



SA SA INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2003

Highlights

- Group turnover increased by 5.9% to HK\$785.6 million on a Comparable Basis*
- Group turnover in the second quarter of this fiscal year has a year-on-year increase of 19.2% on a Comparable Basis*
- The performance of the beauty services business showed improvement
- Profit attributable to shareholders increased by 51.2% to HK\$48.7 million
- Basic earnings per share increased by 52.0% to 3.8 HK cents

* see Operations Review section for definition

The Board of Directors of Sa Sa International Holdings Limited (the "Company") has pleasure in presenting the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th September 2003 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited Six months ended 30th September	
	Note	2003 HK\$'000	Restated 2002 HK\$'000
Turnover	1	785,612	760,377
Cost of goods sold		(448,818)	(416,680)
Gross profit		336,794	343,697
Other revenues		11,942	11,943
Staff costs		(132,197)	(144,919)
Depreciation and amortisation		(16,274)	(22,750)
Other operating expenses		(142,430)	(153,731)
Operating profit		57,835	34,240
Finance costs		(2)	(123)
Profit before taxation	1	57,833	34,117
Taxation	2	(9,169)	(7,928)
Profit after taxation		48,664	26,189
Minority interests		–	5,994
Profit attributable to shareholders		48,664	32,183
Dividends	3	38,436	25,334
Earnings per share – Basic	4	3.8 cents	2.5 cents

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 2003			
	Retail and wholesale HK\$'000	Beauty and health club services HK\$'000	Inter-segment elimination HK\$'000	Total HK\$'000
Turnover	703,471	82,141	–	785,612
Results				
Segment results	49,753	1,663	–	51,416
Interest income	6,757	15	(353)	6,419
Interest expenses	–	(355)	353	(2)
Profit before taxation	56,510	1,323	–	57,833
Taxation				(9,169)
Profit after taxation				48,664
Minority interests				–
Profit attributable to shareholders				48,664

	Six months ended 30th September 2002			
	Retail and wholesale HK\$'000	Beauty and health club services HK\$'000	Inter-segment elimination HK\$'000	Restated Total HK\$'000
Turnover	682,606	77,771	–	760,377
Results				
Segment results	39,601	(12,173)	–	27,428
Interest income	5,858	1,062	(108)	6,812
Interest expenses	(106)	(125)	108	(123)
Profit/(loss) before taxation	45,353	(11,236)	–	34,117
Taxation				(7,928)
Profit after taxation				26,189
Minority interests				5,994
Profit attributable to shareholders				32,183

(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 2003			
	Greater China HK\$'000	Taiwan HK\$'000	South Asia HK\$'000	Total HK\$'000
Turnover	681,875	26,954	76,783	785,612
Results				
Segment results	54,586	(207)	(2,963)	51,416
Interest income	5,876	11	532	6,419
Interest expenses	–	–	(2)	(2)
Profit/(loss) before taxation	60,462	(196)	(2,433)	57,833

	Six months ended 30th September 2002			Total HK\$'000
	Greater China HK\$'000	Taiwan HK\$'000	South Asia HK\$'000	
Turnover	<u>654,707</u>	<u>35,414</u>	<u>70,256</u>	<u>760,377</u>
Results				
Segment results	29,391	527	(2,490)	27,428
Interest income	6,186	23	603	6,812
Interest expenses	<u>(106)</u>	<u>–</u>	<u>(17)</u>	<u>(123)</u>
Profit/(loss) before taxation	<u>35,471</u>	<u>550</u>	<u>(1,904)</u>	<u>34,117</u>

2. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits for the period. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. 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 to the condensed consolidated profit and loss account represents:

	Six months ended 30th September	
	2003 HK\$'000	Restated 2002 HK\$'000
Current taxation:		
– Hong Kong profits tax	8,238	6,357
– Overseas taxation	2,116	1,861
– (Over)/under provision in previous periods	(190)	4
Deferred taxation	<u>(995)</u>	<u>(294)</u>
	<u>9,169</u>	<u>7,928</u>

3. Dividends

	Six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000
Interim, proposed – 2.0 HK cents (2002: 1.0 HK cent) per ordinary share	25,624	12,667
Special, proposed – 1.0 HK cent (2002: 1.0 HK cent) per ordinary share	<u>12,812</u>	<u>12,667</u>
	<u>38,436</u>	<u>25,334</u>

At a meeting held on 3rd December 2003, the Directors declared an interim dividend of 2.0 HK cents 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 an appropriation of distributable reserve for the year ending 31st March 2004.

4. Earnings per share

- The calculation of basic earnings per ordinary share is based on the Group's profit attributable to shareholders of HK\$48,664,000 (2002: HK\$32,183,000 (as restated)).
- The basic earnings per ordinary share is based on the weighted average of 1,268,500,672 (2002: 1,289,242,226) ordinary shares in issue during the period.
- The diluted earnings per share is not materially different from the basic earnings per share as the dilution from the potential exercise of the share options granted by the Company outstanding at 30th September 2003 is immaterial (30th September 2002: No dilutive effect). Accordingly, diluted earnings per share has not been shown.

OPERATIONS REVIEW

For the six months ended 30th September 2003, the Group's turnover amounted to HK\$785.6 million, up by 3.3% over the turnover for the same period last year. As the Group disposed of Ebeca in March 2003, on a comparable basis ("Comparable Basis") the turnover of HK\$785.6 million represented a 5.9% increase after excluding Ebeca business from the turnover for the same period last year. Despite the impact of the SARS outbreak, the Group's net profit increased to HK\$48.7 million, an increase of 51.2% over the same period of the previous year.

The reasons for the satisfactory performance of the Group were multiple. Firstly, the sale of Ebeca business eliminated a drag on our profits. Secondly, there was a significant improvement in the performance of our beauty services business. Thirdly, retail business in the Hong Kong market, stimulated by the relaxed travel policy for PRC tourists, grew healthily in the second quarter of this fiscal year. Fourthly, we controlled our costs effectively.

Retail and Wholesale Business

During the first half of fiscal year 2003/2004, the Group's retail and wholesale business saw growth in turnover of 5.4% on a Comparable Basis, reaching HK\$703.5 million as compared to HK\$667.2 million last year. Turnover growth in the second quarter of this fiscal year was a significant 20.1%. However, the gross profit margin of our retail and wholesale business was adversely affected during the period under review due to changes in our product mix resulting from the SARS outbreak and the appreciation of Euro dollars.

Hong Kong and Macau

Sa Sa's core retail base in Hong Kong and Macau continued to perform well despite economic volatility and the SARS outbreak. The growth in turnover was 6.0% for the period under review, but year-on-year turnover in the second quarter of this fiscal year registered an impressive growth rate of 21.6%. Comparable stores growth in the second quarter of this fiscal year was also up by 17.3%. This healthy performance was based on increased spending by both PRC tourists and local consumers.

An increase in the number of PRC tourists in the second quarter of this fiscal year substantially offset the impact of the SARS outbreak during the first quarter. This impact was further mitigated by Sa Sa's adaptability to the retailing environment and by swift adjustment of our merchandise mix. Further positive factors underpinning robust growth in the second quarter were Sa Sa's strong brand awareness among PRC tourists and the popularity of beauty products, which have become a daily necessity for a significant sector of the population. This was reflected in the rapid rebound of local consumption following the SARS outbreak. Sa Sa opened one new store in July 2003, making the total number of stores 37 including two Elizabeth Arden counters as of 30th September 2003.

As a reflection of the excellent service on which our performance is based, Sa Sa was the only cosmetics chain store whose employee won the Courtesy and Service Award 2003 organised by the Hong Kong Retail Management Association.

Singapore and Malaysia

Turnover increased by 15.1% for the Singapore and Malaysia market and same stores turnover growth reached 8.0%.

A small loss was recorded as our performance was temporarily affected by the launch of strategic adjustments to increase market penetration, such as fine-tuning of merchandise mix and higher marketing costs. Our primary aim for these markets is to increase market share as from next year onwards. With this in mind, we opened two stores in Singapore and one store in Malaysia during the period.

Taiwan

One Sa Sa store was temporarily closed for relocation during the period and only two stores were in operation for most of the time. A third store was re-opened in August 2003 as the only beauty products tenant in a Japanese Department store in Hsinchu.

Turnover, which was affected by a slow recovery after the SARS outbreak and the temporary closure of one store, decreased by 23.9%. A small loss was recorded for the period under review but the situation has been contained.

E-commerce – Sasa.com

Turnover for Sasa.com during the period under review amounted to HK\$9.3 million, an increase of 68.8% on the HK\$5.5 million achieved in the corresponding period last year. The performance of Sasa.com was substantially upgraded through strategic marketing activities, adjustments in the product mix and extension of product range. The management will continue to drive improvements in brand awareness and promotions for Sasa.com in order to enhance penetration of overseas markets and to broaden its customer base.

In terms of regional recognition, it is gratifying to report that Sasa.com has been awarded the grand prize for the 2003 e-Korea & CEO Award in the category of "Specialized Cosmetics Shopping Website" by Good Day newspaper, one of South Korea's most popular newspapers with a daily circulation of 800,000 copies. Winning this Award shows that Sasa.com has an established foothold in the Korean cosmetics market and has already become one of South Korean's most favoured on-line cosmetics shopping sites.

SARS Impact

The impact of SARS on our retail and wholesale business performance was mixed. For the first quarter from April to June 2003, Hong Kong experienced a 10.7% decline, and Taiwan 33.9%. However, performance improved by 9.1% in Singapore and Malaysia (where the situation was strictly controlled) and Sasa.com business saw an increase of 67.8%.

Overall, the Group's retail and wholesale business performed well notwithstanding the decrease of gross profit margin of Sa Sa's retail business to 37.0% from 39.8%. This was a direct result of changes in our product mix due to SARS and the appreciation of Euro dollars.

Brand Management

Sales of private-label and exclusively distributed products increased by 7.5% and contributed to 26.3% of the Group's total retail and wholesale sales for the period under review. The addition of the Elizabeth Arden brand to the portfolio of our exclusively distributed products resulted in over 400% year-on-year sales growth for Elizabeth Arden products. New brands such as the fragrances of Alain Delon, La Perla and Mauboussin as well as Carlton hair care products were also secured. Supported by the strength of our brand management capabilities and by our reputation, the management will continue to strengthen the marketing and to boost the sales of these exclusive products.

Beauty Services

Despite the impact of SARS, turnover for beauty services was HK\$82.1 million, an increase of 10.1% over the HK\$74.6 million recorded for the corresponding period last year on a Comparable Basis. This was partly due to the opening of Sa Sa Beauty+, our first salon, which complements the Phillip Wain beauty and health clubs and Sa Sa's existing retail business.

Other factors that significantly contributed to Sa Sa beauty services' performance were the introduction of new treatments and facilities such as photo-facial treatments for both women and men, as well as stringent cost control measures including improvement of cost structure and rental reduction.

During the period under review, we also enhanced our market positioning by a new marketing campaign led by the "new image woman", which included TV advertisements and frequent promotions. We also began to broaden our customer base to include male customers.

Outlook

Sa Sa's vision for the future continues to be well-focused and decisive: we are positioning ourselves as the dominant cosmetic retailing and beauty services group in Asia.

Our business strategies to implement this vision are equally clear. We are focusing on gaining further market share in the highly competitive, flourishing Hong Kong market and are pursuing geographical expansion through entrance to the Mainland China market, as well as seeking expansion in our existing overseas markets of Singapore, Malaysia and Taiwan. For the second half of this fiscal year, the investment in the store expansion plan to increase the retail coverage in the region is estimated to be approximately HK\$20 million.

Sales management is a vital factor in our overall strategy. We are increasing our market competitiveness by constantly improving the level of our customer service and are also developing Sa Sa's appeal for younger customers through the introduction of new store design concepts in order to enhance our market positioning and broaden our customer base.

In terms of product management, our intention is to continue to introduce a wide variety of brands and to promote continuous improvement of our product mix to support growth. We aim to develop closer relationships with suppliers, as well as to further expand our exclusive distributorship business and to enhance the marketing of exclusive brands.

Hong Kong

Since no import tax is imposed on cosmetics in Hong Kong, such products have always been attractive to tourists to Hong Kong. This tourist market will further grow and become a driving stimulus to the overall economy as well as to the cosmetics market in Hong Kong, which in turn will drive consumption.

Visitor arrivals from Mainland China are expected to grow substantially due to the relaxed travel policy for PRC tourists visiting Hong Kong. It is estimated that such policy will result in a 15% – 30% growth of Mainland visitors to Hong Kong. As Mainland tourists now contribute to about 20% – 30% of Sa Sa's Hong Kong retail sales, this influx is expected to have major repercussions on sales growth. In addition, more tourist attractions will attract visitors to Hong Kong in the coming years, including Disneyland and the ASEAN Games.

As a reputable brand name popular with PRC tourists, Sa Sa will target its growth by providing a wider retail network for both local consumers and tourists. We will be opening five new stores and expanding some of the existing stores in tourist areas in the second half of the fiscal year. This increased presence aims to provide our customers with more convenience and better service. In addition, we will strengthen our marketing efforts and adjust our merchandise mix.

Going forward, we expect that the Hong Kong market will continue to benefit from the relaxed travel policy for PRC tourists as it takes further effect in the coming years.

Singapore and Malaysia

In Southeast Asia, Sa Sa's objective is to further increase market share. We have introduced a new store design to broaden our customer base and to enhance the shopping experience of our customers. We aim to give Sa Sa stores a more clear market positioning. We will place more emphasis on our exclusive brands, make strategic adjustments to the merchandise mix and strengthen our marketing and promotion efforts. We will continue to adjust the existing store sizes and locations. These efforts will improve our market competitiveness and build up a closer relationship with suppliers.

Taiwan

Sa Sa's intention is to strengthen our market positioning and product mix in Taiwan, as well as to boost Sa Sa's brand image. We are building the foundations for future expansion and the appointment of a new head of the country team will significantly underpin these efforts.

PRC

As is widely recognized, the PRC market offers considerable potential for retail business expansion and Sa Sa remains focused on seizing new opportunities in this market. This is particularly so now that CEPA allows for qualified Hong Kong companies to obtain wholly owned retail licenses in the PRC (commencing January 2004), considerably lowering the requirements. The acceptance of applications for these licenses will allow much greater flexibility for Sa Sa's entrance to the China market. We are now making all necessary preparatory arrangements and planning for the license application process and for future operations.

Overall, our aim is to foster close working relationships with our suppliers in the PRC and to offer alternative channels to department stores, which are now the only distribution channel for most cosmetic brands. As a specialist alternative, Sa Sa has more flexibility in its choice of store locations because of our smaller store size requirements. In the long term, therefore, we can provide a better sales network coverage. As a first step, we intend to open one or two directly managed prototype stores in major cities of the PRC in 2004.

Beauty Services

Sa Sa remains confident of the growth potential of the beauty services market in the region. We continue to aim to serve the all-round beauty needs of our customers by offering comprehensive beauty products and services. We are also focusing on scalable, better managed, and more effective operations. We hope that these will provide a solid foundation for further regional expansion in the future.

Through continuous drives to achieve higher cost effectiveness and operational efficiency, we are confident in the continuation of our improved performance in this sector. Significant progress has been made in Hong Kong and we will now move on to strive for similar results in overseas markets. In order to provide better services to our customers, a new Sa Sa Beauty+ centre will be opened in Tsimshatsui in December 2003.

Employees

As at 30th September 2003, the Group had a total of 1,655 employees. Staff costs for the period under review were HK\$132.2 million. To ensure that the Group is able to attract and retain staff with good performance, remuneration packages are reviewed on a regular basis and share options, as explained below, are offered to qualified employees. Staff development initiatives were implemented during the year through in-house training programmes and the provision of financial subsidies for external training courses.

Share Option Scheme

On 30th October 2003, the Company granted share options under the Share Option Scheme adopted on 29th August 2002 to qualified employees to reward them for their long-term contributions to the Group and to encourage them to continue their dedication to the service of the Group.

The aims of the grant of share options are to align the goals and objectives of individual employees with those of the Group, to promote teamwork, to encourage employees to contribute to the success of the Group, and to enable our employees to share in the results of the Group.

Share options have been granted to 490 management staff and long-serving staff. Certain conditions, which are largely based on the staff's performance targets, have to be fulfilled by the staff before they can exercise their share options.

FINANCIAL REVIEW

Capital Resources and Liquidity

As at 30th September 2003, the Group's total shareholders' funds were HK\$766.7 million including reserves of HK\$638.9 million. The Group continued to maintain a strong financial position with cash and bank balances plus held-to-maturity securities in aggregate of HK\$723.0 million (please see table below). The Group's working capital plus held-to-maturity securities were HK\$742.9 million. Based on the Group's steady cash inflow from operations and coupled with its existing cash and bank facilities, the Group has adequate financial resources to fund its future expansion.

	30th September 2003 HK\$'000	31st March 2003 HK\$'000
Held-to-maturity securities	69,560	70,544
Cash and bank balances	653,468	650,913
Total	723,028	721,457

As at 30th September 2003, the Group's held-to-maturity securities were composed of corporate bonds and bank notes with maturity dates falling within two years. This is in line with the Group's policy to invest in investment grade securities with maturity periods of less than two years. When compared with short-term deposit interest rate, the Group was able to achieve a higher yield based on its investment strategy.

During the period, most of the Group's cash and bank balances were in U.S. dollars and were deposited in leading banks.

Financial Position

Total funds employed (comprising shareholders' fund only) for the six months ended 30th September 2003 were HK\$766.7 million, which represented a 0.8% increase over the total funds employed of HK\$760.3 million for the year ended 31st March 2003.

The gearing ratio, defined as the ratio of total loans less cash and bank balances to total assets, was nil as at 30th September 2003 and 31st March 2003.

Treasury Policies

It is the Group's treasury management policy not to engage in any highly leveraged or speculative derivative products. In this respect, the Group continued to adopt a conservative approach to financial risk management with no significant borrowing during the period. The Group does not have significant exposure to foreign exchange fluctuations as most of its assets, receipts and payments are either in Hong Kong or U.S. dollars. However, the Group will monitor its foreign exchange position and, when appropriate, the Group will hedge its non U.S. dollar foreign exchange exposure by way of forward foreign exchange contracts. As at 30th September 2003, the Group had HK\$51.4 million outstanding forward foreign exchange contracts committed for payment in foreign currencies in the coming year.

Charge on Group Asset

At 30th September 2003, no Group asset was under charge to financial institution.

Contingent Liabilities

The Group has no contingent liability as at 30th September 2003.

INTERIM DIVIDEND AND SPECIAL DIVIDEND

The Board of Directors has resolved to declare an interim dividend of 2.0 HK cents per ordinary share (2002: 1.0 HK cent) and a special dividend of 1.0 HK cent per ordinary share (2002: 1.0 HK cent) for the six months ended 30th September 2003 to be payable to shareholders whose names appear on the Register of Members of the Company on 19th December 2003.

The interim dividend and special dividend will be paid around 30th December 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 18th December 2003 to 19th December 2003, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the aforementioned interim dividend and special dividend, 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, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 17th December 2003.

ISSUE OF SHARES

During the six months ended 30th September 2003, the Company issued and allotted a total of 10,529,000 shares of HK\$0.10 each of the Company to certain staff members and an ex-director pursuant to their exercise of share options under the scheme adopted by the Company on 22nd May 1997 and share options in accordance with the terms set out in the Service Agreement entered into between the Company and the ex-director on 2nd August 1999 respectively. The issue of shares to the ex-director constituted a connected transaction for the purpose of Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") 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 2003, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

In compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company has established an Audit Committee in 1999. The Committee comprises two independent non-executive directors and has adopted terms of reference governing the authority and duties of the Audit Committee. The present members of the Audit Committee are Professor CHAN, Yuk Shee and Dr. LEUNG, Kwok Fai, Thomas.

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

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 2003 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 meetings 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 will be published on the website of the Stock Exchange in due course.

By Order of the Board
Kwok Siu Ming, Simon
Chairman and Chief Executive Officer

Hong Kong, 3rd December 2003

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