making life beautiful

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 178)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2005

Highlights

- Group turnover increased by 14.5% to HK$1,170.3 million
- The Group's retail and wholesale business recorded turnover of HK$1,069.4 million representing a 15.4% increase
- Sa Sa's retail and wholesale business in Hong Kong and Macau registered an 11.9% increase
- Overseas operations and Sasa.com recorded encouraging turnover growth
- The Group's profit attributable to equity holders of the Company was HK$67.8 million
- Basic earnings per share was 5.1 HK cents
- Dividend per share was 6.0 HK cents

The Board of Directors ("Board") of Sa Sa International Holdings Limited ("Company") has pleasure in presenting the unaudited condensed consolidated financial information of the Company and its subsidiaries ("Group") for the six months ended 30th September 2005 as follows. The unaudited condensed consolidated financial information has been reviewed with no disagreement by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30th September	
	Note	**2005** **HK$'000**	2004 *HK$'000* As restated
Turnover	*3*	**1,170,348**	1,022,008
Cost of sales		**(653,085)**	(583,458)
Gross profit		**517,263**	438,550
Other revenues		**16,609**	13,116
Staff costs		**(197,497)**	(169,524)
Depreciation and amortisation		**(27,912)**	(17,441)
Other operating expenses		**(220,619)**	(175,486)
		87,844	89,215
Fair value changes on investment property and buildings		**2,135**	–
Reversal of impairment losses on leasehold land		**10,766**	–
Net exchange (losses)/gains		**(20,615)**	251
Profit before income tax	*4*	**80,130**	89,466
Income tax expense	*5*	**(12,336)**	(18,321)
Profit attributable to equity holders of the Company during the period		**67,794**	71,145
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in HK cents per share)	*6*		
Basic		**5.1**	5.5
Diluted		**5.0**	5.4
Dividends	*7*	**80,232**	78,842

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited 30th September 2005 HK$'000	Audited 31st March 2005 HK$'000 As restated
ASSETS			
Non-current assets			
Property, plant and equipment		**152,779**	124,275
Leasehold land		**18,107**	7,527
Available-for-sale financial assets		**870**	–
Investment securities		**–**	870
Rental deposits		**60,719**	46,689
Deferred tax assets		**15,007**	16,034
		247,482	195,395
Current assets			
Inventories		**382,420**	363,684
Trade receivables	8	**22,934**	20,075
Other receivables, deposits and prepayments		**46,353**	43,923
Tax recoverable		**226**	260
Bank balances over three months to maturity		**150,645**	290,795
Cash and cash equivalents		**495,671**	452,339
		1,098,249	1,171,076
LIABILITIES			
Current liabilities			
Trade and bills payables	9	**135,798**	120,712
Other payables and accrued charges		**124,568**	109,113
Receipts in advance		**185,778**	175,593
Financial liabilities at fair value through profit or loss		**5,933**	–
Taxation payable		**26,256**	40,105
		478,333	445,523
Net current assets		**619,916**	725,553
Total assets less current liabilities		**867,398**	920,948
Non-current liabilities			
Retirement benefit obligations		**9,587**	9,435
Deferred tax liabilities		**1,811**	1,467
Other payables		**1,867**	–
		13,265	10,902
Net assets		**854,133**	910,046
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**133,335**	132,349
Reserves		**640,566**	631,980
Proposed dividends		**80,232**	145,717
Total equity		**854,133**	910,046

Notes

1. Basis of preparation and accounting policies

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

This condensed consolidated financial information should be read in conjunction with the 2004/2005 financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent, in all material respect, with those used in the financial statements for the year ended 31st March 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1st January 2005.

This condensed consolidated financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information (November 2005). The HKFRS standards and interpretations that will be applicable at 31st March 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this condensed consolidated financial information.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. Changes in accounting policies

Effect of adopting new HKFRS

For the six months ended 30th September 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payment

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 24, 33, 36 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 had no material effect on the presentation of financial statements and other disclosures.
- HKASs 2, 7, 8, 10, 16, 33, 36 and HKAS-Int 15 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statements. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st March 2005, the provision of share options to employees did not result in an expense in the income statements. Effective on 1st April 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7th November 2002 and had not yet vested on 1st April 2005 was expensed retrospectively in the income statement of the respective periods.

All changes in accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st April 2005;
- HKAS 40 since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information. As there was no revaluation surplus as at 31st March 2005, no reclassification of any amount held in revaluation surplus for investment property is necessary;
- HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1st April 2005; and
- HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st April 2005.

(i) The adoption of revised HKAS 17 resulted in:

	30th September 2005	31st March 2005
	HK$'000	*HK$'000*
Decrease in property, plant and equipment	**(18,107)**	(7,527)
Increase in leasehold land	**18,107**	7,527
Increase in deferred tax liabilities	**(175)**	(175)
Decrease in deferred tax assets	**(1,038)**	(1,038)
Decrease in retained earnings	**1,213**	1,213

(ii) The adoption of revised HKAS 39 resulted in:

	30th September 2005
	HK$'000
Increase in available-for-sale financial assets	**870**
Decrease in investment securities	**(870)**
Increase in financial liabilities at fair value through profit or loss	**(5,933)**
Decrease in retained earnings	**5,933**

	Six months ended 30th September 2005
	HK$'000
Increase in fair value losses on forward foreign exchange contracts	**5,933**
Decrease in basic earnings per share *(HK cents)*	**(0.4)**
Decrease in diluted earnings per share *(HK cents)*	**(0.4)**

(iii) The adoption of revised HKFRS 2 resulted in:

	30th September 2005	31st March 2005	1st April 2004
	HK$'000	*HK$'000*	*HK$'000*
Increase in employee share-based compensation reserve	**24,211**	19,769	5,218
Decrease in retained earnings	**(27,010)**	(19,769)	(5,218)
Increase in share premium	**2,799**	–	–

	Year ended 31st March 2005	**Six months ended 30th September 2005**	2004
	HK$'000	***HK$'000***	*HK$'000*
Increase in staff costs	14,550	**7,241**	6,985
Decrease in basic earnings per share *(HK cents)*	(1.1)	**(0.5)**	(0.5)
Decrease in diluted earnings per share *(HK cents)*	(1.4)	**(0.5)**	(0.6)

The Group does not early adopt HKAS 19 (Amendment) – Employee Benefits that has been issued but are not yet effective. The adoption of such standard will not result in substantial changes to the Group's accounting policies.

3. **Segment information**

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

(a) *Primary reporting format – business segments*

The segment results are as follows:

	Six months ended 30th September 2005		
	Retail and Wholesale *HK$'000*	**Beauty and health club services** *HK$'000*	**Total** *HK$'000*
Turnover	**1,069,445**	**100,903**	**1,170,348**
Results			
Segment results	**86,088**	**(6,426)**	**79,662**
Interest income			**8,182**
Fair value changes on investment property and buildings	**2,135**	**–**	**2,135**
Reversal of impairment losses on leasehold land	**10,766**	**–**	**10,766**
Net exchange losses	**(20,215)**	**(400)**	**(20,615)**
Profit before income tax			**80,130**
Income tax expense			**(12,336)**
Profit attributable to equity holders of the Company during the period			**67,794**

	Six months ended 30th September 2004 (As restated)		
	Retail and Wholesale *HK$'000*	Beauty and health club services *HK$'000*	Total *HK$'000*
Turnover	926,376	95,632	1,022,008
Results			
Segment results	81,915	1,359	83,274
Interest income			5,941
Net exchange gains	553	(302)	251
Profit before income tax			89,466
Income tax expense			(18,321)
Profit attributable to equity holders of the Company during the period			71,145

(b) *Secondary reporting format – geographical segments*

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

The Group's turnover are as follows:

	Six months ended 30th September 2005			
	Mainland China *HK$'000*	**Taiwan** *HK$'000*	**South Asia** *HK$'000*	**Total** *HK$'000*
Turnover	**1,032,368**	**38,565**	**99,415**	**1,170,348**

	Six months ended 30th September 2004			
	Mainland China *HK$'000*	Taiwan *HK$'000*	South Asia *HK$'000*	Total *HK$'000*
Turnover	911,325	28,116	82,567	1,022,008

Sales are allocated based on the places in which the customers are located.

4. **Profit before income tax**

Profit before income tax is stated after crediting and charging the following:

	Six months ended 30th September	
	2005 *HK$'000*	2004 *HK$'000*
Crediting		
Net exchange gains	**–**	251
Compensation from landlord for early termination of lease agreement	**5,500**	–
Reversal of impairment losses on trade receivables	**–**	92
Charging		
Depreciation of property, plant and equipment	**27,726**	17,296
Amortisation of leasehold land	**186**	145
Operating lease rentals in respect of land and buildings	**98,991**	74,391
Provision for slow moving inventories and stock shrinkage	**1,859**	9,883
Net exchange losses	**14,682**	–
Fair value losses on forward foreign exchange contracts	**5,933**	–

5. **Income tax expense**

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Six months ended 30th September	
	2005 *HK$'000*	2004 *HK$'000*
Hong Kong profits tax		
Current	**10,781**	13,656
Over provision in previous periods	**–**	(8)
Overseas taxation		
Current	**1,387**	2,370
(Over)/under provision in previous periods	**(675)**	1,068
Deferred taxation relating to origination and reversal of temporary differences	**843**	1,235
	12,336	18,321

6. **Earnings per share for profit attributable to equity holders of the Company during the period**
   (a) The calculation of basic and diluted earnings per share is based on the Group's profit attributable to equity holders of the Company during the period of HK$67,794,000 (2004: HK$71,145,000, restated).

   (b) The calculation of basic earnings per share is based on the weighted average of 1,325,515,699 (2004: 1,298,159,395) shares in issue during the period.

   (c) The calculation of diluted earnings per share is based on the weighted average of 1,325,515,699 (2004: 1,298,159,395) shares in issue during the period plus the weighted average of 32,059,173 (2004: 21,836,146, as restated) shares deemed to be issued if all outstanding share options granted under the share option scheme of the Company had been exercised.

7. **Dividends**

	Six months ended 30th September	
	2005	2004
	HK$'000	*HK$'000*
Interim, proposed – 3.0 HK cents (2004: 3.0 HK cents) per share	**40,116**	39,421
Special, proposed – 3.0 HK cents (2004: 3.0 HK cents) per share	**40,116**	39,421
	80,232	78,842

At a meeting held on 30th November 2005, the Directors declared an interim dividend of 3.0 HK cents and a special dividend of 3.0 HK cents per share. These proposed dividends are not reflected as dividend payables in this condensed consolidated financial information, but will be reflected as an appropriation of distributable reserve for the year ending 31st March 2006.

8. **Trade receivables**
   Majority of the Group's turnover are cash or credit card sales. The ageing analysis of trade receivables is as follows:

	30th September 2005	31st March 2005
	HK$'000	*HK$'000*
Within 1 month	**20,747**	18,228
1 to 3 months	**2,157**	1,741
Over 3 months	**30**	106
	22,934	20,075

The fair values of trade receivables approximate their carrying amount.

9. **Trade and bills payables**
   The ageing analysis of trade and bills payables is as follows:

	30th September 2005	31st March 2005
	HK$'000	*HK$'000*
Within 1 month	**64,465**	56,721
1 to 3 months	**66,581**	55,296
Over 3 months	**4,752**	8,695
	135,798	120,712

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

MANAGEMENT DISCUSSION & ANALYSIS

For the six months ended 30th September 2005, the Group's consolidated turnover amounted to HK$1,170.3 million, representing an increase of 14.5% from HK$1,022.0 million in the corresponding period last year. The Group's consolidated profit attributable to equity holders of the Company was HK$67.8 million, a decrease of 4.7% as compared to HK$71.1 million of the first half of last fiscal year. Basic earnings per share amounted to 5.1 HK cents.

The Group's performance reflects slower retail sales growth in Hong Kong, which in itself accounts for approximately 77% of the Group's turnover. The operation in Mainland China incurred a loss, which was in line with expectations. The performance of Beauty Services was weaker than last year due to keen competition. However, overseas markets as well as online sales witnessed strong growth. Complementing this trend, the strategic expansion of the retail store network continued throughout the region.

On the other hand, a number of exceptional items affected profits. The Group recorded revaluation surplus of properties of HK$2.1 million and reversal of impairment losses of leasehold land of HK$10.8 million due to the improved market conditions. This was offset by exchange losses of HK$18.1 million arising from the settlement of forward contracts, fair value adjustments of forward contracts at period-end and revaluation of foreign currency holdings, mainly as a result of the depreciation of Euro currency against Hong Kong dollars. Compensation from a landlord amounting to HK$5.5 million in relation to a rental agreement also contributed to profits.

In terms of recurrent profits, the increased gross profit margin partly offset higher rentals. The expansion of our retail network and upgrading of operating systems resulted in increased operating expenses and staff costs in the back office.

Retail & wholesale business

During the first six months of fiscal year 2005/06, the Group's retail and wholesale business saw growth in turnover of 15.4%, reaching HK$1,069.4 million. The overall gross profit margin grew to 39.8%, as compared to 37.8% in the same period last year. This was due to enhanced product mix and increased sales of exclusive products as well as better inventory management. Our inventory turnover days improved to 100 days, as opposed to 109 days for the corresponding period last year.

We continued to expand our store network to prepare for the ongoing growth of tourism to the region, which is expected to be driven by current and future tourism projects. New features at our stores include treatment rooms, as well as value-added services such as complimentary facial treatments. In the face of heightened rental pressures, the Group began to seek out first floor and basement floor areas in order to lower average rental costs. At the same time, we strengthened our brand building efforts for "Sa Sa" and its "beauty specialist" image in the region, focusing both on greater brand awareness and on building a solid foundation for a new range of "Sasa" brand beauty products. Other encouraging developments were the marked turnaround in our overseas markets and the improved performance of Sasa.com.

Hong Kong and Macau

Turnover rose by 11.9% to HK$935.7 million for the six months ended 30th September 2005, although same store growth decreased by 4.3% largely due to the opening of several new stores that outpaced the increase in overall turnover. Growth was recorded in both the average value per transaction and the total number of transactions.

The lower growth in turnover as compared to the growth rate of the previous financial year reflected the slower increase in the number of PRC visitors, although the increased number of visitors from other countries and the improvement in local spending partially compensated for this.

During the first six months of the fiscal year, Sa Sa added five new stores including a new flagship store in Mongkok and a mega store in Tsim Sha Tsui, each comprising 8,000 square feet. As at 30th September 2005 there were 48 Sa Sa stores, one La Colline specialty store, one Elizabeth Arden counter and one Sa Sa counter.

The Company enhanced brand awareness of "Sa Sa" and its "beauty specialist" image in the local and Mainland China markets by focusing marketing initiatives on both local consumers and PRC tourists. For example, during the period we sponsored the Miss Hong Kong Pageant 2005 as well as the Federation Internationale De Volleyball World Grand Prix 2005.

Mainland China
The performance of the first wholly owned Sa Sa store in Shanghai was satisfactory. The new venture provides us with first hand knowledge of the local cosmetics market and facilitates our planning for the future development of the Mainland market, including devising our own branding, product development strategy, and network expansion plan. During the first half of the fiscal year, we launched one of our exclusive brands, Suisse Programme. Both the media and the market gave the product an enthusiastic reception, giving it a successful debut in our Shanghai store.

Singapore and Malaysia
Turnover for the Singapore market rose by 37.1% to HK$42.0 million and that for the Malaysia market by 25.1% to HK$24.2 million as compared to the last corresponding period. Same store growth in Singapore grew by 21.6%, with Malaysia up 11.9%. A small contribution was made by Malaysia to the Group's profits.

In Singapore, previous consolidation measures began to deliver profitable results in the second quarter of the fiscal year. The Group achieved higher sales, including sales of exclusive products, through an improved product portfolio and enhanced training. One new store was added, making the total number of stores to 10 as of 30th September 2005. The results would have been better but for the higher stock provisions, the result of increased products to stimulate sales. In Malaysia, sales of exclusive products increased as well due to enhanced training. The total number of stores in Malaysia was 10 as of 30th September 2005, with one store closed during the period.

Taiwan
Turnover in the Group's Taiwan business increased by 37.2% during the first six months of the fiscal year, with same store growth reaching 19.5%. An increase of contributions to Group profits was recorded, which represented a healthy growth over the same period last year. Clearly, as a result of strategic consolidation measures taken last year, the performance showed marked improvement. Once more, the major motor of growth was a stronger product portfolio supported by enhanced training of beauty consultants. The Group also added a new store, bringing the total store number for Taiwan to five as of 30th September 2005.

E-commerce – Sasa.com
Turnover for Sasa.com amounted to HK$24.5 million, representing an increase of 109.0% over the corresponding period of the previous fiscal year. A small profit was recorded. The new platform launched last year and an improved marketing strategy, as well as an expanded product range, helped to increase sales.

During the six months under review, Sasa.com was one of an elite selection of global brands to receive the "Standard of Excellence" under the Shopping Category in the WebAward 2005 organised by the Web Marketing Association of the USA. Only two beauty sites, Sasa.com and Biotherm (USA), were included in the list of awardees. The award recognises the excellence of Sasa.com in its design, ease of use, content, innovation, copywriting, interactivity and use of technology. In addition Sasa.com joined VISA to raise awareness and usage of Verified by Visa (VbV) online secured payment services and build consumer trust of online shopping. As one of the leading online beauty shopping web sites in Asia, Sa Sa is one of the major and earliest adopters of VbV in the region.

Brand management
Sales of private-label and exclusively distributed products increased by 19.2% and contributed 29.1% to the Group's total retail and wholesale sales for the six months ended 30th September 2005. During this period, the Group launched "Sasa" brand make-up products, including colour cosmetics and accessories, in September in Hong Kong, and in October in Macau and Mainland China. The "Sasa" brand offers a range of quality and value products that provide total beauty solutions for the needs of our customers. The products were well received by the market and more such products will be launched in the future.

New international brands secured for exclusive distributorship during the period under review included Bergman, fragrances of Paris Hilton, Ferré, Hummer, Guess and French Connection. In view of the trend towards cosmeceutical products in the global beauty industry, Sa Sa added Bergman, a top brand in this category from the Netherlands, to Asia in August 2005. This followed our launch of the first Australian cosmeceutical brand, Skin Doctors, in Hong Kong and Macau in October 2004.

In addition, we further strengthened our brand marketing activities through increased product launches and road shows. We also launched a comprehensive marketing campaign for Suisse Programme. This included the appointment of a celebrity as the image girl, a TV advert, and a series of print adverts and public relations activities. All of these initiatives helped to boost the brand image and to launch new product lines.

Beauty services
Turnover for beauty services was HK$100.9 million, representing an increase of 5.5% over the corresponding period in the previous fiscal year. During the period, we pursued further integration of beauty services with our retail business. Phillip Wain now provides beauty treatments such as trial facial treatments at our new flagship store in Singapore, and Sasa Beauty+ offers similar services in our new stores in Hong Kong, where treatment rooms are now available.

Phillip Wain
Phillip Wain offers premium beauty and health ladies' clubs that cater for the discerning customers. During the six months ended 30th September 2005, new innovative treatments were introduced including Dibibody Tri-formula Ultimate – Ultrasonic Detox Slimming, Bergman Light Emitted Diode Supreme Facial and Drums Alive exercise classes. As a result, turnover grew by 4.1%.

Sasa Beauty+
Sasa Beauty+ provides all-round cosmetics and beauty services to customers. During the first six months of the fiscal year, it recorded an increase in turnover of 16.5% to HK$12.9 million. A number of new beauty treatments and equipments were launched during the period, including La Colline Cellular White Radiance Intensive Treatment and Face Light Shaping Treatment. Despite the increase in turnover, increasing costs such as rental and marketing expenses led to a small loss for the business.

Awards
During the period under review, Sa Sa continued to add to its track record of excellence in terms of both local and international recognition. Sasa.com was awarded "Standard of Excellence" in the Shopping Category of the WebAward 2005 organised by the Web Marketing Association of the USA. Sasa.com and Biotherm (US) were the only two cosmetics shopping sites to receive such an award among more than 2,100 sites from 33 countries.

In Hong Kong, La Colline shop was the "2005 Service Retailer of the Year (Beauty Products / Cosmetics Category)" of the Mystery Shoppers Programme organised by Hong Kong Retail Management Association for 2005. Sa Sa also received the Outstanding Chain Store award from Hong Kong Business magazine in 2005 and won the Grand Award of Retail Category in Superbrands Award for 2005/06.

Sa Sa won the "Grand Prix for Best Overall Investor Relations – Small/Mid-cap Company" and Chief Financial Officer, Mr Guy Look, was one of the two "Highly Commended" in the "Best Investor Relations Officer – Small/Mid-cap Company" in the annual Investor Relations Hong Kong and Taiwan Awards organized by a leading trade magazine, Investor Relations Magazine in the UK. Chairman and CEO, Mr Simon Kwok, received the "Distinguished Contribution Award for Beauty Industry 2005 (Cosmetic & Retail)" from CIDESCO Section, China of the International CICA Association of Esthetics.

Reflecting our persistent efforts to improve corporate governance, Sa Sa was in the top quartile for corporate governance standards among large-cap and blue-chip companies, according to an annual survey by CLSA and the Asian Corporate Governance Association in 2005.

Outlook

Sa Sa's future business expansion continues to be based on clearly identifiable targets and goals. These ongoing strategic initiatives include:

1. *Continuing to grow in the Hong Kong and Macau market*

   - **Hong Kong and Macau are witnessing further development as tourist destinations in the pan-Asian region.** After the initial surge in arrivals following the relaxation of the Individual Visit Scheme ("the Scheme"), PRC tourism to Hong Kong and Macau is set to grow at a more gradual rate. Although the initial "one-time" effect of PRC cities and regions being added to the Scheme has become less evident, there are still an increasing number of repeat PRC visitors who are attracted by Hong Kong as a shopping paradise that provides good value, high quality and excellent services. Meanwhile, four more PRC cities (Chengdu, Dalian, Shenyang and Jinan) are being included in the Scheme, making 38 cities in all.

     A further positive factor is that Hong Kong is seeing strong growth in tourist arrivals from other countries. We believe that both PRC and overseas tourism to the region will benefit from ongoing Government efforts to stimulate the market. Disneyland is an obvious example, with a gradual increase in tourists to the theme park expected over time. 2006 has also been designated "Discover Hong Kong Year" by the Hong Kong Tourism Board, which will devote substantial efforts to boosting tourism to Hong Kong. In addition, a number of other tourism-related projects are coming on-line in the coming years. These include casino and hotel projects in Macau, tourist attractions such as a new cable car system on Hong Kong's Lantau Island, Macau Fisherman's Wharf, the East Asian Games in Hong Kong (2009), and the Olympic Games in Beijing (2008).

   - **Consumption in Hong Kong is on the rebound.** Following the gradual recovery of the economy, local spending continued to grow in the first half of fiscal year 2005/06. During this period, the year on year growth of monthly retail sales in Hong Kong ranged from 8.6% to 16.7%. Rising interest rates may have some effect on this scenario, but we believe the growth of local consumption will continue.

   - **Sa Sa is in a strong position to capture the increase in both local and tourism spending.** In addition to strengthening staff training and customer service, the Group will continue to launch marketing initiatives that target tourists from the PRC and other countries, as well as local customers. As part of our efforts to reinforce our corporate image and promote the "Sasa" brand, we became the first title sponsor of the Jockey Club's Ladies' Purse Day in October 2005, one of the most popular racing days in Hong Kong. The marketing programme for the sponsorship, which includes outdoor, TV and print advertisements, as well as a series of public relations and joint promotion activities, generated considerable publicity for Sa Sa, its exclusive brands and beauty centres.

   - **Sa Sa is strengthening its position in the competitive landscape amidst keener competition in the market.** We will complete the store expansion plan for fiscal year 2005/06 by adding stores in Wan Chai, Kowloon Bay, Tsz Wan Shan and Tsim Sha Tsui East as well as relocating a store to Fisherman's Wharf in Macau, bringing the total number of stores in Hong Kong and Macau to 52 by March 2006.

     We will also continue to increase competitiveness through building brand awareness, introducing more new products and bolstering promotion efforts.

     As a result of these ongoing initiatives, we believe that we are outpacing our competitors.

   - **Rental increases are exerting pressure on operating margin.** With its extensive retail network, Sa Sa has flexibility and bargaining power for lease renewal and negotiation of new leases. Having increased retail space by approximately one third in Hong Kong and Macau in fiscal year 2005/06, the Group will assess the total retail space, the associated costs and store network in Hong Kong to match available space with business opportunities, which may result in an adjustment in our store portfolio. To alleviate rental pressure, the Group will make efforts to increase sales as well as to enhance the gross profit margin by introducing more exclusive products.

2. *Building growth in overseas markets*

   By successfully leveraging on our expertise and experience in Hong Kong, Sa Sa's business model is being rapidly scaled up in overseas markets. Previous strategic measures have already built a strong platform to facilitate growth in all those markets where we have a presence. We are confident that this growth momentum will continue. In order to maintain high turnover and same store growth, as well as to gain market share, Sa Sa will devote increasing resources to strengthening marketing, our product portfolio and staff skills training.

3. *Expansion in the PRC market*

   Following market acceptance of "Sa Sa" as a strong retail brand promising a broad range of quality and professional beauty products as well as professional and value-added services, we will continue to strive for higher efficiency and effectiveness in our Mainland operation. We will also continue to introduce more exclusive brands and quality products to build to our product portfolio. In November 2005, we opened a new store at Nanjing Road, Shanghai and we aim to open two more stores by March 2006. Overall, our target is to establish the unique image of Sa Sa as representing the best of one-stop cosmetics specialty stores and to launch more than 100 stores in Mainland China within five years.

4. *Enhancing exclusive brand portfolio*

   - **We will continue to broaden the range of our own label products,** with the objective of increasing the sales of own label products and therefore market share. "Sasa" branded products will extend from existing make-up products to skin care and body care products in 2006. We intend to add more own labels such as another skin care product line from Switzerland (with the Mainland as the primary target market) to be launched in 2006.

   - **We will also continue to add quality and up-and-coming brands** in order to enhance our exclusive product portfolio in the region, thereby building customer loyalty and profitability. New exclusive brands secured include Organic Elements from Italy, Lanocrème from New Zealand, and fragrances of Lu Lu Guinness from UK and Gas from Italy. Exclusive distribution rights for Olos from Italy and several fragrances including La Torrente have been extended to the Mainland market. Sa Sa is fully committed to strengthening marketing efforts for our exclusive brands portfolio.

5. *Further integration of beauty services with core retail business*

   Beauty services are complementary to our core cosmetics retail business because they reinforce our overall image as a "beauty specialist" and bolster customer loyalty. For the future, we will focus on adding innovative treatments and equipment. In addition, we will strengthen the synergy of beauty services with our core retail business by launching more joint promotions and cross-selling initiatives in order to increase sales and improve profitability. To this end, we are currently exploring opportunities to expand the scope of our services.

6. *Strengthening operational and management efficiency*

   In order to increase Sa Sa's growth potential and facilitate future development, we will continue to strengthen our operational management and efficiency. The preparations for implementing the SAP's R3 Enterprise Resource Planning system, an advanced comprehensive IT system, are currently at the testing stage and we are aiming for a launch date in early fiscal year 2006/07. We believe that the SAP system, together with various systems upgraded in 2005, will provide strong support to our staff and help us to achieve significant improvements in our cost efficiency, operational and marketing efficiency and therefore our overall performance.

Community services

The Group participates in various community services through direct employee involvement, donations and sponsorship of fundraising activities organised by charitable organisations in Hong Kong and Mainland China. The Group also endorses senior executives' participation in advisory boards of universities and professional associations promoting industry best practices.

Human resources
As at 30th September 2005, the Group had a total of 2,394 employees. Staff costs for the year under review were HK$197.5 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 performance bonus and share options are offered to qualified employees. A performance-based element is included in the annual discretionary bonus for all staff and in share options for supervisory and managerial staff. The Group places strong emphasis on staff training and development in order to realise the potential of our employees. In addition to the graduate trainee programme to build management strength for the Group, various staff development initiatives were implemented during the period through in-house and external training programmes, as well as the provision of financial subsidies for staff's further studies in related fields.

FINANCIAL REVIEW

Capital resources and liquidity
As at 30th September 2005, the Group's total shareholders' funds were HK$854.1 million including reserves of HK$720.8 million. The Group continued to maintain a strong financial position with cash and bank balances of HK$646.3 million. The Group's working capital was HK$619.9 million. Based on the Group's steady cash inflow from operations coupled with its existing cash and bank facilities, the Group has adequate financial resources to fund its future expansion.

During the period, the majority of the Group's cash and bank balances were in Hong Kong or U.S. dollars and deposited in leading banks with maturity dates falling within one year. This is in line with the Group's policy to maintain liquidity of its funds and in response to the increase of deposit rates. The funds will continue to contribute a satisfactory yield to the Group.

Financial position
Subsequent to the payment of final and special dividends, total funds employed (comprising shareholders' funds only) as at 30th September 2005 were HK$854.1 million, which represents a 6.1% decrease over the total funds employed of HK$910.0 million, restated as at 31st March 2005.

The gearing ratio, defined as the ratio of total loans less cash and bank balances to total assets, was nil as at 30th September 2005 and 31st March 2005.

Treasury policies
It is the Group's treasury management policy not to engage in any highly leveraged or speculative derivative products. In this respect, the Group continued to adopt a conservative approach to financial risk management with no significant borrowing during the period. Most of the assets, receipts and payments of the Group are 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 Hong Kong and U.S. dollar foreign exchange exposure by way of forward foreign exchange contracts.

As at 30th September 2005, the Group had HK$102.1 million outstanding forward foreign exchange contracts and was, subject to certain conditions, it was committed to purchasing Euro 10.3 million at an average exchange rate to U.S. dollars of 1.2830 in the coming eight months. The exchange rate for one Euro to U.S. dollar as at 30th September 2005 was 1.2027. As a result, the Group has reserves of Euro position to meet of more than a half year's requirement if the contracts are materialised in full.

Charge on group asset
At 30th September 2005, no Group asset was under charge to a financial institution.

Contingent liabilities
The Group had no material contingent liabilities as at 30th September 2005.

INTERIM DIVIDEND AND SPECIAL DIVIDEND

The Board resolved to declare an interim dividend ("Interim Dividend") of 3.0 HK cents (2004: 3.0 HK cents) per share and a special dividend ("Special Dividend") of 3.0 HK cents (2004: 3.0 HK cents) per share for the six months ended 30th September 2005, payable to shareholders whose names appear on the register of members of the Company ("Register of Members") on 20th December 2005.

The Interim Dividend and Special Dividend will be paid around 29th December 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 19th December 2005 to 20th December 2005, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the Interim Dividend and Special Dividend, all valid documents in respect of 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 16th December 2005.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th September 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the period under review, the Company has complied with all code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the rules governing the listing of securities on the Stock Exchange of Hong Kong Limited, which became applicable to the Company in respect of the period under review, except for the followings:–

(I) CG Code

Code A.2.1 – Chairman and Chief Executive Officer
The code provision A.2.1 of the CG Code stipulated that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Kwok Siu Ming, Simon has been both the chairman and chief executive officer of the Company, his responsibilities were clearly set out in writing and approved by the Board effective on 1st April 2005. Given the Group's current stage of development, the Board considers that vesting the roles of chairman and chief executive officer in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operation. The Board shall nevertheless review the structure from time to time and shall consider the appropriate move to take should suitable circumstance arise.

Code A.4.2 – Rotation of Directors
The code provision A.4.2 provided that all directors appointed to fill casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the articles of association of the Company ("Articles of Association") effective before 25th August 2005, at each annual general meeting, one-third of the directors (other than the managing director or joint managing director) for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third, shall retire from office by rotation. The directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. A retiring director shall retain office until the close of the meeting at which he retires, and shall be eligible for re-election thereat.

To ensure full compliance with the code provision A.4.2, relevant amendments to the Articles of Association were proposed and approved by shareholders of the Company at the 2005 annual general meeting held on 25th August 2005.

Code A.5.4 – Model Code for Securities Transactions of Relevant Employees
The code provision A.5.4 stipulated that the Board should establish written guidelines on no less exacting terms than the model code for securities transaction by directors of listed issuers ("Model Code") for relevant employees in respect of their dealings in the securities of the Company. The Company has established a policy with no less exacting terms than the Model Code for the relevant employees in respect of their dealings in the securities of the Company which was approved and adopted by the Board effective on 1st May 2005.

(II) Model Code
The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all directors, all directors confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions throughout the period.

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

Hong Kong, 30th November 2005

As at the date of this announcement, the Board comprises of the following directors:–

Executive Directors:
Mr. Kwok Siu Ming, Simon
Mrs. Kwok Law Kwai Chun, Eleanor
Mr. Look Guy

Non-executive Director:
Mrs. Lee Look Ngan Kwan, Christina

Independent Non-executive Directors:
Professor Chan Yuk Shee J.P.
Dr. Leung Kwok Fai, Thomas, J.P.
Ms. Tam Wai Chu, Maria, GBS, J.P.

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