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)

Interim Results for the six months ended 30 September 2014 Dividends and Closure of Books

Highlights

- The Group's turnover increased by 8.4% from HK$3,899.1 million to HK$4,226.0 million
- Retail sales in Hong Kong and Macau increased by 10.2% from HK$3,073.8 million to HK$3,386.1 million
- The Group's profit for the period was HK$339.8 million, a decrease of 4.9% from HK$357.4 million
- Basic earnings per share were 11.9 HK cents as compared to 12.6 HK cents for the same period last year
- Interim dividend of 5.0 HK cents per share and special dividend of 4.0 HK cents per share, totaling 9.0 HK cents
- The Group rationalized its retail network from 280 to 279, a net increase of two "Sasa" stores and a net decrease of three single-brand counters
- Sa Sa was included as a *constituent member of "Hang Seng Corporate Sustainability Benchmark Index"* for the fourth consecutive year since 2011, and was also named one of the "*Most Popular Retailers in Hong Kong"* in the "2014 Most Popular QTS Merchant Award (Online Voting)" organized by the Quality Tourism Services Association

The Board of Directors of Sa Sa International Holdings Limited has pleasure in presenting the unaudited condensed consolidated interim financial information of the Company and its subsidiaries ("Group") for the six months ended 30 September 2014. The unaudited condensed consolidated interim financial information has been reviewed by the Audit Committee of the Company and the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The report on review of interim financial information will be included in the interim report for distribution to shareholders.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

		Unaudited Six months ended 30 September	
	Note	**2014** **HK$'000**	2013 HK$'000
Turnover	4	**4,226,004**	3,899,125
Cost of sales	6	**(2,339,129)**	(2,068,384)
Gross profit		**1,886,875**	1,830,741
Other income	5	**58,752**	45,169
Selling and distribution costs	6	**(1,358,107)**	(1,288,060)
Administrative expenses	6	**(184,183)**	(167,618)
Other (losses)/gains - net		**(774)**	4,010
Operating profit		**402,563**	424,242
Finance income		**10,759**	5,540
Finance costs		**(394)**	-
Finance income - net		**10,365**	5,540
Profit before income tax		**412,928**	429,782
Income tax expenses	7	**(73,166)**	(72,402)
Profit for the period		**339,762**	357,380
Earnings per share (expressed in HK cents per share)	8		
Basic		**11.9**	12.6
Diluted		**11.9**	12.6
Dividends	9	**256,013**	255,294

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 September	
	2014	2013
	HK$'000	HK$'000
Profit for the period	**339,762**	357,380
Other comprehensive loss		
<u>Items that may be reclassified to profit or loss</u>		
Cash flow hedges, net of tax	**(830)**	880
Currency translation differences of foreign subsidiaries recorded in exchange reserve	**(2,398)**	(6,103)
Other comprehensive loss for the period, net of tax	**(3,228)**	(5,223)
Total comprehensive income for the period	**336,534**	352,157

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited 30 September 2014 HK$'000**	Audited 31 March 2014 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**373,103**	405,436
Rental deposits, prepayments and other assets		**215,988**	214,652
Deferred tax assets		**12,152**	4,406
		601,243	624,494
Current assets			
Inventories		**1,601,698**	1,373,213
Trade receivables	10	**48,147**	52,118
Other receivables, deposits and prepayments		**168,427**	198,262
Time deposits		**398,082**	570,560
Cash and cash equivalents		**582,684**	418,780
		2,799,038	2,612,933
LIABILITIES			
Current liabilities			
Trade payables	11	**522,719**	391,574
Other payables and accruals		**336,383**	301,816
Income tax payable		**149,653**	83,889
Borrowings	12	**80,000**	80,000
		1,088,755	857,279
Net current assets		**1,710,283**	1,755,654
Total assets less current liabilities		**2,311,526**	2,380,148
Non-current liabilities			
Retirement benefit obligations		**4,491**	5,725
Deferred tax liabilities		**-**	293
Other payables		**53,045**	49,001
		57,536	55,019
Net assets		**2,253,990**	2,325,129
EQUITY			
Capital and reserves			
Share capital		**284,455**	284,306
Reserves		**1,969,535**	2,040,823
Total equity		**2,253,990**	2,325,129

Notes:

1. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 September 2014 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2014, which has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2014, as described in those annual financial statements.

Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings.

a) Early adoption of amended standards where early adoption is permitted

- HKFRS 10 and HKAS 28 (Amendment), "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in HKFRS 10 and those in HKAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

  The early adoption of the HKFRS 10 and HKAS 28 (Amendment) does not have any impact to the Group as the Group does not have any associate or joint venture.

- HKFRS 11 (Amendment), "Accounting for Acquisitions of Interests in Joint Operation" (effective for annual periods beginning on or after 1 January 2016). The amendment requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a "business" (as defined in HKFRS 3, "Business Combinations").

  All other principles of business combination accounting apply unless they conflict with HKFRS 11.

  The amendment is applicable to both the acquisition of the initial interest and a further interest in a joint operation. The previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation with joint control maintained.

  The early adoption of HKFRS 11 (Amendment) does not have any impact to the Group as the Group does not have any joint operation.

2. Accounting policies (continued)

a) Early adoption of amended standards where early adoption is permitted (continued)

- HKAS 16 and HKAS 38 (Amendment), "Clarification of Acceptable Methods of Depreciation and Amortization" (effective for annual periods beginning on or after 1 January 2016). The amendments clarify when a method of depreciation or amortization based on revenue may be appropriate. The amendment to HKAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate.

  The amendment to HKAS 38 establishes a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances:

  - where the intangible asset is expressed as a measure of revenue; or
  - where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

  The early adoption of the Amendments to HKAS16 and HKAS 38 does not have any impact to the Group as the Group does not base on revenue as a method of depreciation or amortization.

- HKAS 16 and HKAS 41 (Amendment), "Agriculture: Bearer Plants" (effective for annual periods beginning on or after 1 January 2016). The amendments change the financial reporting for bearer plants. The amendments include bearer plants within the scope of HKAS 16, instead of HKAS 41. The produce growing on bearer plants will remain within the scope of HKAS 41.

  The early adoption of the HKAS 16 and HKAS 41 (Amendment) does not have any impact to the Group as the Group does not involve in any agricultural activities nor own any bearer plants.

- HKAS 27 (Amendment), "Equity Method in Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2016). The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. An entity can now account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

  - at cost; or
  - in accordance with HKFRS 9; or
  - using the equity method as described in HKAS 28

  The early adoption of the HKAS 27 (Amendment) does not have any impact to the Group as the Group is currently accounted for its investments in subsidiaries at cost in its separate financial statements.

- Annual Improvement to HKFRSs, 2012–2014 cycle (effective for annual periods beginning on or after 1 January 2016). It clarifies some definitions and disclosure requirement on some standards. The early adoption of Annual Improvement to HKFRSs, 2012–2014 cycle does not have any material impact to the Group as the Group has already followed these clarifications.

2. Accounting policies (continued)

b) The following new standards have been issued but are not effective for the financial year beginning 1 April 2014 and have not been early adopted

- HKFRS 9, "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018)

- HKFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2017)

3. Estimates

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation were the same as those that applied to the consolidated financial statements for the year ended 31 March 2014, with the exception of changes in estimates that are required in determining the provision for deferred revenue on customer loyalty programme.

At 30 September 2014, deferred revenue for customer loyalty programme amounted to HK$21,269,000 (2013: HK$36,607,000). The amount of deferred revenue recognized in each period fluctuates according to various factors including changes in estimated redemption rates and fair values of the redemption gifts.

The actual experience and the level of these deductions to revenue may deviate from the estimates. The Group reviews its estimates every twelve months and may adjust them in a subsequent period by referencing to the actual values experienced in prior periods and in accordance with the applicable commercial changes in the details of the customer loyalty programme.

4. Segment information

Executive directors of the Group review the internal reporting of the Group in order to assess performance and allocate resources. Executive directors consider the business principally from a geographic perspective and assess the performance of the geographic segments based on a measure of segments results. Business reportable segments identified are Hong Kong & Macau, Mainland China and All other segments. All other segments refer to segments results from markets in Singapore, Malaysia, Taiwan and e-commerce.

The Group is principally engaged in the retailing and wholesaling of cosmetic products. Turnover represents the invoiced sales value of goods supplied to customers.

Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash and exclude tax. Capital expenditure comprises additions to property, plant and equipment.

4. Segment information (continued)

	Six months ended 30 September 2014			
	Hong Kong & Macau HK$'000	**Mainland China HK$'000**	**All other segments HK$'000**	**Total HK$'000**
Turnover	**3,433,323**	**165,958**	**626,723**	**4,226,004**
Segment results	**371,920**	**(22,114)**	**(10,044)**	**339,762**
Other information				
Capital expenditure	**32,890**	**9,571**	**16,029**	**58,490**
Finance income	**8,924**	**390**	**1,445**	**10,759**
Finance costs	**394**	**-**	**-**	**394**
Income tax expenses	**69,737**	**-**	**3,429**	**73,166**
Depreciation	**54,087**	**9,389**	**20,326**	**83,802**

	Six months ended 30 September 2013			
	Hong Kong & Macau HK$'000	Mainland China HK$'000	All other segments HK$'000	Total HK$'000
Turnover	3,128,169	167,186	603,770	3,899,125
Segment results	374,820	(27,155)	9,715	357,380
Other information				
Capital expenditure	66,655	8,220	14,024	88,899
Finance income	3,948	178	1,414	5,540
Income tax expenses	65,740	-	6,662	72,402
Depreciation	52,573	17,912	18,648	89,133

4. Segment information (continued)

	Hong Kong & Macau HK$'000	Mainland China HK$'000	All other segments HK$'000	Total HK$'000
At 30 September 2014				
Non-current assets	**465,890**	**30,504**	**92,697**	**589,091**
Current assets	**2,134,588**	**181,427**	**483,023**	**2,799,038**
Deferred tax assets				**12,152**
				3,400,281
At 31 March 2014				
Non-current assets	487,070	32,212	100,806	620,088
Current assets	1,966,361	204,958	441,614	2,612,933
Deferred tax assets				4,406
				3,237,427

5. Other income

	Six months ended 30 September	
	2014	2013
	HK$'000	HK$'000
Slide display rental income	**31,029**	31,215
Sub-lease income	**27,723**	13,954
	58,752	45,169

6. Expenses by nature

	Six months ended 30 September	
	2014	2013
	HK$'000	HK$'000
Cost of inventories sold	**2,314,403**	2,045,197
Employee benefit expenses (including directors' emoluments)	**559,845**	556,034
Operating lease rentals in respect of land and buildings		
- minimum lease payments	**461,919**	423,634
- contingent rent	**31,019**	28,926
Depreciation of property, plant and equipment	**83,802**	89,133
Advertising and promotion expenses	**76,382**	69,833
Building management fees, government rent and rates	**42,254**	38,785
Utilities and telecom	**35,591**	33,764
Provision for slow moving inventories and stock shrinkage	**24,726**	23,187
Sub-lease expenses	**28,280**	21,593
Repair and maintenance	**17,752**	16,046
Donations	**3,247**	2,221
Impairment and write-off of property, plant and equipment	**6,923**	1,777
Auditors' remuneration		
- audit services	**1,787**	1,752
- non-audit services	**1,637**	432
Others	**191,852**	171,748
	3,881,419	3,524,062
Representing:		
Cost of sales	**2,339,129**	2,068,384
Selling and distribution costs	**1,358,107**	1,288,060
Administrative expenses	**184,183**	167,618
	3,881,419	3,524,062

7. Income tax expenses

Hong Kong profits tax has been provided for at the rate of 16.5% (2013: 16.5%) 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 interim income statement represents:

	Six months ended 30 September	
	2014	2013
	HK$'000	HK$'000
Hong Kong profits tax - current	**64,858**	65,489
Overseas taxation - current	**16,351**	14,189
Deferred tax relating to origination and reversal of temporary differences	**(8,043)**	(7,276)
	73,166	72,402

8. Earnings per share

(a) Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue less the total number of shares held under the Share Award Scheme during the period.

	Six months ended 30 September	
	2014	2013
	HK$'000	HK$'000
Profit attributable to owners of the Company	**339,762**	357,380
Weighted average number of ordinary shares in issue less shares held under the Share Award Scheme during the period (thousands)	**2,843,612**	2,829,047

8. Earnings per share (continued)

(b) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: share options and shares held under the Share Award Scheme. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. For shares held under the Share Award Scheme, awarded shares granted to the employees has included in the number of shares.

	Six months ended 30 September	
	2014	2013
	HK$'000	HK$'000
Profit attributable to owners of the Company	**339,762**	357,380
Weighted average number of ordinary shares in issue less shares held under the Share Award Scheme during the period (thousands)	**2,843,612**	2,829,047
Adjustment for share options and awarded shares (thousands)	**6,328**	17,225
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,849,940**	2,846,272

9. Dividends

	Six months ended 30 September	
	2014	2013
	HK$'000	HK$'000
Interim, declared – 5.0 HK cents (2013: 4.5 HK cents) per share	**142,229**	127,647
Special, declared – 4.0 HK cents (2013: 4.5 HK cents) per share	**113,784**	127,647
	256,013	255,294

At a meeting held on 18 November 2014, the Directors declared an interim dividend of 5.0 HK cents and a special dividend of 4.0 HK cents per share. These declared dividends are not reflected as dividend payable in this condensed consolidated interim financial information, but will be recognised in shareholders' equity in the year ending 31 March 2015.

10. Trade receivables

The Group's turnover comprises mainly cash sales and credit card sales. Certain wholesale customers are granted credit terms ranging from 7 to 90 days. The ageing analysis of trade receivables is as follows:

	30 September 2014	31 March 2014
	HK$'000	HK$'000
Within 1 month	**46,265**	49,507
1 to 3 months	**1,847**	2,485
Over 3 months	**35**	126
	48,147	52,118

The carrying amounts of trade receivables approximate their fair values.

11. Trade payables

The ageing analysis of trade payables is as follows:

	30 September 2014	31 March 2014
	HK$'000	HK$'000
Within 1 month	**355,127**	278,721
1 to 3 months	**144,751**	88,361
Over 3 months	**22,841**	24,492
	522,719	391,574

The carrying amounts of trade payables approximate their fair values.

12. Borrowings

	30 September 2014	31 March 2014
	HK$'000	HK$'000
Bank borrowings repayable within 1 year	**80,000**	80,000

The carrying amounts of the bank borrowings are denominated in Hong Kong dollar and approximated their fair values.

The weighted average interest rate of bank borrowings is 1.0% per annum (31 March 2014: 1.0%).

As at 30 September and 31 March 2014, short term bank borrowings of a subsidiary of the Company are secured by a corporate guarantee given by the Company.

MANAGEMENT DISCUSSION & ANALYSIS

Interim Results

For the six months ended 30 September 2014 ("period"), the Group's turnover amounted to HK$4,226.0 million, representing an increase of 8.4% from HK$3,899.1 million for the six months ended 30 September 2013 ("previous period"). The Group's performance benefited from the continuing steady performance of our core market, Hong Kong and Macau. Retail sales in Hong Kong and Macau increased by 10.2% from HK$3,073.8 million to HK$3,386.1 million. The Group's gross profit margin decreased from 47.0% to 44.6%.

The Group's profit for the period was HK$339.8 million, representing a decrease of 4.9% from HK$357.4 million for the previous period. Basic earnings per share amounted to 11.9 HK cents as compared to 12.6 HK cents for the previous period. The Board declared an interim dividend of 5.0 HK cents (2013: 4.5 HK cents) per share and a special dividend of 4.0 HK cents (2013: 4.5 HK cents) per share, totaling 9.0 HK cents. The Group rationalised its retail network from 280 to 279, a net increase of two "Sasa" stores and a net decrease of three single-brand counters.

During the period, Sa Sa was nominated for the fourth successive year as a constituent member of the "Hang Seng Corporate Sustainability Benchmark Index", and was also named one of the "Most Popular Retailers in Hong Kong" in the "2014 Most Popular QTS Merchant Award (Online Voting)" organised by the Quality Tourism Services Association.

Market Overview

In the first half of 2014, external conditions in the developed economies remained generally slow. While the Eurozone economy continued to show structural weakness, the rate of recovery in the United States was limited by the fiscal drag. Nevertheless, the Hong Kong economy continued to grow at a rate of 2.2% and the resilient domestic sector as well as the sustained growth in inbound tourism continued to support the cosmetics markets.

In the first nine months of 2014, Hong Kong retail sales dropped by 0.4% while Mainland tourist arrivals increased by 15.2% on a year-on-year basis. The growth rate of day return tourists was 17.9% while that of overnight tourist arrivals increased by 11.5%.

There were still other positives for the retail sector. In the first nine months of 2014, although total retail sales dropped slightly by 0.4%, medicines and cosmetics retail sales rose 10.0%. The private retail rental index increased by 3.8% and the average salary per person in the retail trade rose 4.5% in the period April to June 2014. This bodes well for cosmetic retailers when competing for retail space and staff.

In China, total retail sales climbed above 12.0%, retail sales of cosmetics grew 10.8% during the first nine months of 2014, and overall GDP growth was 7.4% during the first half of 2014, indicating that the Chinese economy remains on a path of steady and sustainable growth. In Malaysia, firm domestic demand continued to support growth amid weaker external stimulus. GDP growth was 6.4% and total retail sales increased by 11.1% in April to June 2014. In Singapore, GDP and medical goods and toiletries sales' growth showed slight improvement of 2.4% and 3.7% respectively in April to June 2014. Taiwan's economy's growth rate increased to 3.7% during April to June 2014 while retail sales growth of pharmaceutical and medical goods and cosmetics reached a healthy 3.6% in the first nine months of 2014.

Operations Review

Retail and Wholesale Business

Hong Kong and Macau

Turnover in Hong Kong and Macau increased 9.8% to HK$3,433.3 million, with same store sales and same store number of transactions rising 6.9% and 7.2% in the period respectively. The total average sales value per ticket remained flat, which was attributable to a lower average spending from Mainland customers who have weaker spending power as well as a 5.7% increase in spending from local customers. Profit after tax declined from HK$374.8 million to HK$371.9 million.

The Group's retail sales in Hong Kong for the period grew albeit at a slower pace than in the corresponding period last year. This performance was driven by an increase in the total number of transactions by Mainland tourists, which in turn reflected the steady 15.2% increase in Mainland tourist arrivals.

However, there was a 6.7% decrease in average ticket size of Mainland customers, which was attributable to the faster growth of tourists originating from lower tier cities in China with less spending power as well as the increasing demand for lower price point products (for example, Korean products) and the central government's anti-corruption drive. In addition, same day visitor arrivals have grown at a faster rate than overnight ones while these visitors tend to spend less per transaction. This has contributed to a lower ticket size for Mainland customers.

Profitability was restrained due to gross margin pressures. Gross profit margins dropped by 2.4 percentage points. This performance was due to the need to sustain high growth in a slower market, which in turn led to ongoing promotions and discounting to stimulate volume. In order to further strengthen our competitiveness in product offerings, the Group adjusted to a higher non-House Brand mix in some popular product categories, for instance, in Korean products. However, broadening House Brand products remains our long-term goal. Sales of House Brand products rose by 7.3%.

The margin pressure arisen by these measures were partially offset by effective operating cost controls. Rental to sales remained flat. Although rental reversion was still subject to increments, the Group continued to rationalise the network in a strategic and disciplined manner, taking into account market needs and cost considerations, in order to capture potential in both tourist and non-tourist areas.

There was a net decrease of one "Sasa" store during the period. As at 30 September 2014, there were 105 "Sasa" stores (including eight in Macau), one Suisse Programme specialty store and two La Colline specialty stores.

Mainland China

Overall turnover for our Mainland China operations decreased by 0.9% in local currency terms to HK$166.0 million, while same store sales in local currency decreased 3.5% for the period. The loss for the period amounted to HK$22.1 million.

The Group continued to roll out our boutique stores in the first half of the year, which resulted in relatively steady profitability and contributions. However, due to a change of importer and the performance of logistics support, our overall performance was affected by a general tendency to be out of stock on own-labels, which in turn resulted in loss of sales and lowering of the gross profit margin.

During the period, the Group opened more stores in Southern China where we have stronger brand awareness and better support from landlords. This has resulted in improved store performance.

As at 30 September 2014, the Group had a presence in 32 cities across 16 provinces in Mainland China with 61 "Sasa" stores and three Suisse Programme counters in five regional clusters, seven new "Sasa" store openings and seven closures. Three Suisse Programme counters were also closed.

Regional

The Group has appointed a Senior Vice-President to head our markets in Singapore, Malaysia and Taiwan. This very positive move signifies the vision of our senior management in this sector. Strengthening management resources to support regional business is good for the long term, although there may be some temporary impact on short-term performance.

Singapore
During the period, the turnover for our Singapore operations was HK$123.3 million, a slight decrease of 1.2% in local currency terms over the previous period.

Although more aggressive atrium sales were recorded for August and September 2014, there was a decrease in same store sales of 7.0% due to substantial increases in overall Singapore retail space over the last two years. These resulted in a significant dilution of sales in existing stores. Other factors included changes in market environment (such as adjustments of store mix at shopping malls), a redirection of land use and changes to public transportation.

Another challenge was filling vacancies for frontline staff as well as manpower constraints due to tightened foreign worker quotas. High vacancy rates and high staff turnover adversely affected our store productivity.

As at 30 September 2014, the "Sasa" store network in Singapore remained unchanged at 22 stores.

Malaysia
The turnover for our Malaysia operations was HK$168.4 million, an increase of 4.4% in local currency terms over the previous period. Same store sales decreased 0.4% in local currency.

Our retail sales growth sustained due to the Group's strong retail network and effective marketing campaigns. However, changes in our management team adversely impacted store productivity and restrained sales and profit growth during the transitional period.

As at 30 September 2014, there were 55 "Sasa" stores in Malaysia.

Taiwan
Turnover in the Group's Taiwan business increased by 8.2% in local currency terms to HK$139.1 million during the period, and same store sales rose 4.1% in local currency.

Despite local consumption sentiment remaining weak, our sales was strategically boosted by the enhanced House Brand product mix and lower priced product offerings, which were aimed at increasing traffic and driving sales through cross-selling.

As at 30 September 2014, there were 30 "Sasa" stores in Taiwan with a net increase of one store.

E-commerce – sasa.com
Turnover for sasa.com amounted to HK$195.9 million, representing an increase of 5.5% over the previous period.

As a result of the shift of our focus in the Mainland China market last year, sales from Mainland China continued to register faster growth. However, this performance was partly offset by a decrease in sales to other markets such as Australia and the United States. Sales in the Mainland China market were boosted by flash sales and linked sales; enhanced marketing capability and channel advertisement optimisation (social buys plus word of mouth); and localised payment gateways. However, profit was restrained due to increased investments and advertising and promotion expenses, such as search engine and display advertisements.

Brand Management

The rising trend of House Brand mix was reversed in the first half of the fiscal year. The Group's sales of House Brand, including own-label and exclusively distributed products, increased steadily by 6.0%. However, the House Brand mix decreased to 43.3% of the Group's total retail sales due to the curtailed growth of agent products. The relative inflexibility in the pricing of these products in a price competitive environment curtailed the growth of this product source and lowered its sales mix. In addition, we deliberately broadened our product offerings, especially highly popular but lower margin products, to enhance product competitiveness and attract traffic in a slower market.

Although Korean skincare and cosmetic products still prevailed, we sought to cooperate more closely with Korean principals to better realise the potential of their brands.

Outlook

The coming year will undoubtedly be challenging because of the growth of political unrest in Hong Kong, a relatively weak global economy and pricing competition adding pressure in a slower market.

In response to the pressures, the Group's long-term goal is to increase the contribution from markets outside Hong Kong and from e-commerce. We will allocate more resources to driving both turnover and profit contribution from all existing markets outside of Hong Kong, including our online business.

The Group will make further efforts to strengthen our own labels, support our brands with storyline and marketing investments and improve the strength of our product offerings. In addition, we will target gaps in our product offering, identify consumers' preferences for new products as well as their ever-changing requirements in regard to product functions, and we will offer appropriate products to satisfy these demands.

Hong Kong and Macau

As a result of the ongoing occupy movement in Hong Kong, FY2014/15 quarter-to-date (i.e. period up to 16 November 2014) retail sales growth of Hong Kong and Macau has slowed to 0.4%* year-on-year (FY2013/14 third quarter: +18.9%*) while same store sales dropped by 2.4%* year-on-year (FY2013/14 third quarter: +15.8%*).

* *Exclude adjustments according to Hong Kong International Financial Reporting Interpretation Committee – Interpretation 13 on the bonus points scheme.*

The cosmetics market in Hong Kong faces increasing headwinds in the near term due to the slowdown in Mainland China tourist arrivals and the weaker spending of those arrivals. There is increasing competition to attract Mainland China tourists from other countries in the region such as Korea and Taiwan, or exotic destinations such as Hainan Island. The more affluent travellers from tier-1 and tier-2 cities are increasingly choosing destinations other than Hong Kong, to which they have possibly visited several times. In addition, tourist arrivals' growth in face of political instability in Hong Kong may be affected by the central government or individual consumer decisions. Margin pressures continue to rise due to the need to drive growth to contain cost inflation.

However, easing rental pressure means there is less need to drive sales through price reduction to contain our cost structure. We are still cautiously optimistic about the longer term growth outlook of Hong Kong retail sales because more and more Mainland China residents will have higher disposable income, especially those from lower tier cities. Moreover, the integration of Hong Kong into Mainland China will be enhanced by shortened travel times on improved transportation links, such as the high-speed rail link and the Hong Kong-Zhuhai-Macau bridge.

The Group believes that our cost flexibility should help to mitigate the impact of less positive factors on our sales. For example, in our network rationalisation, we are closing some stores in tourist districts where new leases were signed up during a stronger retail environment in anticipation of losing old leases that were about to expire. Because of slower growth in those areas that rely on overnight Mainland China tourists than in residential areas, we are not renewing the old leases.

Mainland China

The Mainland China market remains challenging. The competition in the cosmetics market is intensifying at the low end to mid price brackets due to the rise of local and Korean brands. As an example, increasing competition has led to the exit of some foreign brands from the China market in recent years including Garnier and Revlon.

The overall dynamics for the cosmetics market are also rapidly changing. Internet retailing is accelerating, which means that more efforts are required to draw attention to products. In general, cheaper products are attracting more attention online while more expensive products have to work harder to compete. Discounted prices from e-commerce companies on premium products also make it more difficult for premium brands to compete.

The Group has been strengthening our network in the Southern cluster, especially in prime locations in large-scale shopping malls, where we enjoy more competitive edge and better brand awareness. In addition to increasing market penetration, this strategy has also driven significant sales growth in the Southern region. Indeed, the Southern cluster is now being supported by Hong Kong headquarter office in terms of operational, training and logistics, in order to further enhance its performance.

We have adopted a lower cost and more efficient smaller store format for the majority of new store openings to enhance cost efficiency and profitability and to accelerate the pace of expansion. The operating loss will improve gradually as the Group's successful revitalised store format increasingly bears fruit. We will continue to speed up expansion but the pace will depend on overall operational readiness, including supply chain readiness.

The Group will strengthen our management structure and training, re-designate purchasing department job functions and change work processes to increase effectiveness and coordination, automate systems and improve departmental coordination to increase operational effectiveness and scalability. These measures will allow us to improve our product offerings and to better leverage on the competitive edge of our product. They will also enable us to build our retail network to gain market share.

The Group's investment in business process regeneration and system automation will also allow us to improve our operational efficiency and execution capability to reduce the impact of staff turnover. This is needed to improve scalability. We have adopted a localised product strategy to enhance product appeal, which will also lay emphasis on the best-selling products and House Brands to enhance cost efficiency.

Other Markets: Singapore, Malaysia and Taiwan
As mentioned above, the Group has appointed a new Senior Vice-President to head these three markets. The new Senior VP is devoting more expertise and management resources to further drive our business. This will allow improvements in overall strategic development as well as execution power.

In Singapore, given a more difficult operating environment with weak local spending and falling tourist arrivals, in particular Mainland Chinese arrivals, the Group will be reviewing our store portfolio and rationalising our underperforming stores with the objective of pre-term closures and investing in outlets with better return on capital and human resources. We will review the job functions of front line personnel and improve incentives and enhance productivity. We are in the process of exploring collaboration with online vendors to enhance retail marketing and we are enhancing the attractiveness of VIP deals to create impulse purchases. Further measures include bringing in more quality and higher value lines/assortment for atrium sales and increasing the basket size for atriums. We will also explore exclusive brands with higher profit margins, thereby reducing risk levels on stock inventory and marketing investment.

In order to further build our retail network in Malaysia, we will identify high traffic locations for new stores and expand into new regions. We will improve professional training for staff and enhance our product portfolio by introducing new brands and products with strong potential. Further measures include streamlining and reviewing brand performance, the nationwide launch of concurrent brands, and sourcing new and exclusive products across all product categories. Against the backdrop of the Goods and Services Tax, which will be implemented in April 2015, the launch of our bonus points programme in the second half of this financial year will help strengthen our customer base and enhance competiveness, thereby reducing any negative impact.

In Taiwan, we expect that the Mainland consumers mix will continue to increase as infrastructure and retail space further develop to receive more Mainland tourists. The Group has been opening stores in tourist locations to tap the potential of the increasing Mainland Chinese tourist arrivals and we will continue to improve our network in this aspect with the aim of having a "Sasa" store presence in each county. Storewide, we will increase traffic and product competitiveness through the launch of a bonus point programme.

In our e-commerce business, the Group will invest in infrastructure to enhance our competitiveness. We will develop our O2O online platform to strengthen cooperation with our physical stores and to leverage on the capability of our online marketing to highlight the attractive product offerings of our online and offline stores. In additional to enhancing our platform synchronisation, we will adapt and cater to consumers' shopping habits, especially mobile users, and match our offerings efficiently to new devices that consumers currently use. In terms of user experience, we will enhance our search engine, create customers' personal purchasing history and recommendations, as well as optimise channel advertisements to increase traffic and conversion rates.

Conclusion

Sa Sa has sustained an outstanding level of success during the years in economic circumstances that have been both highly favourable or sometimes less favourable. It is our intention to continue to build our competitiveness in the years to come as well as to maintain a steady trajectory of sustainability and scalability. Notwithstanding moderation in Mainland China's economic growth, as well as changing circumstances in the environment of our other markets, it is the Group's firm belief that our tried and tested strategies and methods of execution, our devotion to the value of continuous improvement, our forward vision and our proven ability to adapt will ensure that Sa Sa delivers sustained growth for the coming fiscal year and beyond.

Human Resources

As at 30 September 2014, the Group had a total of over 5,000 employees. The Group's staff costs for the period under review were HK$559.8 million.

Human capital is our important asset. The Group thus provides quality human resources services to attract, develop, motivate and retain an engaged workforce within a supportive work environment. In order to foster a work environment that attracts and inspires our people to achieve excellent performance, remuneration packages and staff benefits are reviewed on a regular basis. Various combinations of performance-based remuneration components, such as annual merit bonus, are always in place for consideration so as to motivate and reward our employees.

The Group takes talents seriously through orientation, coaching, comprehensive training and development programmes, on-the-job training, and structured performance management approach to assure that the potential of our employees are fully realized. Furthermore, the Group also aims at developing potential future leaders and offers exciting opportunity for high calibre university graduates to join our Management Trainee Programme every year. Furthermore, the provision of financial subsidies for our employees to further studies in their related fields of career is also available. The Group also holds in high regard the relationship with its employees and has thus organized various team-building activities that can help strengthen staff relationship and encourage a sense of belonging among our people.

Financial Review

Capital Resources and Liquidity

As at 30 September 2014, the Group's total equity funds amounted to HK$2,254.0 million including reserves of HK$1,969.5 million. The Group continued to maintain a strong financial position with net cash and bank balances of HK$900.8 million (after netting off a HK$80 million loan). The Group's working capital was HK$1,710.3 million. Based on the Group's steady cash inflow from operations, coupled with sufficient cash and bank balances and readily available banking facilities, the Group has adequate liquidity and financial resources to meet the working capital requirements as well as to fund its budgeted expansion plans in the next financial year.

During the period, the majority of the Group's cash and bank balances were in Hong Kong dollar, Renminbi, Malaysian Ringit, Singapore dollar, New Taiwan dollar, Euro and US dollar and deposited in reputable financial institutions with maturity dates falling within a year. And the borrowings were denominated in Hong Kong dollar with maturity dates falling within a year. This is in line with the Group's treasury policy to maintain liquidity of its funds and continue to contribute a relatively stable yield to the Group.

Financial Position

Subsequent to the payment of final and special dividends, total funds employed (representing total equity) as at 30 September 2014 amounted to HK$2,254.0 million, representing a 3.1% decrease over the total funds employed of HK$2,325.1 million as at 31 March 2014.

The gearing ratio, defined as the ratio of total borrowings to total equity, was 3.5% as at 30 September 2014 (31 March 2014: 3.4%).

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 borrowings during the period. Most of the assets, receipts and payments of the Group are denominated either in Hong Kong dollar, US dollar, Euro or Renminbi. Based on purchase orders placed, the Group enters into forward foreign exchange contracts with reputable financial institutions to hedge against foreign exchange exposure arising from non-Hong Kong dollar or US dollar denominated purchases. The Group also hedges any excess Renminbi in Hong Kong to manage the overall currency risk profile. These hedging policies are regularly reviewed by the Group.

Charge on Group Assets

As at 30 September 2014, no asset of the Group was under charge to a financial institution.

Contingent Liabilities

The Group had no significant contingent liability as at 30 September 2014.

Capital Commitments

As at 30 September 2014, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$125.9 million.

INTERIM DIVIDEND AND SPECIAL DIVIDEND

The Board declared an interim dividend of 5.0 HK cents (2013: 4.5 HK cents) per share and a special dividend of 4.0 HK cents (2013: 4.5 HK cents) per share for the six months ended 30 September 2014, payable to shareholders whose names appear on the Register of Members of the Company on Tuesday, 9 December 2014.

The interim and special dividends will be paid on or around Friday, 19 December 2014.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2014, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries, except that the trustee of the Share Award Scheme, pursuant to the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 1,450,000 shares at a total consideration of about HK$8.5 million.

CORPORATE GOVERNANCE

Reflecting our belief in the importance of inner beauty, the Group strives for the highest corporate governance standards. Making Life Beautiful is a culture that is rooted in all aspects of our strategies and operations. The Group believes that our business can only be successful, sustainable and beautiful in the broadest sense of the terms when governed by a strong corporate governance culture. This culture ensures that we are responsible, accountable and transparent. This belief accords with an increasingly stringent regulatory environment and rising public expectations.

Corporate governance is the foundation of how our Group balances and aligns the interests of all our stakeholders, determining both our strategic directions and methods of execution. It allows us to manage the balance between achieving our objectives and risks, and it involves performance as well as compliance. As such, it can only be effective if it is built into our corporate culture as well as our control systems.

Under the supervision and guidance of the Chairman, the Board takes a leading and prominent role in establishing a clear corporate governance framework, ensuring its full application and internalising it so that it becomes a corporate structure for all our members: both management and all employees.

Compliance with the Corporate Governance Code ("CG Code")
Throughout the six months ended 30 September 2014 and up to the date of this announcement, the Company has applied the principles of the CG Code and in some instances complied with the recommended best practices, and complied with all the code provisions except Code Provision A.2.1 as discussed below.

Chairman and Chief Executive Officer
The Company has deviated from Code Provision A.2.1 in that Dr KWOK Siu Ming Simon is both the Chairman and Chief Executive Officer of the Company. The respective responsibilities of the Chairman and Chief Executive Officer, however, are clearly set out in the Terms of Reference for the Chairman and the Chief Executive Officer, which are available on the Company's website. 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 the effectiveness of its operations. The Board will nevertheless review this structure from time to time and will consider the segregation of the two roles at the appropriate time.

Please refer to the Company's annual report 2013/14 issued in July 2014 for a summary of our system of corporate governance and compliance with the code provisions and the recommended best practices under the CG Code.

Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")

The Company has adopted a policy regarding securities transactions by directors of the Company on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all directors, all of them have confirmed their compliance with such a policy throughout the reporting period.

The interim report of the Company for the six months ended 30 September 2014 containing more information on its corporate governance practices will be dispatched to the shareholders on or around Thursday, 4 December 2014, and be published on the respective websites of Hong Kong Exchanges and Clearing Limited and the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining entitlement to the interim and special dividends, the Register of Members of the Company will be closed from Monday, 8 December 2014 to Tuesday, 9 December 2014, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim and special dividends, all valid documents for the transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 5 December 2014.

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 chief executive officer

Hong Kong, 18 November 2014

As at the date of this announcement, the directors of the Company are:-

Executive Directors
Dr KWOK Siu Ming Simon, *BBS, JP* (Chairman and chief executive officer)
Dr KWOK LAW Kwai Chun Eleanor, *BBS* (Vice-chairman)
Dr LOOK Guy (Chief financial officer)

Non-Executive Director
Ms LEE Yun Chun Marie-christine

Independent Non-executive Directors
Professor CHAN Yuk Shee, *PhD, SBS, JP*
Dr LEUNG Kwok Fai Thomas, *PhD, BBS, JP*
Ms TAM Wai Chu Maria, *GBM, JP*
Ms KI Man Fung Leonie, *SBS, JP*
Mr TAN Wee Seng