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 2015 Dividends and Closure of Books

Highlights

- The Group's turnover decreased by 10.6% from HK$4,226.0 million to HK$3,777.9 million
- Retail sales in Hong Kong and Macau decreased by 11.1% from HK$3,386.1 million to HK$3,010.4 million
- Profit for the period was HK$153.0 million, a decrease of 55.0% from HK$339.8 million
- Basic earnings per share were 5.4 HK cents as compared to 11.9 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 interim and special dividends will be payable in cash with a scrip dividend alternative
- On 8 June 2015, the Group was included in the Hang Seng High Dividend Yield Index. The Group is a constituent member of the Hang Seng Composite MidCap and has been a constituent member of Hang Seng Corporate Sustainability Benchmark Index for five consecutive years since 2011. It is also an eligible stock for Shanghai-Hong Kong Stock Connect

The board of directors of Sa Sa International Holdings Limited (the "Board") 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 2015. 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	**2015** **HK$'000**	2014 HK$'000
Turnover	4	**3,777,940**	4,226,004
Cost of sales	6	**(2,156,275)**	(2,339,129)
Gross profit		**1,621,665**	1,886,875
Other income	5	**58,832**	58,752
Selling and distribution costs	6	**(1,315,317)**	(1,358,107)
Administrative expenses	6	**(176,808)**	(184,183)
Other losses - net		**(823)**	(774)
Operating profit		**187,549**	402,563
Finance income		**5,775**	10,759
Finance costs		**-**	(394)
Finance income - net		**5,775**	10,365
Profit before income tax		**193,324**	412,928
Income tax expense	7	**(40,304)**	(73,166)
Profit for the period		**153,020**	339,762
Earnings per share (expressed in HK cents per share)	8		
Basic		**5.4**	11.9
Diluted		**5.4**	11.9

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 September 2015 HK$'000	2014 HK$'000
Profit for the period	**153,020**	339,762
Other comprehensive loss		
Items that may be reclassified to profit or loss		
Cash flow hedges, net of tax	**73**	(830)
Currency translation differences of foreign subsidiaries recorded in exchange reserve	**(37,632)**	(2,398)
Other comprehensive loss for the period, net of tax	**(37,559)**	(3,228)
Total comprehensive income for the period	**115,461**	336,534

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited 30 September 2015 HK$'000**	Audited 31 March 2015 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**321,514**	351,493
Rental deposits, prepayments and other assets		**177,158**	177,686
Deferred tax assets		**12,563**	13,903
		511,235	543,082
Current assets			
Inventories		**1,600,771**	1,382,775
Trade receivables	10	**48,792**	51,492
Other receivables, deposits and prepayments		**215,256**	249,046
Time deposits		**25,946**	643,976
Cash and cash equivalents		**757,580**	519,702
		2,648,345	2,846,991
LIABILITIES			
Current liabilities			
Trade payables	11	**527,267**	496,196
Other payables and accruals		**335,491**	328,190
Income tax payable		**59,544**	36,419
		922,302	860,805
Net current assets		**1,726,043**	1,986,186
Total assets less current liabilities		**2,237,278**	2,529,268
Non-current liabilities			
Retirement benefit obligations		**5,522**	5,677
Deferred tax liabilities		**517**	251
Other payables		**50,441**	48,832
		56,480	54,760
Net assets		**2,180,798**	2,474,508
EQUITY			
Capital and reserves			
Share capital		**284,468**	284,468
Reserves		**1,896,330**	2,190,040
Total equity		**2,180,798**	2,474,508

Notes:

1. **Basis of preparation**

This condensed consolidated interim financial information for the six months ended 30 September 2015 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 2015, 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 2015, as described in those annual financial statements.

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

a) Amendments of standards mandatory for the first time for the financial year beginning 1 April 2015 and were early adopted in prior year

   - Amendment to HKAS 19 regarding defined benefit plans
   - Annual Improvement to HKFRSs, 2010–2012 cycle
   - Annual Improvement to HKFRSs, 2011–2013 cycle

b) The following new standards have been issued but are not effective for the financial year beginning 1 April 2015 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 2018)

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 2015, with the exception of changes in estimates that are required in determining the provision for deferred revenue on customer loyalty programme.

As at 30 September 2015, deferred revenue for customer loyalty programme amounted to HK$7,098,000 (2014: HK$21,269,000). The amount of deferred revenue recognised in each period fluctuates according to various factors including changes in estimated redemption rates and fair values of the redemption gifts.

3. Estimates (continued)

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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors of the Group who make strategic and operating decisions.

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.

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

The Group is mainly domiciled in Hong Kong & Macau. The breakdown of key segment information including total turnover from external customers is disclosed below.

	Six months ended 30 September 2015			
	Hong Kong & Macau HK$'000	**Mainland China HK$'000**	**All other segments HK$'000**	**Total HK$'000**
Turnover	**3,050,989**	**148,852**	**578,099**	**3,777,940**
Segment results	**206,471**	**(24,473)**	**(28,978)**	**153,020**
Other information				
Capital expenditure	**27,908**	**3,515**	**19,095**	**50,518**
Finance income	**4,398**	**152**	**1,225**	**5,775**
Income tax expense	**39,675**	**-**	**629**	**40,304**
Depreciation	**41,295**	**5,588**	**16,206**	**63,089**
Impairment of property, plant and equipment	**3,035**	**934**	**6,230**	**10,199**

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 expense	69,737	-	3,429	73,166
Depreciation	54,087	9,389	20,326	83,802
Impairment of property, plant and equipment	-	2,305	3,278	5,583

	Hong Kong & Macau HK$'000	**Mainland China HK$'000**	**All other segments HK$'000**	**Total HK$'000**
At 30 September 2015				
Non-current assets	**400,637**	**23,839**	**86,759**	**511,235**
Current assets	**2,036,249**	**178,998**	**433,098**	**2,648,345**
				3,159,580
At 31 March 2015				
Non-current assets	418,503	28,104	96,475	543,082
Current assets	2,177,511	206,728	462,752	2,846,991
				3,390,073

5. Other income

	Six months ended 30 September 2015 HK$'000	2014 HK$'000
Slide display rental income	**31,521**	31,029
Sub-lease income	**27,311**	27,723
	58,832	58,752

6. Expenses by nature

	Six months ended 30 September 2015 HK$'000	2014 HK$'000
Cost of inventories sold	**2,123,275**	2,314,403
Employee benefit expenses (including directors' emoluments)	**540,399**	559,845
Operating lease rentals in respect of land and buildings		
- minimum lease payments	**476,488**	461,919
- contingent rent	**30,113**	31,019
Depreciation of property, plant and equipment	**63,089**	83,802
Advertising and promotion expenses	**60,209**	76,382
Building management fees, government rent and rates	**44,309**	42,254
Utilities and telecom	**34,051**	35,591
Provision for slow moving inventories and stock shrinkage	**33,000**	24,726
Sub-lease expenses	**27,224**	28,280
Repair and maintenance	**21,011**	17,752
Impairment and write-off of property, plant and equipment	**11,293**	6,923
Donations	**2,492**	3,247
Auditor's remuneration		
- audit services	**1,830**	1,787
- non-audit services	**341**	1,637
Others	**179,276**	191,852
	3,648,400	3,881,419
Representing:		
Cost of sales	**2,156,275**	2,339,129
Selling and distribution costs	**1,315,317**	1,358,107
Administrative expenses	**176,808**	184,183
	3,648,400	3,881,419

7. Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2014: 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 respectively.

	Six months ended 30 September	
	2015	2014
	HK$'000	HK$'000
Current tax		
– Hong Kong profits tax	**26,585**	64,858
– Overseas taxation	**12,783**	16,351
Deferred tax relating to origination and reversal of temporary differences	**936**	(8,043)
	40,304	73,166

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	
	2015	2014
	HK$'000	HK$'000
Profit attributable to owners of the Company	**153,020**	339,762
Weighted average number of ordinary shares in issue less shares under the Share Award Scheme during the period (thousands)	**2,843,264**	2,843,612

(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 during the period. For the share options, a calculation is performed 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 but not yet vested as at 30 September 2015 has been included in the number of shares.

8. Earnings per share (continued)

	Six months ended 30 September	
	2015	2014
	HK$'000	HK$'000
Profit attributable to owners of the Company	**153,020**	339,762
Weighted average number of ordinary shares in issue less shares held under the Share Award Scheme during the period (thousands)	**2,843,264**	2,843,612
Adjustment for share options and awarded shares (thousands)	**1,233**	6,328
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,844,497**	2,849,940

9. Dividends

	Six months ended 30 September	
	2015	2014
	HK$'000	HK$'000
Interim, declared – 5.0 HK cents (2014: 5.0 HK cents) per share	**142,234**	142,229
Special, declared – 4.0 HK cents (2014: 4.0 HK cents) per share	**113,788**	113,784
	256,022	256,013

At a meeting held on 24 November 2015, the Directors declared an interim dividend of 5.0 HK cents and a special dividend of 4.0 HK cents per share. The interim and special dividends will be payable in cash with a scrip dividend alternative. 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 2016.

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 by invoice date is as follows:

	30 September 2015	31 March 2015
	HK$'000	HK$'000
Within 1 month	**43,977**	47,861
1 to 3 months	**4,237**	3,472
Over 3 months	**578**	159
	48,792	51,492

The carrying amounts of trade receivables approximate their fair values.

11. Trade payables

The ageing analysis of trade payables by invoice date is as follows:

	30 September 2015 HK$'000	31 March 2015 HK$'000
Within 1 month	**332,565**	328,837
1 to 3 months	**163,000**	144,030
Over 3 months	**31,702**	23,329
	527,267	496,196

The carrying amounts of trade payables approximate their fair values.

MANAGEMENT DISCUSSION & ANALYSIS

Interim Results

For the six months ended 30 September 2015 ("period"), the Group's turnover amounted to HK$ 3,777.9 million, representing a decrease of 10.6% from HK$4,226.0 million for the six months ended 30 September 2014 ("previous period"). Retail sales in Hong Kong and Macau decreased by 11.1% from HK$3,386.1 million to HK$3,010.4 million. The Group's gross profit margin decreased from 44.6% to 42.9%.

The Group's profit for the period was HK$153.0 million, representing a decrease of 55.0% from HK$339.8 million for the previous period. Basic earnings per share amounted to 5.4 HK cents as compared to 11.9 HK cents for the previous period. The Board resolved to declare an interim dividend of 5.0 HK cents per share (2014: 5.0 HK cents) and a special dividend of 4.0 HK cents (2014: 4.0 HK cents) per share, totaling 9.0 HK cents. The Group rationalised its retail network from 287 to 281, a net decrease of 3 stores each for both "Sasa" stores and single-brand counters.

On 8 June 2015, the Group was included in the Hang Seng High Dividend Yield Index. The Group is a constituent member of the Hang Seng Composite MidCap and has been a constituent member of Hang Seng Corporate Sustainability Benchmark Index for five consecutive years since 2011. It is also an eligible stock for Shanghai-Hong Kong Stock Connect.

Market Overview

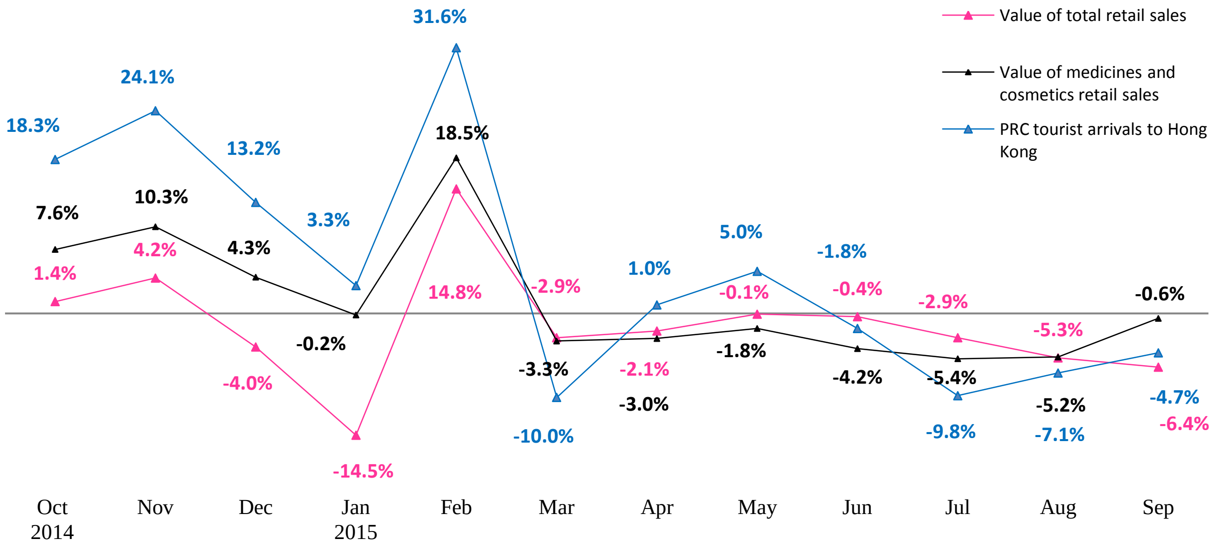
Retail Sales / Cosmetics Retails Sales Change By Market (Year 2015)

Market	Retail sales change	Cosmetics retail sales change
Hong Kong	-2.9% (Apr – Sep)	-3.4% (Apr – Sep)
Mainland China	10.5% (Jan – Sep)	9.0% (Jan – Sep)
Singapore	5.8% (Apr – Sep)	3.1% (Apr – Jun)
Malaysia	6.6% (Apr – Sep)	Note 1
Taiwan	-0.8% (Apr – Sep)	2.2% (Apr – Sep)

Note:

1) *There were no cosmetics retails sales statistics provided from Malaysia Government.*
2) *All of the above data are sourced from the corresponding governments' statistics bureaus.*
3) *There are some inconsistency in definition and survey methodology for cosmetics retail sales by different government statistics bureaus.*

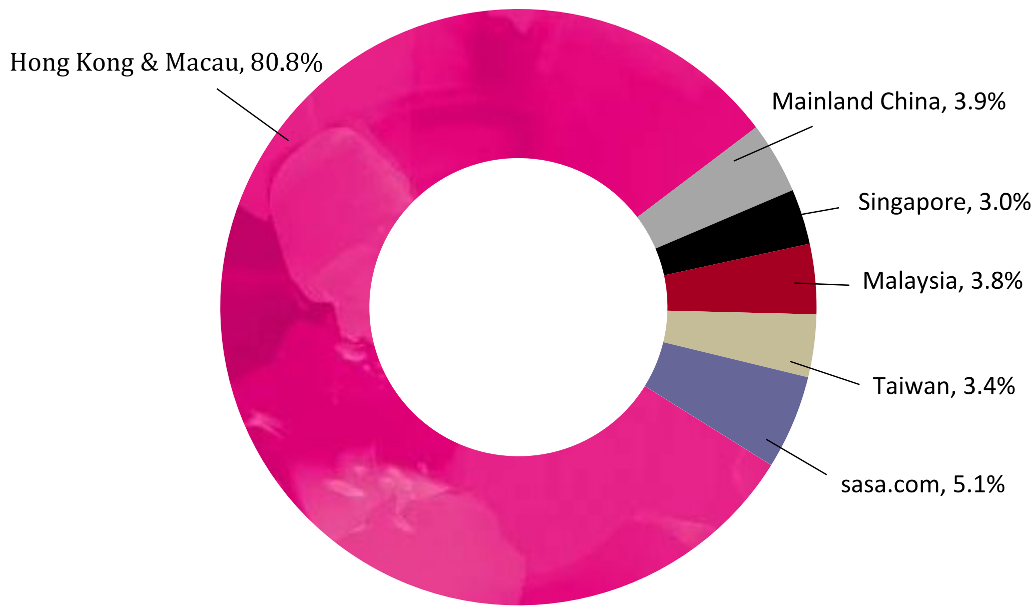
Retail Sales Performance in Hong Kong and PRC Tourist Arrivals to Hong Kong (Year-on-Year Change)



Source: Hong Kong Census and Statistics Department & Hong Kong Tourism Board

Retail and Wholesale Business

1st Half FY15/16 Turnover Mix by Market

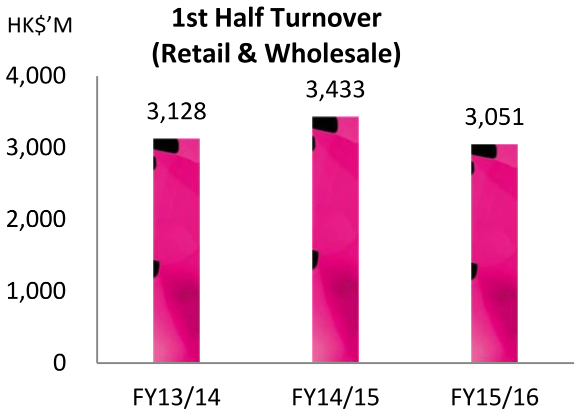


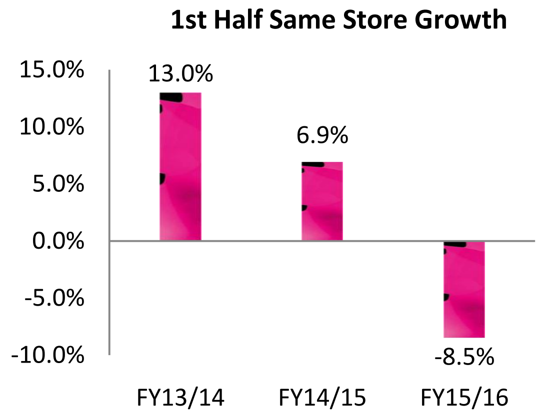
Store Network By Market

Multi-brand "Sasa" Stores	As of 31 Mar 2015	Opened	Closed	As of 30 Sep 2015
Hong Kong & Macau	107	4	3	**108**
Mainland China	62	2	9	**55**
Singapore	21	3	3	**21**
Malaysia	59	6	3	**62**
Taiwan	32	3	3	**32**
Total	281	18	21	**278**

Note: As at 30 September 2015, there were two and one single-brand stores in Hong Kong & Macau and Taiwan respectively, totaling 281 retail outlets for the Group.

Hong Kong and Macau





The Group's retail sales in Hong Kong for the period decreased by 11.1% (2014: +10.2%) in comparison to the corresponding period last year. This performance was driven by the decrease in average ticket size of mainland tourists and also the drop in their total number of transactions, which was in line with the overall decrease of 3.4% of mainland tourist arrivals during the same period. Same store sales growth fell 8.5% (2014: +6.9%)

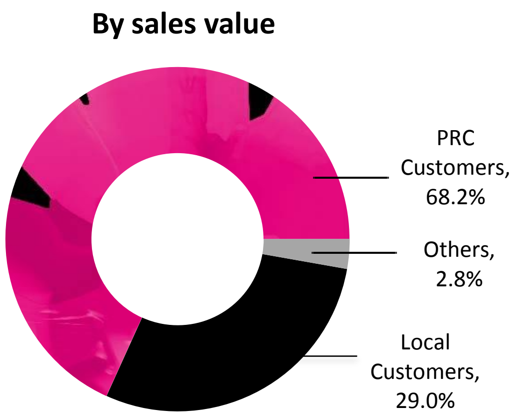
Several factors have contributed to this direct correlation between the continuing decrease in mainland tourist arrivals and the decline in our sales growth. The Occupy Movement and anti-parallel traders incident in Hong Kong damaged Hong Kong's profile and discouraged tourists from visiting while also causing a drop in sales to local customers. New restrictions placed on the frequency of visits by mainland residents, such as the change of Shenzhen permanent residents' multiple-entry permits to one-visit-one-week permits upon renewal, also impacted the flow of mainland tourist arrivals.

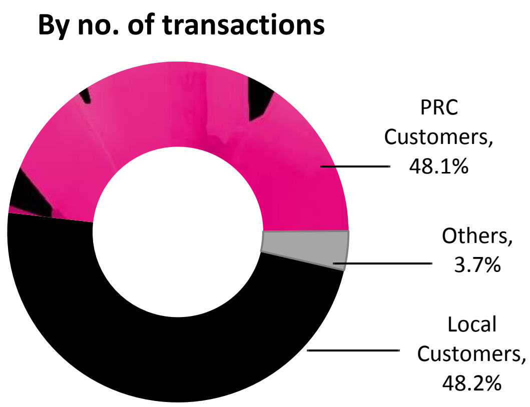
At the same time, structural changes in Hong Kong tourism arising from the shift in the PRC tourist mix towards tourists arriving from lower-tier cities in China with less spending power also affected the average ticket size. Such tourists tend to have lesser brand awareness than those from higher-tier cities, including knowledge of Sa Sa.

This change in consumption patterns was further exacerbated by the rise of cross border e-commerce, which has facilitated much faster market penetration of cheaper and fast-to-market Korean products with concepts that are well liked by Asians, and in particular by the increasingly affluent Chinese consumers.

Meanwhile, Hong Kong tourism overall has been losing competitiveness. The substantially strengthened tourist facilities and convenient travel policies offered by other destinations have improved their attraction to mainland tourists. In addition, the strong Hong Kong dollar and depreciating yuan have contributed further to the slowdown of growth in mainland visitors to Hong Kong.

<u>Customer Mix (for 1st Half FY15/16 Retail Sales)</u>





There are also internal factors to explain why the Group is undergoing a period of readjustment.

We have traditionally relied on high price products but the market preference has changed very quickly towards lower price products. The lower price products have very fast launches and a much shorter product life cycle.

We have relied on beauty consultants to recommend products but customers now rely more on social media and look for a different shopping experience that requires better product display to facilitate self-service. Both of these factors require us to adapt our operations to market circumstances.

The profitability in Hong Kong and Macau market was restrained due to margin pressures. Gross profit margins dropped from 44.6% to 43.0%. This performance was due to ongoing promotions and discounting to sustain sales in a slower market. In order to further strengthen the competitiveness of our product offerings, the Group adjusted our non-house brand mix in some popular product categories, for instance, in Korean products, to make faster adaptation to changes in consumer preferences for Korean and lower price products.

Rental costs continued to increase with rental reductions gradually coming into place and only set to be reflected in total rental costs in the next financial year. The frontline staff costs to sales increased as we strove to maintain our competitiveness in salary system to retain staff in a slower market.

Mainland China

Overall turnover for our Mainland China operations decreased to HK$148.9 million during the period, a decrease of 8.7% in local currency terms, while same store sales growth in local currency decreased 9.8% for the period. The loss for the period amounted to HK$24.5 million.

The profitability of our stores continued to improve, but weak operational and product management led to a decline in turnover, as well as an increase in the inventory provision.

Singapore

During the period, the turnover for our Singapore operations was HK$112.8 million, remaining flat in local currency terms over the previous period.

Malaysia

The turnover for our Malaysia operations was HK$141.9 million, an increase of 2.5% in local currency terms over the previous period. Same store sales decreased 8.5% in local currency.

Sales and profit growth were restrained by the implementation of the Goods and Services Tax system, which adversely impacted store productivity during the transitional period. This effect will normalise in the second half.

Taiwan

Turnover in the Group's Taiwan business decreased to HK$130.2 million during the period, representing a drop of 2.2% in local currency terms. Same store sales fell 8.7% in local currency.

E-commerce – sasa.com

Turnover for sasa.com amounted to HK$193.2 million, representing a slight decrease of 1.4% over the previous period.

As a result of the shift of our focus in the China market, sales from mainland China continued to increase with 24.5% growth. However, this performance was offset by a decrease in sales in other overseas markets. We partnered with Alipay successfully in joint promotions to drive traffic and sales in the China market. However, profitability was restrained due to increased investments and advertising and promotion expenses, such as search engine display advertisements.

Brand Management

During the period, the Group's sales mix of own-label and exclusively distributed products, collectively referred to as House Brands, decreased from 43.3% to 41.3%.

In order to enhance product competitiveness to attract traffic in a slower market, we strategically broadened our choices to include more parallel import products that are faster time to market. High-price house brand products, which make up a larger percentage of our house brand sales mix, underperformed due to consumers preferring mid to low-price products and Korean products.

The transitional change of management in our product development team adversely affected the timeliness of our response to this fast changing market. With Korean products outshining all others, we began to cater to the higher demand for Korean products by launching a wider range of Korean product offerings, with the result that their sales rose 28.9% in Hong Kong and Macau. Sales growth of non-house brand Korean products outgrew our house brand Korean products as we leveraged on the former's faster product launches.

Outlook and Strategies

In the first half, the Hong Kong retail market has been impacted by a 'perfect storm' of negative factors mentioned in the above. The coming year will undoubtedly be challenging. In order to ensure that turnover and profitability do not continue to be adversely affected, the Group aims to undertake the following strategic measures:

1. *Diversification*

The Group will develop other businesses beyond our traditional operations, including tapping the opportunities of O2O and cross-border e-commerce. Our O2O initiatives will initially launch in Hong Kong and gradually extend to mainland China.

For the Hong Kong market, we will leverage the customer base of our physical stores and strong product offerings to enable us to target our mainland Chinese customers after they return home. The Group will also leverage the potential of the increasingly important online marketing resources of our online operations. For the China market, the O2O initiative will significantly broaden our product offerings in our physical stores through online sales and cross border fulfillment.

We aim to use different channels and to leverage a variety of online partners to increase our online exposure, including operating physical stores to promote O2O in Free Trade Zones, and cooperating closely with major China online operators, all with their unique positioning and correspondingly different opportunities.

The Group will make determined efforts to strengthen our own labels, and improve the appeal of our brands and product offerings.

Further initiatives include targeting product gaps in our offering, such as low- to mid-price products, with more emphasis on Korean and Japanese products; speeding up new product development and product launches; and identifying consumers' preferences for new products as well as their ever changing requirements in regard to product concepts and functions – all with the aim of providing appropriate products to satisfy such demands.

2. *New store concepts*

Our strategy for new store concepts includes introducing more trendy and lifestyle concepts to attract young and trend-setting customers, much improved product display, and more emphasis on enhancing the shopping experience.

3. *New shopping experience*

We aim to place more emphasis on the unique shopping experience with Sa Sa through improved product displays, while changing the mindset of our beauty consultants to one that is more receptive to consumer preferences. In addition, we will substantially strengthen our online marketing efforts, including the use of social media channels to improve interactivity.

Hong Kong and Macau

The cosmetics market in Hong Kong continues to face strong headwinds due to the slowing of mainland China tourist arrivals, their reduced spending, and weak local consumption sentiment.

The one-visit-one-week policy for mainland visitors is gradually taking its toll on the market, while the strength of the Hong Kong dollar will continue to make shopping overseas more attractive for both mainland China and local consumers.

The sensitive social and political situation in Hong Kong, anti-mainland Chinese tourist sentiment, possible changes to the cross-border e-commerce policy, and the ongoing pace of change in consumer preferences may add further uncertainties to the slower retail market environment.

Intensifying competition within the cosmetic industry is a further challenge, with ongoing discount and promotion programmes having an ongoing impact on profitability. Meanwhile, product life cycles are shortening and inventory management is requiring more skill and attention. Although rental pressure is expected to moderate in a slowing market, rental reductions still lag behind weak sales performance.

As a result of the above factors, FY2015/16 quarter-to-date (i.e. period up to 22 November 2015) retail sales of Hong Kong and Macau has dropped by 14.1%[#] year-on-year while same store sales dropped by 10.0%[#] year-on-year.

In the face of these challenges, the Group intends to manage rental costs by rationalising our store portfolio. Further intensive measures include: optimizing our cross border e-commerce operations and using social media to promote and project our business into the mainland; strengthening customer loyalty; driving the development of our online business; introducing more good value products to cater for the change in customer needs towards lower priced products; enhancing our training programmes for frontline staff; and strengthening the visual merchandising in our shops.

Mainland China

Following intensive efforts to expand the Group's footprint in mainland China, we will continue to develop our business in this challenging but fast growing cosmetics market. As the dynamics of the market rapidly change towards internet retailing, with cheaper products attracting increasing attention online, more expensive products have to work harder to compete.

Korean and Japanese products are in vogue because of pricing and product concepts, with lower price local brands becoming attractive very quickly. E-commerce companies offer discounted prices and invest heavily in marketing, diverting growth from offline to online. At the same time, growth is increasingly driven by lower tier cities, making it more competitive to serve consumers in provincial areas with physical stores.

In the light of these challenges, the Group has recognised the need for more management resources to improve management, and is currently using external management resources on a contract basis to allow for more time to develop our management structure and training. We are also seconding experienced staff from Hong Kong to improve attractiveness of product offerings and inventory management.

\# *The above data excludes adjustments according to Hong Kong International Financial Reporting Interpretation Committee – Interpretation 13 Customer Loyalty Programmes on the bonus points scheme.*

Going forward, we are gradually adopting a lower cost and more efficient boutique store format with new store openings to enhance cost efficiency and profitability and to gear up our scope of expansion in a prudent manner. Store portfolio management will involve more emphasis on effective management, while new stores will only open in areas where we have existing and effective management.

Singapore, Malaysia and Taiwan

In Singapore, the Group will continue to build scalability and profit potential by closing inefficient stores and opening stores in new malls with good potential. In response to staffing issues, we will participate in job fairs to promote employer profile and recruitment awareness and we will redesign job scopes to attract short-hour/part time locals. We will also adopt employee retention programmes specifically tailored to minimise the loss of experienced staff.

In Malaysia, the Group will continue to strengthen the local team and further strengthen our retail network by identifying high traffic locations for new stores and expanding into new regions. We will improve the professional training of our staff and enhance our product portfolio by introducing new brands and products with strong potential. We aim to review brand performance and streamline products, with a nationwide launch of concurrent brands and a focus on sourcing new and exclusive products across all product categories.

In Taiwan, the Group will maintain its efforts to expand our network in order to strengthen our presence and future growth potential. The number of mainland China consumers in Taiwan is expected to increase in view of the country’s enhanced infrastructure and retail space, and the introduction of unlimited visa quotas for high-end mainland Chinese tourists who have greater spending capacity.

The Group has already opened stores in tourist locations to tap the potential of increasing mainland Chinese tourist arrivals. We will add in more unique brands that are popular with young people and share more information with online platforms to increase exposure.

E-commerce - sasa.com

The Group’s key strategy for our online platform is to focus on cross-border and multichannel touch points and sales. Amid intensifying price competition from other shopping websites and mobile apps, strong growth in the mainland China market is expected. We believe that we can promote our price advantage to more consumers to drive growth.

In terms of our O2O capabilities, we will develop our online platform to strengthen cooperation with our physical stores and leverage the capability of our beauty consultants and online marketing expertise to highlight the attractive product offerings of our online and offline stores.

We will focus on platform synchronization to adapt and cater to consumers’ shopping habits, especially mobile users, and enhance the user experience of all new devices that modern consumers use. At the same time, we will continue to optimise current marketing channels including search engine marketing, affiliate marketing, email marketing and social media to increase traffic and conversion rates.

The Group’s new Customer Relationship Management programme will be developed to increase repeat purchases and customer retention. We will continue to explore potential partnerships and alliances, as well as to invest in establishing Business Intelligence (BI) to provide information we can act upon to drive performance and improve business in terms of customer satisfaction, timely and accurate responses, and creditability of customers.

Furthermore, we will introduce new analytically driven strategies in the following aspects: i) sales and marketing - our alignment to consumer needs and the effectiveness of our promotions will be improved; ii) content strategy - strengthened product information and persuasiveness of online sales will enhance shopping experience by improving our search results, facilitating sharing amongst customers and enhancing viral marketing; iii) customer service - improvements will be made to drive our long-term competitiveness; iv) Customer Relationship Management (CRM) system – will be strengthened to enhance customer loyalty and sales; v) streamlined fulfillment time and costs – expected to improve after the commencement of our Free Trade Zone warehouse as compared with our current warehouse in Hong Kong; and vi) more emphasis on product launches – will attract new customers, improve sales and enhance our gross profit margin because generally customers' attention will be drawn to the excitement of new products rather than to price competiveness.

Conclusion

Sa Sa has a long track record of delivering outstanding success in all economic climates and in the face of the most severe headwinds and difficulties. We continue to have faith that we can progressively build our competitiveness in the years to come and turn challenges into opportunities, such as those offered by O2O, by evolving consumer patterns and by the long-term growth of the less affluent parts of mainland China.

It is our belief that the flexibility of our business model, with its ability to rapidly adapt to new circumstances, markets and trends, will continue to support our position as a leading provider of beauty products in the Asia Pacific. We also believe that the resilience and adaptability of our loyal staff and the forward vision of our outstanding management team will ensure that we deliver sustained, satisfying growth for many years to come.

Human Resources

As a 30 September 2015, the Group had a total of around 5,000 employees. The Group's staff costs for the period under review were HK$540.4 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 realised. Furthermore, the Group aims at developing potential future leaders and offers exciting opportunity for high calibre university graduates to join our Management Trainee Programme every year. 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 organised 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 2015, the Group's total equity funds amounted to HK$2,180.8 million including reserves of HK$1,896.3 million. The Group continued to maintain a strong financial position with cash and bank balances of HK$783.5 million. The Group's working capital was HK$1,726.0 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, Malaysian Ringit, Renminbi, Singapore dollar, New Taiwan dollar, US dollar, Swiss Franc and Euro and deposited in reputable financial institutions 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

Total funds employed (representing total equity) as at 30 September 2015 were HK$2,180.8 million, representing a 11.9% decrease over the total funds employed of HK$2,474.5 million as at 31 March 2015.

The gearing ratio, defined as the ratio of total borrowings to total equity, was zero as at 30 September 2015 and 31 March 2015.

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. These hedging policies are regularly reviewed by the Group.

Charge on Group Assets

As at 30 September 2015, no asset of the Group was under charge to any financial institution.

Contingent Liabilities

The Group had no significant contingent liability as at 30 September 2015.

Capital Commitments

As at 30 September 2015, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$156.8 million.

INTERIM DIVIDEND AND SPECIAL DIVIDEND

The Board has declared an interim dividend of 5.0 HK cents (2014: 5.0 HK cents) per share and a special dividend of 4.0 HK cents (2014: 4.0 HK cents) per share for the six months ended 30 September 2015, payable to shareholders whose names appear on the register of members of the Company on Thursday, 10 December 2015. The interim and special dividends will be payable in cash, with a scrip dividend alternative which will give shareholders an opportunity to increase their investment in the Company without incurring brokerage fees, stamp duty and related dealing costs. The scrip dividend alternative will also benefit the Company to the extent that such cash as would otherwise have been paid to shareholders who elect to receive the dividends in scrip, in whole or in part in lieu of a cash dividend, will be retained for use by the Company as working capital or to fund new investments. To facilitate shareholders' reinvestment of their dividends into the Company's shares, the Board has resolved to offer a five (5) per cent discount on the subscription price for eligible shareholders who elect to receive the dividends in scrip. The new shares to be issued pursuant to the scrip dividend alternative are subject to the Stock Exchange granting the listing of, and permission to deal in, the new shares to be issued. Further details will be set out in a circular which will be despatched to shareholders together with an election form towards the middle of December 2015. The interim and special dividends are expected to be paid on or around Friday, 15 January 2016.

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 Wednesday, 9 December 2015 to Thursday, 10 December 2015, 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 transfer 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, no later than 4:30 p.m. on Tuesday, 8 December 2015.

BUY-BACK, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2015, there was no buy-back, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

CORPORATE GOVERNANCE

The Company believes that its business can only be sustainable and beautiful to its stakeholders in the broadest sense when guided by a strong corporate governance culture. The Company is committed to maintaining high standards of corporate governance and strives to integrate the principles of good corporate governance practices into our operations, making corporate governance part of our culture.

Compliance with the Corporate Governance Code (“CG Code”)

Throughout the six months ended 30 September 2015 and up to the date of this announcement, the Company has complied with all the code provisions in the CG Code except code provision A.2.1 recommending the separation of the roles of chairman and chief executive. Dr KWOK Siu Ming Simon is both our Chairman and CEO. This gives us the ability to swiftly enact corporate initiatives in respond to changing market conditions but there are at the same time sufficient checks and balances in place because of the high level of independence in our board composition. Further, the responsibilities of the Chairman and the CEO are clearly set out in the respective terms of reference for the chairman and the chief executive officer. 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 maximises 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.

For more information on our corporate governance practices, please refer to the Company’s annual report 2014/15 published in July 2015.

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

The Company has adopted a code 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 that they have complied with the provisions set out in the code throughout the reporting period.

The interim report of the Company for the six months ended 30 September 2015 will be dispatched to the shareholders and published on the respective websites of Hong Kong Exchanges and Clearing Limited and the Company towards the middle of December 2015.

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
Sa Sa International Holdings Limited

Hong Kong, 24 November 2015

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, BBS, JP*
Dr LEUNG Kwok Fai Thomas, *PhD, BBS, JP*
Ms TAM Wai Chu Maria, *GBM, GBS, JP*
Ms KI Man Fung Leonie, *SBS, JP*
Mr TAN Wee Seng