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 2006

Highlights

- Group turnover increased by 14.6% to HK$1,340.7 million from HK$1,170.3 million in the corresponding period last year
- The Group's retail and wholesale business recorded turnover of HK$1,235.4 million, representing a 15.5% increase over the first half of the last fiscal year
- Overseas operations recorded encouraging turnover growth
- The Group's profit attributable to equity holders of the Company rose to HK$75.3 million from the HK$67.8 million recorded in the corresponding period last year
- Basic earnings per share were 5.6 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 2006 as follows. The unaudited condensed consolidated financial information has been reviewed with no disagreement by the Audit Committee of the Company and the Company's auditors, PricewaterhouseCoopers, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. The auditors' independent review report will be included in the interim financial information to equity holders.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30th September	
		2006	2005
	Note	***HK$'000***	*HK$'000*
Turnover	*3*	**1,340,694**	1,170,348
Cost of sales		**(733,654)**	(653,085)
Gross profit		**607,040**	517,263
Other gains and revenues		**26,414**	16,609
Employee benefit expenses		**(236,069)**	(197,497)
Depreciation and amortisation		**(38,652)**	(27,912)
Other operating expenses		**(266,639)**	(220,619)
Fair value changes on investment property and buildings		**–**	2,135
Reversal of impairment losses on leasehold land		**–**	10,766
Net exchange gains/(losses)		**1,297**	(20,615)
Profit before income tax	*4*	**93,391**	80,130
Income tax expense	*5*	**(18,082)**	(12,336)
Profit for the period, attributable to equity holders of the Company		**75,309**	67,794
Dividends	*6*	**81,360**	80,232
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in HK cents per share)	*7*		
Basic		**5.6**	5.1
Diluted		**5.5**	5.0

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited 30th September 2006** *HK$'000*	Audited 31st March 2006 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**151,211**	155,012
Leasehold land		**17,677**	17,892
Investment property		**6,000**	6,000
Rental deposits and other assets		**50,293**	54,687
Deferred income tax assets		**15,431**	16,085
		240,612	249,676
Current assets			
Inventories		**490,940**	359,824
Trade receivables	*8*	**30,649**	22,091
Other receivables, deposits and prepayments		**66,884**	43,320
Income tax recoverable		**317**	1,033
Bank deposits over three months to maturity		**124,559**	105,018
Cash and cash equivalents		**392,851**	590,678
		1,106,200	1,121,964
LIABILITIES			
Current liabilities			
Trade and bills payables	*9*	**168,141**	142,987
Other payables and accruals		**95,449**	90,395
Current portion of receipts in advance		**193,452**	188,241
Financial liabilities at fair value through profit or loss		**–**	262
Income tax payable		**14,583**	8,067
		471,625	429,952
Net current assets		**634,575**	692,012
Total assets less current liabilities		**875,187**	941,688
Non-current liabilities			
Receipts in advance		**7,472**	7,159
Retirement benefit obligations		**10,428**	10,059
Deferred income tax liabilities		**3,789**	5,058
Other payables		**5,991**	5,585
		27,680	27,861
Net assets		**847,507**	913,827
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**135,005**	134,711
Reserves		**631,142**	630,724
Proposed dividends		**81,360**	148,392
Total equity		**847,507**	913,827

Notes:

1. **Basis of preparation**

This condensed consolidated interim financial information for the half-year ended 30th September 2006 has been prepared in accordance with HKAS 34, "Interim financial reporting". The interim condensed financial information should be read in conjunction with the annual financial statements for the year ended 31st March 2006.

2. **Accounting policies**

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st March 2006.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31st March 2007.

- Amendment to HKAS 19, "Actuarial gains and losses, group plans and disclosures", effective for annual periods beginning on or after 1st January 2006. The Group decided to retain its former accounting policy regarding the recognition of actuarial gains and losses which is allowed by HKAS 19 Amendment;
- Amendment to HKAS 39, Amendment "The fair value option", effective for annual periods beginning on or after 1st January 2006. This amendment does not have any impact on the classification and valuation of the Group's financial instruments classified as at fair value through profit or loss prior to 1st April 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;
- Amendment to HKAS 21, Amendment "Net investment in a foreign operation", effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39, Amendment "Cash flow hedge accounting of forecast intragroup transactions", effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39 and HKFRS 4, Amendment "Financial guarantee contracts", effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant for the Group;
- HKFRS 6, "Exploration for and evaluation of mineral resources", effective for annual periods beginning on or after 1st January 2006. This standard is not relevant for the Group;
- HK(IFRIC)-Int 4, "Determining whether an arrangement contains a lease", effective for annual periods beginning on or after 1st January 2006. The Group has reviewed its contracts. Some of them are required to be accounted for as leases in accordance with HKAS 17, "Leases". However, these leases are operating leases, and their reclassification has had no impact on the expense recognised in respect of them;
- HK(IFRIC)-Int 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds", effective for annual periods beginning on or after 1st January 2006. This interpretation is not relevant for the Group;
- HK(IFRIC)-Int 6, "Liabilities arising from participating in a specific market – waste electrical and electronic equipment", effective for annual periods beginning on or after 1st December 2005. This interpretation is not relevant for the Group; and
- HK(IFRIC)-Int 7, "Applying the Restatement Approach under HKFRS 29", effective for annual periods beginning on or after 1st March 2006. Management do not expect the interpretation to be relevant for the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the year ending 31st March 2007 and have not been early adopted:

- HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1st May 2006. Management is currently assessing the impact of HK(IFRIC)-Int 8 on the Group's operations;
- HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1st June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assess if embedded derivative should be separated using principles consistent with HK(IFRIC)-Int 9;
- HK(IFRIC)-Int 10, "Interim Financial Reporting and Impairment", effective for annual periods beginning or after 1st November 2006. Management is currently assessing the impact of HK(IFRIC)-Int 10; and
- HKFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1st January 2007. HKAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1st January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1st April 2007.

3. **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. Turnover represents the invoiced sales value of goods and of services supplied to customers.

Segment assets consist primarily of property, plant and equipment, leasehold land, investment property, inventories, receivables and operating cash, and exclude certain corporate assets and tax. Segment liabilities comprise operating liabilities and exclude financial liabilities at fair value through profit or loss and tax. Capital expenditure comprises additions to property, plant and equipment and leasehold land.

(a) Primary reporting format – business segments

(i) The segment results and other segment information are as follows:

	Six months ended 30th September 2006		
	Retail and Wholesale *HK$'000*	**Beauty and health club services** *HK$'000*	**Total** *HK$'000*
Turnover	**1,235,358**	**105,336**	**1,340,694**
Results			
Segment results	**80,723**	**(1,685)**	**79,038**
Interest income			**13,056**
Net exchange gains	**1,203**	**94**	**1,297**
Profit before income tax			**93,391**
Income tax expense			**(18,082)**
Profit for the period			**75,309**
Other information			
Capital expenditure	**31,946**	**3,171**	**35,117**
Depreciation	**31,221**	**7,216**	**38,437**
Amortisation	**215**	**–**	**215**
Provision for slow moving inventories and stock shrinkage	**9,713**	**(87)**	**9,626**

	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 expenses			(12,336)
Profit for the period			67,794
Other information			
Capital expenditure	52,545	2,560	55,105
Depreciation	19,981	7,745	27,726
Amortisation	186	–	186
Provision for slow moving inventories and stock shrinkage	1,802	57	1,859

(ii) The segment assets and liabilities are as follows:

	As at 30th September 2006		
	Retail and Wholesale *HK$'000*	**Beauty and health club services** *HK$'000*	**Total** *HK$'000*
Segment assets	**1,243,339**	**86,975**	**1,330,314**
Unallocated corporate assets			**16,498**
Total assets			**1,346,812**
Segment liabilities	**249,358**	**231,575**	**480,933**
Unallocated corporate liabilities			**18,372**
Total liabilities			**499,305**

	As at 31st March 2006		
	Retail and Wholesale *HK$'000*	Beauty and health club services *HK$'000*	Total *HK$'000*
Segment assets	1,272,747	81,025	1,353,772
Unallocated corporate assets			17,868
Total assets			1,371,640
Segment liabilities	221,338	223,088	444,426
Unallocated corporate liabilities			13,387
Total liabilities			457,813

(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.

(i) The Group's turnover and capital expenditure are as follows:

Turnover is allocated based on the places in which the customers are located.

Capital expenditure, comprises additions to property, plant and equipment and leasehold land, is allocated based on where the assets are located.

	Six months ended 30th September 2006			
	Mainland China *HK$'000*	**Taiwan** *HK$'000*	**South Asia** *HK$'000*	**Total** *HK$'000*
Turnover	**1,162,997**	**56,847**	**120,850**	**1,340,694**
Capital expenditure	**25,652**	**2,989**	**6,476**	**35,117**

	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
Capital expenditure	50,184	2,363	2,558	55,105

(ii) The segment assets are as follows:

Total assets are allocated based on where the assets are located.

	As at 30th September 2006			
	Mainland China ***HK$'000***	**Taiwan** ***HK$'000***	**South Asia** ***HK$'000***	**Total** ***HK$'000***
Segment assets	**1,151,728**	**43,763**	**134,823**	**1,330,314**
Unallocated corporate assets				**16,498**
Total assets				**1,346,812**

	As at 31st March 2006			
	Mainland China *HK$'000*	Taiwan *HK$'000*	South Asia *HK$'000*	Total *HK$'000*
Segment assets	1,189,657	39,274	124,841	1,353,772
Unallocated corporate assets				17,868
Total assets				1,371,640

4. Profit before income tax

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

	Six months ended 30th September	
	2006 ***HK$'000***	2005 *HK$'000*
Crediting		
Net exchange gains	**1,297**	–
Compensation from landlord for early termination of lease agreement	**–**	5,500
Provision for discretionary bonus made in previous years written back	**2,825**	10,327
Charging		
Depreciation of property, plant and equipment	**38,437**	27,726
Amortisation of leasehold land	**215**	186
Operating lease rentals in respect of land and buildings		
– minimum lease payments	**134,654**	108,769
– contingent rent	**2,544**	2,480
Provision for slow moving inventories and stock shrinkage	**9,626**	1,859
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% (2005: 17.5%) on the estimated assessable profits 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 income tax charged to the condensed consolidated income statement represents:

	Six months ended 30th September	
	2006 ***HK$'000***	2005 *HK$'000*
Hong Kong profits tax		
Current	**17,160**	10,781
Overseas taxation		
Current	**1,219**	1,387
Over provision in previous periods	**–**	(675)
Deferred income tax relating to origination and reversal of temporary differences	**(297)**	843
	18,082	12,336

6. Dividends

	Six months ended 30th September	
	2006 ***HK$'000***	2005 *HK$'000*
Interim, proposed – 3.0 HK cents (2005: 3.0 HK cents) per share	**40,680**	40,116
Special, proposed – 3.0 HK cents (2005: 3.0 HK cents) per share	**40,680**	40,116
	81,360	80,232

At a meeting held on 30th November 2006, 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 2007.

7. Earnings per share

(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$75,309,000 (2005: HK$67,794,000).

(b) The calculation of basic earnings per share is based on the weighted average of 1,348,641,566 (2005: 1,325,515,699) shares in issue during the period.

(c) The calculation of diluted earnings per share is based on the weighted average of 1,348,641,566 (2005: 1,325,515,699) shares in issue during the period plus the weighted average of 15,766,137 (2005: 32,059,173) shares deemed to be issued if all outstanding share options granted under the share option scheme of the Company had been exercised.

8. Trade receivables

The Group's turnover are mainly cash and credit card sales. The aging analysis of trade receivables is as follows:

	30th September 2006 ***HK$'000***	31st March 2006 *HK$'000*
Within 1 month	**27,280**	20,352
1 to 3 months	**2,976**	1,639
Over 3 months	**393**	100
	30,649	22,091

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 2006 ***HK$'000***	31st March 2006 *HK$'000*
Within 1 month	**93,720**	76,874
1 to 3 months	**66,025**	44,925
Over 3 months	**8,396**	21,188
	168,141	142,987

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

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30th September 2006, the Group's consolidated turnover amounted to HK$1,340.7 million, representing an increase of 14.6% from HK$1,170.3 million in the corresponding period last year. The Group's consolidated profit attributable to equity holders of the Company was HK$75.3 million, an increase of 11.1% over the first half of last fiscal year. Basic earnings per share amounted to 5.6 HK cents.

The Group's performance reflects the fact that enhanced gross profits, resulting from increased sales of exclusive products, helped offset higher rental and operational costs. This in turn contributed to a higher recurring net profit margin at the operating level in Hong Kong and Macau. Other encouraging developments were the continued high growth rate in turnover of our overseas markets and the improved performance of our beauty services. The costs incurred for entry into the Mainland market increased due to the addition of a second store to our China portfolio.

Retail & Wholesale Business

The Group's retail and wholesale business saw growth in turnover of 15.5%, reaching HK$1,235.4 million. The overall gross profit margin grew to 41.3% as compared to 39.8% in the same period last year. This was due to enhanced product mix and increased sales of exclusive products. Our inventory turnover days were 115 days as at 30th September 2006 as compared to 100 days on 30th September 2005. This in turn was the result, at least in part, of the buffer required for the initial launch of our new Enterprise Resources Planning ("ERP") system by SAP and the teething issues associated with the SAP's auto-replenishment function.

We continued to strengthen our brand building efforts for both "Sa Sa" as an overall recognisable name and for the "beauty specialist" image of Sa Sa in the region.

Hong Kong and Macau

Turnover rose by 12.9% to HK$1,056.1 million for the six months ended 30th September 2006, with same store growth increasing by 2.4%. Growth was recorded in the average value per transaction, which rose by 11.3% to HK$254. This increase reflected the ease of access for PRC tourists visiting Hong Kong. In general, the Group witnessed a change in PRC visitors' travelling patterns, with visitors' trips being dispersed throughout the year instead of being concentrated in peak periods such as the Golden Week holidays. More PRC tourists tended to visit Hong Kong individually instead of joining tour groups.

The gross profit margin of our retail business in Hong Kong and Macau increased on the back of improved sales of exclusive products. This enhanced gross profit margin helped offset the impact of increased rental costs. Retail branding was assisted by a growing number of marketing activities and promotions. These included sponsorship of a new film and the Miss Hong Kong Pageant 2006. During the period under review, the Group opened two new stores and closed one store. As at 30th September 2006, there were 52 Sa Sa stores (including four in Macau), one La Colline specialty store and one Elizabeth Arden counter.

Mainland China

We opened our third store on 28th September 2006 in Cao Jia Du, Shanghai. The Group's first two stores in Shanghai, each comprising 4,000 square feet, are "flagship" stores that are intended to build Sa Sa's image in China. With increased knowledge of local operating conditions, the Group aims to open other stores that have a floor area in the range of 1,000–2,000 square feet. Our third store is about 1,000 square feet.

The Group will continue to focus on professional skin care brands. This strategy will differentiate us from the competition while we add more exclusive beauty brands to our stores. As for the product registration process of exclusive products (an important factor in the Mainland), about 550 SKUs were completed and 200 SKUs are in progress. New exclusive brands launched during this period included Methode Swiss and Beauty Formula. A beauty counter under our exclusive brand, Suisse Programme, was opened in Seibu department store in Chengdu in the six months under review, and the counter sales have been satisfactory. The Group aims to increase the distribution channels for its exclusive brands by setting up beauty counters in department stores in addition to selling brands in Sa Sa stores.

Singapore and Malaysia

Our core business strategy for the Singapore and Malaysia markets remains the same: to gain market share through an increase in sales and to build our network to better serve Sa Sa's customers and beauty brands. Turnover for the Singapore market rose by 40.2% to HK$58.9 million and that of the Malaysia market by 19.0% to HK$28.7 million. Same store growth in Singapore grew 6.1% while that of Malaysia was 12.5%.

In Singapore, the Group achieved higher sales through strengthened marketing efforts and the addition of new stores. Two new stores were opened, bringing the total number of stores to 12 as at 30th September 2006. In Malaysia, our performance continued to improve; gross profit margin rose on the back of increased productivity and enhanced sales of exclusive products. Three new stores were added, making a total of 13 as at 30th September 2006.

Taiwan

Turnover in the Group's Taiwan business increased by 47.4% during the first six months of the fiscal year. Same store growth decreased by 4.3% and a small loss was recorded. Our performance was affected by a credit crunch in local banks that began at the beginning of the year and by political demonstrations in September. The Group opened two new stores and closed one, bringing the total number of stores in Taiwan to nine as at 30th September 2006.

E-commerce – Sasa.com

Turnover for Sasa.com amounted to HK$27.9 million, representing an increase of 13.7% over the corresponding period of the previous fiscal year. A small profit was recorded. The gross profit margin also improved. Increased sales reflected an expanded product range. A realignment of the web site is now underway to enhance usability and sales productivity. The number of unique visitors reached more than 400,000 per month, an increase of 78% over the same period last year.

Brand Management

Sales of our own brands and exclusively distributed products increased by 22.0% and contributed 31.7% to the Group's total retail and wholesale sales for the six months ended 30th September 2006. During this period, new brands secured for exclusive distributorship included Natio from Australia, fragrance of Krizia and Sergio Tacchini. Efforts were made to broaden the product range and enhance the product portfolio. Emphasis was put on product development while a growing number of new products were introduced to the existing product lines and new lines were added to our own brands. The Group strengthened marketing activities and various new product launches were conducted during the period.

Beauty Services

Turnover for beauty services was HK$105.3 million, representing an increase of 4.4% over the corresponding period in the previous fiscal year. There was an improvement on last year's performance as well as on the contribution of beauty services to the Group. Marketing efforts were strengthened by introducing new marketing drives. The number of members also increased. New treatments introduced during the period included Russian Slim Double-Act Therapy, Suisse Programme Gigawhite Facial and Yoga Jam.

Strengthening the IT Infrastructure and Operational Systems

The Group launched SAP's R3 ERP system in July 2006 as scheduled. Despite teething issues during the implementation period, the launch was a success. The integrated system adopts best practices for our business operations and has considerably enhanced work flow and our information technology infrastructure.

SAP's ERP system provides real time management reporting on sales, inventory and financial information. It also allows for in-depth profitability analyses on business units and products, accelerates the process for financial reporting and enables better control, forecasting and budgeting.

During the implementation period, the initial set-up involved massive precise data entry work that required additional human resources input. Since the SAP system is a manufacturing focused solution, some of the retail specific features are still missing. To optimise the strategic value of the system after launch, further customisation and enhancement as well as training are required.

Awards

Sa Sa is the largest cosmetics specialty store in Asia Pacific region. The Group's retail chain was the only cosmetics chain store in the Top 10 Health and Beauty Stores in Asia Pacific region ranked by Retail Asia magazine in collaboration with Euromonitor and KPMG in its 2006 Retail Asia-Pacific Top 500 Awards.

The Group received the Prime Award for Corporate Social Responsibility 2006 given by Prime Magazine in Hong Kong in recognition of the exemplary corporate citizenship Sa Sa had demonstrated over recent years. The Group continues to participate in various community services through direct employee involvement, donations and sponsorship of fundraising activities organised by charitable organisations in both Hong Kong and Mainland China. The Group supports senior executives' participation in the advisory boards of universities and in professional associations promoting industry best practices.

Outlook

As opportunities arise from the continuous arrival of PRC tourists and the improvement in the local economy, the Group will strive to gain market share in Hong Kong and Macau. We will consolidate our retail space to optimise the performance of existing stores in Hong Kong and Macau.

Our strategic initiatives to strengthen brand management and marketing as well as to improve operational efficiency throughout the region are progressing. We are cautiously optimistic about the growth of our retail business for the rest of the fiscal year.

In addition to network expansion in the Mainland market through the opening of Sa Sa cosmetics stores, we are negotiating with other department stores in order to open beauty counters under our exclusive brands. In the meantime, we are laying the foundation for our next stage of growth. This includes the expansion of our exclusive product range and the strengthening of our operational management. Leveraging on our competitive edge, we aim to drive further business expansion in the region. We remain confident that we will achieve our store expansion plan by 2011 and reach our target of more than 240 stores in the region.

Human Resources

As at 30th September 2006, the Group had a total of 2,639 employees. Staff costs for the period under review were HK$236.1 million. To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. Performance bonus and share options are then offered to qualified employees. A performance-based element is included in the annual discretionary bonus for all staff as well as in share options for supervisory and managerial staff. The Group places strong emphasis on staff training and development in order to realise the full potential of our employees. In addition to supporting the graduate trainee programme, various staff development initiatives were implemented during the year through in-house and external training programmes. Financial subsidies for further studies in related fields were also provided.

FINANCIAL REVIEW

Capital Resources and Liquidity

As at 30th September 2006, the Group's total equity funds were HK$847.5 million including reserves of HK$712.5 million. The Group continued to maintain a strong financial position with cash and bank balances of HK$517.4 million. The Group's working capital was HK$634.6 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.

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 continue to contribute a stable yield to the Group.

Financial Position

Subsequent to the payment of final and special dividends, total funds employed (representing total equity) as at 30th September 2006 were HK$847.5 million, which represented a 7.3% decrease over the total funds employed of HK$913.8 million as at 31st March 2006.

The gearing ratio, defined as the ratio of total loans less cash and bank balances to total assets, was nil as at 30th September 2006 and 31st March 2006.

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 denominated either in Hong Kong or U.S. dollars. Effective from 1st April 2006, facing the volatility of foreign exchange market and the potential downside exposure arisen from the forward foreign exchange contracts, the Group minimises its non U.S. dollar foreign exchange exposure by way of hedging against order at spot and maintain no long position. The hedging policies are reviewed by the Group regularly.

Charge on Group Asset

As at 30th September 2006, no Group asset was under charge to a financial institution.

Contingent Liabilities

The Group had no significant contingent liability as at 30th September 2006.

Capital Commitment

As at 30th September 2006, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$56.1 million.

INTERIM DIVIDEND AND SPECIAL DIVIDEND

The Board resolved to declare the Interim Dividend of 3.0 HK cents (2005: 3.0 HK cents) per share and the Special Dividend of 3.0 HK cents (2005: 3.0 HK cents) per share for the six months ended 30th September 2006, payable to shareholders whose names appear on the register of members of the Company ("Register of Members") on 19th December 2006.

The Interim Dividend and Special Dividend will be paid around 28th December 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 18th December 2006 to 19th December 2006, 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, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 15th December 2006.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th September 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

(I) CG Code

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 ("Listing Rules") governing the listing of securities on the Stock Exchange of Hong Kong Limited ("Stock Exchange") which became applicable to the Company in respect of the period under review, except for the followings:

Code A.2.1 – Chairman and Chief Executive Officer ("CEO")

The code provision A.2.1 of the CG Code stipulated that the roles of chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

Mr. Kwok Siu Ming, Simon has been both the chairman and CEO of the Company whose 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 CEO 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 it will consider the appropriate move to take should suitable circumstance arise.

(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 for securities transaction by directors of listed companies ("Model Code") in Appendix 10 of the Listing Rules. 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.

INTERIM REPORT

The Company's 2006/2007 interim report containing all the information required by the Listing Rules will be despatched to shareholders and made available on the website of the Company (www.sasa.com) and the Stock Exchange in due course.

On behalf of the Board, I would like to extend my thanks and appreciation to all our staff for their hard work and commitment and to all of our customers, suppliers and shareholders for their continued support.

By Order of the Board
Kwok Siu Ming, Simon
Chairman and CEO

Hong Kong, 30th November 2006

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

Executive Directors:
Mr. Kwok Siu Ming, Simon *(Chairman and CEO)*
Mrs. Kwok Law Kwai Chun, Eleanor *(Vice-chairman)*
Mr. Look Guy *(Chief Financial Officer)*

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."