended 30th September 2002, 217,391 share options were lapsed upon the resignation of an employee.

(ii) Under the New Scheme

During the six months ended 30th September 2002, no option was granted under the New Scheme.

(iii) Under the Service Agreement with an ex-director

During the six months ended 30th September 2002, 3,821,341 share options were granted to an ex-director of the Company under the Service Agreement entered between the Company and the ex-director.

## 12. Bank loan – secured

	30th September 2002 HK\$'000	31st March 2002 HK\$'000
Within one year	162	156
In the second year	172	166
In the third to fifth year	577	559
After the fifth year	2,528	2,652
	<b>3,439</b>	<b>3,533</b>

The bank loan is secured by a leasehold land and building with a net book value of HK\$2,930,000 (31st March 2002: HK\$3,000,000).

### 13. Commitments

(a) *Capital commitments*

	30th September 2002 HK\$'000	31st March 2002 HK\$'000
Contracted but not provided for – acquisition of fixed assets	202	550
Authorised but not contracted for – acquisition of fixed assets	1,441	7,286

(b) *Commitments under operating leases*

As at 30th September 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30th September 2002 HK\$'000	31st March 2002 HK\$'000
<b>Land and buildings</b>		
Within one year	139,228	142,059
In the second to fifth year inclusive	139,923	170,859
After the fifth year	157	5,600
	<b>279,308</b>	<b>318,518</b>

### 14. Contingent liabilities

	30th September 2002 HK\$'000	31st March 2002 HK\$'000
Letters of credit issued	7,248	21,293
Bank guarantees in lieu of deposits	6,607	6,805
Forward foreign exchange contracts	23,574	–
	<b>37,429</b>	<b>28,098</b>

### 15. Pledge of assets

- (a) As at 30th September 2002, banking facility of a subsidiary amounted to HK\$630,000 (31st March 2002: HK\$630,000), of which no amount (31st March 2002: HK\$83,000) has been utilised, is secured by a cash deposit of HK\$630,000 (31st March 2002: HK\$630,000).
- (b) The assets of certain subsidiaries, including fixed assets with a net book value of HK\$11,666,000 (31st March 2002: HK\$13,036,000) and fixed deposits of HK\$2,652,000 (31st March 2002: Nil), are subject to fixed and floating charge to secure their general banking facilities amounted to HK\$2,652,000 (31st March 2002: HK\$3,636,000), of which HK\$2,164,000 (31st March 2002: HK\$2,603,000) has been utilised as at 30th September 2002.
- (c) A leasehold land and building with a net book value of HK\$2,930,000 (31st March 2002: HK\$3,000,000) is pledged for a bank loan of HK\$3,439,000 (31st March 2002: HK\$3,533,000).



## 16. Related party transactions

Save as those disclosed in other notes to the condensed accounts, during the period, the Group undertook the following material transactions with its non-wholly owned subsidiaries in its ordinary course of business:

	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
<b>Transactions with non-wholly owned subsidiaries:</b>		
Sales to Lisbeth Group (Notes (i) and (ii))	<b>1,140</b>	1,345
	<b>(Note (iii))</b>	(Note (iii))
Sales to Ebeca Cosmetic (Holding) Limited (Note (ii))	<b>861</b>	238
Purchase from Ebeca Cosmetic (Holding) Limited (Note (ii))	<b>247</b>	150
Interest income from Lisbeth Group (Note (iv))	<b>108</b>	–
Management fee from Lisbeth Group (Note (v))	<b>660</b>	–
	<b>30th September</b>	31st March
	<b>2002</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>Balances with non-wholly owned subsidiaries:</b>		
Loans to Lisbeth Group (Note (iv))	<b>6,125</b>	–
Net amount due from Lisbeth Group (Note (vi))	<b>1,386</b>	2,010
Net amount due from/(to) Ebeca Cosmetic (Holding) Limited (Note (vi))	<b>517</b>	(105)

Note:

- (i) Lisbeth Group represents Lisbeth Enterprises Limited and its subsidiaries.
- (ii) Sales and purchases were conducted in the ordinary course of business on normal commercial terms.
- (iii) After adjusting for differences in closing inventories, the net sales amount was approximately HK\$2,011,000 (2001: HK\$1,305,000).
- (iv) The loans are interest bearing at prime lending rate, unsecured and have no fixed repayment terms.
- (v) The management fee is charged on Lisbeth Group on cost reimbursement basis for the provision of staff and administrative services.
- (vi) The balances are unsecured, interest free and have no fixed repayment terms.

## 17. Litigation

### (a) *Lisbeth Enterprises Limited vs Edwin John Phillips and Barry Richard Wain*

On 29th November 2001, Lisbeth Enterprises Limited ("Lisbeth"), a non-wholly owned subsidiary of the Company, served two statutory demands as follows:

- (a) one on Mr. Edwin John Phillips ("Mr. Phillips") in respect of an unpaid debt and accrued interest under two Promissory Notes amounting to HK\$12,333,282.42; and
- (b) one on Mr. Barry Richard Wain ("Mr. Wain") in respect of an unpaid debt and accrued interest under two Promissory Notes amounting to HK\$12,322,104.91.

On 17th December 2001, the solicitors for Mr. Phillips and Mr. Wain applied to the High Court to set aside the aforementioned statutory demands.

The above statutory demands were withdrawn on 25th January 2002.

On 7th January 2002, Lisbeth served two writs against Mr. Phillips and Mr. Wain for sums due under the aforesaid Promissory Notes (with accrued interest). On 11th March 2002, Mr. Phillips and Mr. Wain filed Defences against the two writs.

The Company's legal advisers have advised that Lisbeth's claims against Mr. Phillips and Mr. Wain have a good chance of succeeding. However, the ultimate recovery of the sums due remains uncertain. Full provision against the four Promissory Notes (with accrued interest) has therefore been made in the unaudited Consolidated Profit and Loss Account for the six months ended 30th September 2002.

(b) *Edwin John Phillips vs Sa Sa International Holdings Limited*

On 3rd December 2001, Mr. Phillips issued and served a writ against the Company claiming, amongst other things, damages of HK\$31.2 million based on alleged oral agreements between the Company and Mr. Phillips that the Company would buy from Mr. Phillips the remainder of Mr. Phillips' shares in Lisbeth. The Company's legal advisers' opinion was that Mr. Phillips' claim was without merit and should be defended. Accordingly, the Company filed a Defence on 24th December 2001.

On 24th December 2001, the Company applied to strike out Mr. Phillips' Statement of Claim on the basis that, amongst other things, it disclosed no reasonable cause of action. The Company's application was to be heard on 15th March 2002.

On 14th March 2002, Mr. Phillips applied for the Court's permission to file and serve a Re-Amended Statement of Claim. The Judge refused Mr. Phillips' application to file and serve the proposed Re-Amended Statement of Claim and made a substantial costs order against Mr. Phillips. The Judge set a time limit within which Mr. Phillips may reformulate his claim.

On 15th April 2002, Mr. Phillips filed and served a Re-Amended Statement of Claim. In the opinion of the Company's legal advisers, the Re-Amended Statement of Claim remained substantially defective and is liable to be struck out.

On 4th June 2002, the Company filed and served a Re-Amended Defence and Counterclaim. The Company's Counterclaim against Mr. Phillips and Mr. Wain is based on Mr. Phillips' and Mr. Wain's misrepresentations and breaches of warranty concerning the 1999 Audited Financial Statements of Lisbeth.

On 5th June 2002, the Company applied to strike out Mr. Phillips' Re-Amended Statement of Claim.

On 28th October 2002, the Company's application to strike out Mr. Phillips' Re-Amended Statement of Claim did not succeed, although the Court was critical of the unparticularised nature of part of Mr. Phillips' claim. Although costs were awarded against the Company, these should not be material and in any event are likely to be less than the existing costs orders payable by Mr. Phillips to the Company.

In the opinion of the Company's legal advisers, the Company has a reasonable prospect of successfully defending Mr. Phillips' claim against the Company, and a reasonable prospect of succeeding in the Counterclaim against Mr. Phillips and Mr. Wain. Accordingly, no provision for damages and/or any related costs have been made in the accounts.

## 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

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

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 report, 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 on The Stock Exchange of Hong Kong Limited and was approved by shareholders of the Company at the extraordinary general meeting on 14th September 1999.

## **SHARE OPTIONS**

### **(1) Share Option Scheme**

On 29th August 2002, the shareholders of the Company approved the termination of the share option scheme adopted by the Company on 22nd May 1997 (the "Old Scheme") and the adoption of a new share option scheme (the "New Scheme"). Upon the termination of the Old Scheme, no further options will be offered under the Old Scheme but the provisions of the Old Scheme will remain in full force and effect in respect of the existing options granted. Details of the New Scheme were disclosed in the circular to shareholders dated 31st July 2002.

No option was granted under the New Scheme during the six months ended 30th September 2002. Details of the share options outstanding as at 30th September 2002 which were granted under the Old Scheme are as follows:

	Date of grant	Subscription price per share	Exercisable period	Vesting period	Options outstanding as at 1st April 2002	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options outstanding as at 30th September 2002
<b>Director</b>									
Mr. LOOK, Guy	24th April 2002	HK\$0.80	24th April 2003 to 24th April 2012	1 year	-	4,000,000 note (i)	-	-	4,000,000
	24th April 2002	HK\$0.80	24th April 2004 to 24th April 2012	2 years	-	5,000,000 note (i)	-	-	5,000,000
	24th April 2002	HK\$0.80	24th April 2005 to 24th April 2012	3 years	-	4,116,285 note (i)	-	-	4,116,285
<b>Employees under continuous employment contract</b>									
	9th September 1997	HK\$2.01	9th September 1997 to 8th September 2007	-	1,808,000	-	-	-	1,808,000
	9th September 1997	HK\$2.01	8th September 1998 to 8th September 2007	1 year	1,808,000	-	-	-	1,808,000
	9th September 1997	HK\$1.90	8th September 1998 to 8th September 2007	1 year	7,098,000	-	-	-	7,098,000
	14th June 2000	HK\$0.96	14th June 2003 to 14th June 2010	3 years	229,000	-	-	-	229,000
	19th June 2000	HK\$0.94	19th June 2003 to 19th June 2010	3 years	217,391	-	-	(217,391) note (ii)	-
	21st June 2000	HK\$0.93	21st June 2001 to 21st June 2010	1 year	412,000	-	-	-	412,000
	21st June 2000	HK\$0.93	21st June 2002 to 21st June 2010	2 years	412,000	-	-	-	412,000
	4th June 2001	HK\$0.68	4th June 2002 to 4th June 2011	1 year	196,078	-	-	-	196,078
	4th June 2001	HK\$0.68	4th June 2003 to 4th June 2011	2 years	196,078	-	-	-	196,078
	4th June 2001	HK\$0.68	4th June 2004 to 4th June 2011	3 years	196,079	-	-	-	196,079
	24th April 2002	HK\$0.80	24th April 2005 to 24th April 2012	3 years	-	675,000 note (i)	-	-	675,000
					12,572,626	13,791,285	-	(217,391)	26,146,520

- Notes: (i) The closing price of the shares immediately before the date on which the options were granted is HK\$0.79.
- (ii) During the six months ended 30th September 2002, 217,391 share options were lapsed upon the resignation of an employee.

## (2) Share Options under an Ex-director's Service Agreement

The Company has granted to Mr. KING, Roger, an ex-director of the Company, share options in accordance with the terms set out in the Service Agreement entered between the Company and Mr. King on 2nd August 1999 which was approved by the shareholders of the Company at an extraordinary general meeting on 14th September 1999. The details of the share options outstanding as at 30th September 2002 which were granted to Mr. King are set out as follows:

Date of grant	Subscription price per share	Closing price per share immediately before the date of grant	Exercisable period	Vesting period	Options outstanding as at 1st April 2002	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options outstanding as at 30th September 2002
14th September 1999 to 9th May 2002	HK\$0.928	HK\$0.52 to HK\$1.52	14th September 1999 to 2nd February 2007	-	23,692,246	3,821,341	-	-	27,513,587

Note: Due to the large number of monthly grants of options under the Service Agreement, certain information such as the date of grant and the closing prices of the shares immediately before the date on which the options were granted are shown in a summarised manner.

The financial impact of options granted is not recorded in the Group's accounts until such time as the options are exercised. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of shares is recorded by the Company in the share premium account. Options which are lapsed prior to their exercise date are deleted from the outstanding options.

The directors do not consider it appropriate to state the value of the options granted during the six months ended 30th September 2002 as a number of variables which are crucial for the calculation of the options value have not been determined. The directors believe that any calculation of the value of the options based on a great number of speculative assumptions would not be meaningful and would be misleading.

## 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 of Hong Kong Limited (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 Rules Governing the Listing of Securities on the Stock Exchange (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.

## PARTICULARS OF SHARES HELD BY DIRECTORS, CHIEF EXECUTIVES AND ASSOCIATES

As at 30th September 2002, the directors, chief executives and their associates had the following interests in the share capital of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”)) which require notification pursuant to Section 28 of the SDI Ordinance or the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) or as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance:

<b>Name of director</b>	<b>Nature of interest</b>	<b>Number of shares</b>
Mr. KWOK, Siu Ming, Simon	Corporate Interests (Note)	898,506,400
	Personal Interests	20,364,000
Mrs. KWOK, Law Kwai Chun, Eleanor	Corporate Interests (Note)	898,506,400
Mrs. LEE, Look Ngan Kwan, Christina	Personal Interests	148,000

Note: These shares are held as to 696,780,000 shares by Sunrise Height Incorporated and as to 201,726,400 shares by Green Ravine Limited. Both Sunrise Height Incorporated and Green Ravine Limited are owned as to 50% each by Mr. KWOK, Siu Ming, Simon and Mrs. KWOK, Law Kwai Chun, Eleanor.

In addition, Mr. KWOK, Siu Ming, Simon and Mrs. KWOK, Law Kwai Chun, Eleanor are each taken to be interested in all the issued non-voting deferred shares of Sa Sa Cosmetic Company Limited, Sa Sa Investment Limited, Matford Trading Limited and Base Sun Investment Limited, all wholly-owned subsidiaries of the Company. Mrs. KWOK, Law Kwai Chun, Eleanor is also taken to be interested in all the issued non-voting deferred shares of Vance Trading Limited.

Save as disclosed above, no directors, chief executive and their associates have any beneficial or non-beneficial interests in the share capital of the Company and associated corporations required to be disclosed pursuant to the SDI Ordinance and the Model Code.

## DIRECTORS’ BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section “Share Options” above, at no time during the six months ended 30th September 2002 was the Company, its holding company or its subsidiaries a party to any arrangements to enable the directors of the Company (including their spouses or children under 18 years of age), to acquire benefits by means of acquisition of shares in or debenture of the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th September 2002, according to the register of interests kept by the Company under Section 16(1) of the SDI Ordinance, the shareholders who had or were deemed to have interest in 10% or more of the Company's issued share capital were:

Name	Number of ordinary shares beneficially held
Sunrise Height Incorporated	696,780,000 (Note)
Green Ravine Limited	201,726,400 (Note)

Note: Both Sunrise Height Incorporated and Green Ravine Limited are owned as to 50% each by Mr. KWOK, Siu Ming, Simon and Mrs. KWOK. Law Kwai Chun, Eleanor.

Save as disclosed above, no person was recorded in the register as having an interest amounting to 10% or more of the issued share capital of the Company as at 30th September 2002.

## CONNECTED TRANSACTIONS

For the six months ended 30th September 2002, certain members of the Group entered into transactions which were "connected transactions" as defined by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of such transactions are as follows:

### (1) Sa Sa Cosmetic Company Limited and Lisbeth Enterprises Limited #

For the six months ended 30th September 2002, Sa Sa Cosmetic Company Limited ("Sa Sa Cosmetic"), a wholly-owned subsidiary of the Company, sold goods to Lisbeth Enterprises Limited ("Lisbeth"), a 58.33% owned subsidiary of the Company, in its ordinary course of business and on normal commercial terms. The total purchase price payable by Lisbeth to Sa Sa Cosmetic for the period from 1st April 2002 to 30th September 2002 was approximately HK\$811,000 (2001: HK\$1,192,000). After adjusting for differences in closing stock between 31st March 2002 and 30th September 2002, net sales from Sa Sa Cosmetic to Lisbeth was approximately HK\$1,330,000 (2001: HK\$1,280,000). As at 30th September 2002, the net amount due from Lisbeth to Sa Sa Cosmetic was approximately HK\$1,320,000 (31st March 2002: HK\$1,620,000).

### (2) Sa Sa Cosmetic Co. (S) Pte. Ltd. and Phillip Wain International (Singapore) Pte. Ltd. #

For the six months ended 30th September 2002, Sa Sa Cosmetic Co. (S) Pte. Ltd. ("Sa Sa Singapore"), a wholly-owned subsidiary of the Company, sold goods to Phillip Wain International (Singapore) Pte. Ltd. ("Phillip Wain Singapore"), a 58.33% owned subsidiary of the Company, in its ordinary course of business and on normal commercial terms. The total purchase price payable by Phillip Wain Singapore

to Sa Sa Singapore for the period from 1st April 2002 to 30th September 2002 was approximately HK\$272,000 (2001: HK\$117,000). After adjusting for difference in closing stock between 31st March 2002 and 30th September 2002, net sale from Sa Sa Singapore to Phillip Wain Singapore was approximately HK\$561,000 (2001: HK\$18,000). As at 30th September 2002, the net amount due from Phillip Wain Singapore to Sa Sa Singapore was approximately HK\$66,000 (31st March 2002: HK\$379,000).

### **(3) Hong Kong Sa Sa (M) Sdn. Bhd. and Phillip Wain (M) Sdn. Bhd. #**

For the six months ended 30th September 2002, Hong Kong Sa Sa (M) Sdn. Bhd. (“Sa Sa Malaysia”), a wholly-owned subsidiary of the Company, sold goods to Phillip Wain (M) Sdn. Bhd. (“Phillip Wain Malaysia”), a 58.33% owned subsidiary of the Company, in its ordinary course of business and on normal commercial terms. The total purchase price payable by Phillip Wain Malaysia to Sa Sa Malaysia for the period from 1st April 2002 to 30th September 2002 was approximately HK\$57,000 (2001: HK\$36,000). After adjusting for differences in closing stock between 31st March 2002 and 30th September 2002, net sales from Sa Sa Malaysia to Phillip Wain Malaysia was approximately HK\$120,000 (2001: HK\$7,000). As at 30th September 2002, the net amount due from Phillip Wain Malaysia to Sa Sa Malaysia was nil (31st March 2002: HK\$11,000).

### **(4) Sa Sa Cosmetic Company Limited and Ebeca Cosmetic (Holding) Limited #**

For the six months ended 30th September 2002, Sa Sa Cosmetic sold goods to Ebeca Cosmetic (Holding) Limited (“Ebeca”), a wholly-owned subsidiary of Shenzhen Sa Sa Ebeca Enterprise Limited, which is a 55% owned subsidiary of the Company, in its ordinary course of business and on normal commercial terms. The total purchase price payable by Ebeca to Sa Sa Cosmetic for the period from 1st April 2002 to 30th September 2002 was approximately HK\$861,000 (2001: HK\$238,000).

For the six months ended 30th September 2002, Ebeca sold goods to Sa Sa Cosmetic in its ordinary course of business and on normal commercial terms. The total purchase price payable by Sa Sa Cosmetic to Ebeca for the period from 1st April 2002 to 30th September 2002 was approximately HK\$247,000 (2001: HK\$150,000). As at 30th September 2002, the net amount due from Ebeca to Sa Sa Cosmetic is approximately HK\$517,000 (31st March 2002: due from Sa Sa to Ebeca HK\$105,000).

# The above transactions were entered into as Lisbeth, its subsidiaries and Ebeca were viewed as an extension of retail outlets of Sa Sa Cosmetic and its subsidiaries.

### **(5) Loans to Lisbeth Enterprises Limited and its subsidiaries**

On 11th June 2002, Sa Sa Cosmetic, Sa Sa Singapore and Sa Sa Malaysia (“the Lenders”), indirect wholly-owned subsidiaries of the Company in Hong Kong, Singapore and Malaysia respectively, advanced loans in the principal sum of HK\$1,000,000, S\$700,000 (equivalent to approximately



HK\$3,072,000) and M\$1,000,000 (equivalent to approximately HK\$2,053,000) to Lisbeth, Phillip Wain Singapore and Phillip Wain Malaysia (“the Borrowers”) respectively, indirect non-wholly owned subsidiaries of the Company in Hong Kong, Singapore and Malaysia respectively. The loans bear interest at annual rates equal to the prime lending rate quoted by The HongKong & Shanghai Banking Corporation Limited at its principal office at Hong Kong for the loan to Lisbeth, the prime lending rate quoted by The HongKong & Shanghai Banking Corporation Limited at its principal office in Singapore for the loan to Phillip Wain Singapore and the base lending rate quoted by Malayan Banking Berhad Limited at its principal office in Kuala Lumpur for the loan to Phillip Wain Malaysia and are repayable on demand. No security was granted by the Borrowers to the Lenders in relation to the loans but the Borrowers have executed promissory notes on 11th June 2002 in favour of the Lenders evidencing the loans. The purpose of the loans is to support the business of the Borrowers.

As the above transactions will continue on an ongoing basis, the Company had been granted a waiver by the Stock Exchange from the strict compliance of the requirements of Chapter 14 of the Listing Rules in respect of the transactions (1), (2), (3), (4) and (5) above subject to the following conditions:

- (a) the above transactions are entered into in the ordinary and usual course of business of the Company;
- (b) the above transactions are conducted on normal commercial terms and fair and reasonable so far as the shareholders of the Company are concerned;
- (c) the annual amount of the transactions are within the amount as agreed with the Stock Exchange;
- (d) the independent non-executive directors of the Company will review the transactions annually and confirm in the annual report of the Company that such transactions have been conducted in the manner as stated in paragraphs (a), (b) and (c) above; and
- (e) the auditors of the Company shall review annually the transactions and will provide a confirmation letter to the Directors of the Company.

#### **(6) Management Fee charged by Sa Sa Cosmetic Company Limited to Lisbeth Enterprises Limited**

For the six months ended 30th September 2002, Sa Sa Cosmetic charged management fee amounting to HK\$660,000 (2001: Nil) to Lisbeth on cost reimbursement basis for the provision of staff and administrative services.

#### **(7) Lisbeth Enterprises Limited and Mr. PHILLIPS, Edwin John Lisbeth Enterprises Limited and Mr. WAIN, Barry Richard**

On 31st July 2000, the Company entered into a Sale and Purchase Agreement whereby the Company conditionally agreed to acquire from Mr. WAIN, Barry Richard (“Mr. Wain”) his entire 5,000 shares in Lisbeth, representing 50% of its issued share capital at that time for a consideration of approximately HK\$79 million.

On the same day, the Company entered into a Subscription Agreement, whereby the Company conditionally agreed to subscribe for 2,000 new shares in Lisbeth, which together with the 5,000 shares acquired from Mr. Wain representing approximately 58.33% of its enlarged issued share capital, for a consideration of approximately HK\$31 million.

When the Sale and Purchase Agreement and Subscription Agreement were completed on 31st August 2000, the Company entered into two Option Agreements with Mr. PHILLIPS, Edwin John ("Mr. Phillips"), an ex-director of Lisbeth. Under the first Option Agreement, the Company was given an option to acquire 2,000 shares in Lisbeth, representing 16.67% of the enlarged issued share capital of Lisbeth, from Mr. Phillips within a period of one year from 31st August 2000 for a consideration of approximately HK\$31 million. Under the second Option Agreement, if the first Option Agreement is completed, Mr. Phillips has an option to require the Company to acquire the remaining shares in Lisbeth held by Mr. Phillips, representing 25% of its entire issued share capital within 5 years from completion of the first Option Agreement.

As part of the terms of the Sale and Purchase Agreement and Subscription Agreement, each of Mr. Phillips and Mr. Wain signed two promissory notes ("the Promissory Notes") on 31st August 2000 in the aggregate amount of HK\$12,024,573 and HK\$12,014,472 respectively in favour of Lisbeth. Of the total loan balances, HK\$1,168,683 is interest-bearing at 8.5% per annum. The remaining loan balances are interest free. All the loans are unsecured and are repayable upon the earlier of (i) one year from 31st August 2000 or (ii) date of completion of the first Option Agreement. In the event that the amount due under the Promissory Notes are not paid in full when due, Lisbeth is entitled to charge interest on such unpaid amount (to the extent permitted by applicable law) for the period from the date such amount was due until such amount shall have been paid in full at such interest rate per annum as is equal to 3% per annum over the prime lending rate quoted from time to time by The Hongkong & Shanghai Banking Corporation Limited ("Default Interest Charges"). Both Mr. Phillips and Mr. Wain defaulted in payment of the Promissory Notes when they were due on 31st August 2001. As a result of the default in payment by Mr. Phillips and Mr. Wain, Default Interest Charges on the Promissory Notes were raised against Mr. Phillips and Mr. Wain. As at 30th September 2002, amounts of HK\$14,715,000 (31st March 2002: HK\$14,168,000) and HK\$13,138,000 (31st March 2002: HK\$12,648,000) were due from Mr. Phillips and Mr. Wain respectively.

For the six months ended 30th September 2002, interest and Default Interest Charges amounting to HK\$548,000 were raised against Mr. Phillips in respect of amount due under the two promissory notes executed by Mr. Phillips in favour of Lisbeth, expenses paid by Lisbeth on behalf of Mr. Phillips and withdrawals made by Mr. Phillips from Lisbeth.

For the six months ended 30th September 2002, interest and Default Interest Charges amounting to HK\$489,000 were raised against Mr. Wain in respect of amount due under the two promissory notes executed by Mr. Wain in favour of Lisbeth.

## (8) Service Agreement of an Ex-director

On 2nd August 1999, the Company, entered into a Service Agreement with Mr. KING, Roger to appoint Mr. King as the president and chief executive officer of the Company. At the same time, Mr. King, who was previously an independent non-executive director of the Company, has been appointed as an executive director of the Company.

Pursuant to the Service Agreement, a total of 9,000,000 new shares in the Company would be issued to Mr. King over a period of three years as his remuneration and he would also be granted options to subscribe for shares in the Company in accordance with the terms set out in the Service Agreement. The issue of new shares and option shares to Mr. King constituted a connected transaction for the purposes of Chapter 14 of the Listing Rules which transaction was approved by shareholders of the Company at an extraordinary general meeting held on 14th September 1999.

For the six months ended 30th September 2002, a total of 1,166,672 shares were issued to Mr. King pursuant to the Service Agreement.

The Service Agreement of Mr. King was completed on 10th May 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.

By Order of the Board  
**Kwok Siu Ming, Simon**  
*Chairman*

Hong Kong, 9th December 2002