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 2016 Dividends and Closure of Books

Highlights

- The Group's turnover decreased by 4.0% from HK$3,777.9 million to HK$3,628.0 million
- Retail sales in Hong Kong and Macau decreased by 3.6% from HK$3,010.4 million to HK$2,903.2 million
- Profit for the period was HK$96.0 million, a decrease of 37.3% from HK$153.0 million
- Basic earnings per share were 3.3 HK cents as compared to 5.4 HK cents for the same period last year
- The Board resolved to declare an interim dividend of 5.0 HK cents per share and a special dividend of 4.0 HK cents per share, totaling 9.0 HK cents per share, payable in cash with a scrip dividend alternative

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 2016. 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

	Note	**Unaudited Six months ended 30 September 2016 HK$'000**	2015 HK$'000
Turnover	4	**3,627,998**	3,777,940
Cost of sales	6	**(2,133,793)**	(2,156,275)
Gross profit		**1,494,205**	1,621,665
Other income	5	**55,873**	58,832
Selling and distribution costs	6	**(1,265,134)**	(1,315,317)
Administrative expenses	6	**(161,912)**	(176,808)
Other losses - net		**(28)**	(823)
Operating profit		**123,004**	187,549
Finance income		**5,268**	5,775
Profit before income tax		**128,272**	193,324
Income tax expense	7	**(32,288)**	(40,304)
Profit for the period		**95,984**	153,020
Earnings per share (expressed in HK cents per share)	8		
Basic		**3.3**	5.4
Diluted		**3.3**	5.4

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 September	
	2016	2015
	HK$'000	HK$'000
Profit for the period	**95,984**	153,020
Other comprehensive loss		
Items that may be reclassified to profit or loss		
Cash flow hedges, net of tax	**(1)**	73
Currency translation differences of foreign subsidiaries recorded in exchange reserve	**(8,858)**	(37,632)
Other comprehensive loss for the period, net of tax	**(8,859)**	(37,559)
Total comprehensive income for the period	**87,125**	115,461

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited 30 September 2016 HK$'000**	Audited 31 March 2016 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**297,016**	321,089
Rental deposits, prepayments and other assets		**160,415**	167,026
Deferred tax assets		**14,945**	15,786
		472,376	503,901
Current assets			
Inventories		**1,366,314**	1,102,385
Trade receivables	10	**57,561**	79,150
Other receivables, deposits and prepayments		**206,969**	207,060
Time deposits		**289,970**	393,244
Cash and cash equivalents		**986,270**	685,763
		2,907,084	2,467,602
LIABILITIES			
Current liabilities			
Trade payables	11	**564,115**	261,495
Other payables and accruals		**338,233**	321,307
Income tax payable		**50,412**	50,496
		952,760	633,298
Net current assets		**1,954,324**	1,834,304
Total assets less current liabilities		**2,426,700**	2,338,205
Non-current liabilities			
Retirement benefit obligations		**8,992**	9,114
Deferred tax liabilities		**-**	432
Other payables		**42,072**	40,373
		51,064	49,919
Net assets		**2,375,636**	2,288,286
EQUITY			
Capital and reserves			
Share capital		**289,213**	289,213
Reserves		**2,086,423**	1,999,073
Total equity		**2,375,636**	2,288,286

Notes:

1. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 September 2016 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 2016, 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 2016, 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) New and amendments of standards mandatory for the first time for the financial year beginning 1 April 2016 and were early adopted in prior years

- HKAS 1 (Amendment), "Disclosure initiative"
- HKAS 16 and HKAS 38 (Amendment), "Clarification of acceptable methods of depreciation and amortisation"
- HKAS 16 and HKAS 41 (Amendment), "Agriculture: bearer plants"
- HKAS 27 (Amendment), "Equity method in separate financial statements"
- HKFRS 10, HKFRS 12 and HKAS 28 (Amendment), "Investment entities: applying the consolidation exception"
- HKFRS 11 (Amendment), "Accounting for acquisitions of interests in joint operations"
- HKFRS 14 (Amendment), "Regulatory deferral accounts"
- Annual Improvements to HKFRSs, 2012–2014 cycle

b) Early adoption of amendments to standards where early adoption is permitted

- HKAS 7 (Amendment), "Statement of cash flows – disclosure initiative" (effective for annual periods beginning on or after 1 April 2017). The amendment introduces an additional disclosure on non–cash changes that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

  The early adoption of HKAS 7 (Amendment) does not expect to result in additional disclosure to the statement of cash flows as the Group does not have significant non-cash changes arising from financing activities.

2. Accounting policies (continued)

b) Early adoption of amendments to standards where early adoption is permitted (continued)

- HKAS 12 (Amendment), "Recognition of deferred tax assets for unrealised tax losses" (effective for annual periods beginning on or after 1 April 2017). These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

  The early adoption of HKAS 12 (Amendment) does not expect to have any impact to the Group as the Group does not any material debt instruments measured at fair value.

c) The following new and amendments to standards have been issued but are not effective for the financial year beginning 1 April 2016 and have not been early adopted

- HKFRS 2 (Amendment), "Classification and measurement of share-based payment transactions" (effective for annual periods beginning on or after 1 April 2018)

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

- HKFRS 15, "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 April 2018)

- HKFRS 16, "Leases" (effective for annual periods beginning on or after 1 April 2019)

The Group is in the process of making an assessment of the impact of these new and amendments to standards in the period of initial application and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

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 2016, with the exception of applying in estimates that are required in determining the provision for deferred revenue on customer loyalty programme.

As at 30 September 2016, deferred revenue for customer loyalty programme amounted to HK$9,009,000 (2015: HK$7,098,000). 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-makers. 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 – sasa.com.

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 2016			
	Hong Kong & Macau HK$'000	**Mainland China HK$'000**	**All other segments HK$'000**	**Total HK$'000**
Turnover	**2,936,964**	**135,027**	**556,007**	**3,627,998**
Segment results	**162,676**	**(13,716)**	**(52,976)**	**95,984**
Other information				
Capital expenditure	**22,470**	**2,320**	**12,644**	**37,434**
Finance income	**4,279**	**172**	**817**	**5,268**
Income tax expense	**35,110**	**-**	**(2,822)**	**32,288**
Depreciation	**32,087**	**5,237**	**15,892**	**53,216**
Impairment of property, plant and equipment	**3,137**	**560**	**1,797**	**5,494**

4. Segment information (continued)

	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

	Hong Kong & Macau HK$'000	**Mainland China HK$'000**	**All other segments HK$'000**	**Total HK$'000**
At 30 September 2016				
Non-current assets	**359,570**	**21,137**	**91,669**	**472,376**
Current assets	**2,261,041**	**145,555**	**500,488**	**2,907,084**
				3,379,460
At 31 March 2016				
Non-current assets	382,529	24,444	96,928	503,901
Current assets	1,877,528	161,389	428,685	2,467,602
				2,971,503

5. Other income

	Six months ended 30 September	
	2016	2015
	HK$'000	HK$'000
Slide display rental income	**31,404**	31,521
Sub-lease income	**24,469**	27,311
	55,873	58,832

6. Expenses by nature

	Six months ended 30 September	
	2016	2015
	HK$'000	HK$'000
Cost of inventories sold	**2,114,946**	2,123,275
Employee benefit expenses (including directors' emoluments)	**510,311**	540,399
Operating lease rentals in respect of land and buildings		
- minimum lease payments	**468,514**	476,488
- contingent rent	**27,509**	30,113
Advertising and promotion expenses	**54,833**	60,209
Depreciation of property, plant and equipment	**53,216**	63,089
Building management fees, government rent and rates	**45,778**	44,309
Utilities and telecom	**31,605**	34,051
Sub-lease expenses	**23,726**	27,224
Repair and maintenance	**20,350**	21,011
Provision for slow moving inventories and stock shrinkage	**18,847**	33,000
Impairment and write-off of property, plant and equipment	**6,828**	11,293
Donations	**2,107**	2,492
Auditor's remuneration		
- audit services	**1,947**	1,830
- non-audit services	**483**	341
Others	**179,839**	179,276
	3,560,839	3,648,400
Representing:		
Cost of sales	**2,133,793**	2,156,275
Selling and distribution costs	**1,265,134**	1,315,317
Administrative expenses	**161,912**	176,808
	3,560,839	3,648,400

7. Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2015: 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	
	2016	2015
	HK$'000	HK$'000
Current tax		
- Hong Kong profits tax	**19,251**	26,585
- Overseas taxation	**12,778**	12,783
Deferred tax relating to origination and reversal of temporary differences	**259**	936
	32,288	40,304

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	
	2016	2015
	HK$'000	HK$'000
Profit attributable to owners of the Company	**95,984**	153,020
Weighted average number of ordinary shares in issue less shares under the Share Award Scheme during the period (thousands)	**2,888,928**	2,843,264

(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 2016 has been included in the number of shares.

8. Earnings per share (continued)

	Six months ended 30 September	
	2016	2015
	HK$'000	HK$'000
Profit attributable to owners of the Company	**95,984**	153,020
Weighted average number of ordinary shares in issue less shares held under the Share Award Scheme during the period (thousands)	**2,888,928**	2,843,264
Adjustment for share options and awarded shares (thousands)	**1,773**	1,233
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,890,701**	2,844,497

9. Dividends

	Six months ended 30 September	
	2016	2015
	HK$'000	HK$'000
Interim, declared – 5.0 HK cents (2015: 5.0 HK cents) per share	**148,043**	142,234
Special, declared – 4.0 HK cents (2015: 4.0 HK cents) per share	**118,434**	113,788
	266,477	256,022

At a meeting held on 23 November 2016, the Directors declared an interim dividend of 5.0 HK cents per share 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 2017.

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 2016	31 March 2016
	HK$'000	HK$'000
Within 1 month	**52,032**	48,968
1 to 3 months	**5,258**	29,880
Over 3 months	**271**	302
	57,561	79,150

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 2016 HK$'000	31 March 2016 HK$'000
Within 1 month	**385,482**	148,644
1 to 3 months	**150,265**	85,320
Over 3 months	**28,368**	27,531
	564,115	261,495

The carrying amounts of trade payables approximate their fair values.

MANAGEMENT DISCUSSION & ANALYSIS

For the six months ended 30 September 2016 ("period"), the Group's turnover amounted to HK$3,628.0 million, representing a decrease of 4.0% from HK$3,777.9 million for the six months ended 30 September 2015 ("previous period"). Retail sales in Hong Kong and Macau decreased by 3.6% from HK$3,010.4 million to HK$2,903.2 million. The Group's gross profit margin decreased from 42.9% to 41.2%.

The Group's profit for the period was HK$96.0 million, representing a decrease of 37.3% from HK$153.0 million for the previous period. Basic earnings per share amounted to 3.3 HK cents as compared to 5.4 HK cents for the previous period. The Board resolved to declare an interim dividend of 5.0 HK cents (2015: 5.0 HK cents) per share and a special dividend of 4.0 HK cents (2015: 4.0 HK cents) per share, totaling 9.0 HK cents per share, payable in cash with a scrip dividend alternative. The Group rationalised its retail network from 291 to 283, a net decrease of 6 "Sasa" stores and a net decrease of 2 single-brand stores/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 Index and has been a constituent member of Hang Seng Corporate Sustainability Benchmark Index for six consecutive years since 2011. It is also an eligible stock for Shanghai-Hong Kong Stock Connect.

Market Overview

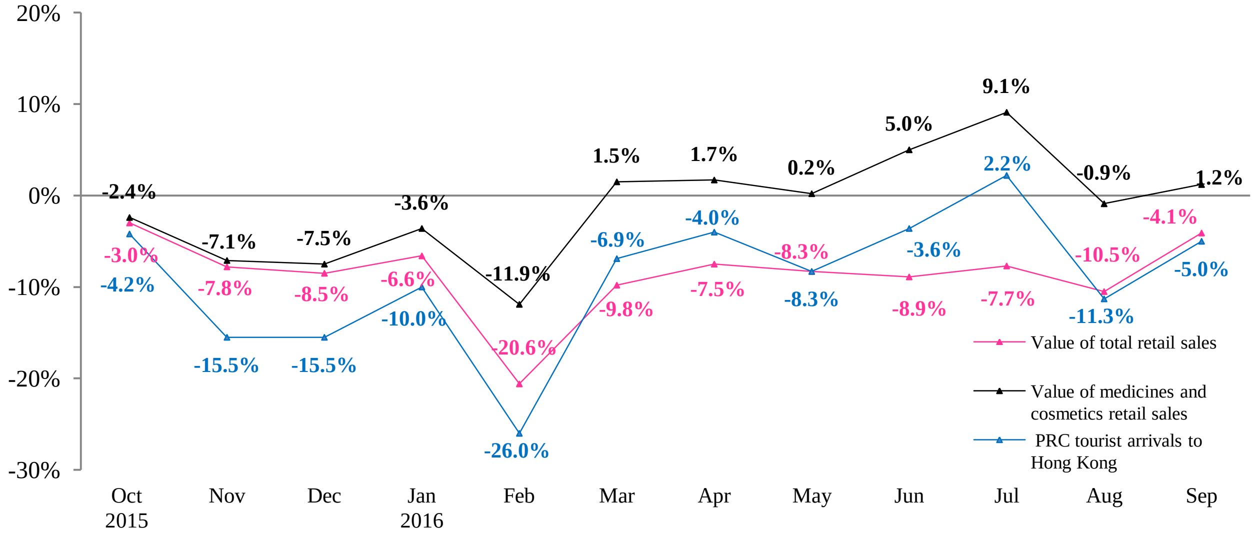
Retail Sales / Cosmetics Retail Sales Change By Market (Year 2016)

Market	Retail sales change	Cosmetic retail sales change
Hong Kong	-7.9% (Apr – Sep)	2.8% (Apr – Sep)
Mainland China	10.4% (Jan – Sep)	8.4% (Jan – Sep)
Singapore	2.0% (Apr – Sep)	2.5% (Apr – Jun)
Malaysia	8.9% (Apr – Sep)	Note 1
Taiwan	1.4% (Apr – Sep)	3.4% (Apr – Sep)

Note:

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

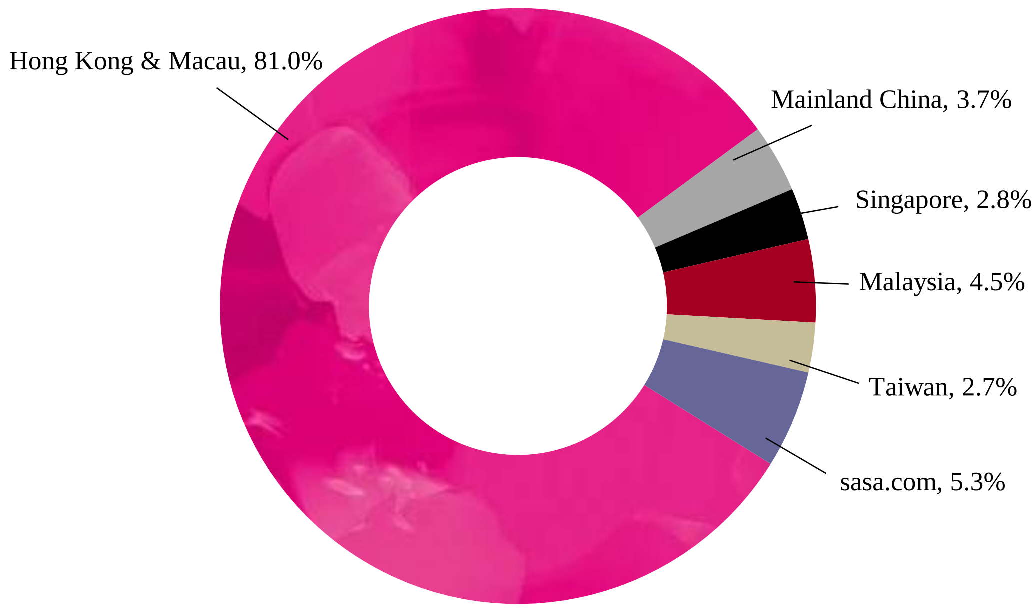
Retail Sales Performance in Hong Kong and PRC Tourist Arrivals to Hong Kong (year-on-year change)



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

Retail and Wholesale Business

<u>1st Half FY16/17 Turnover Mix by Market</u>

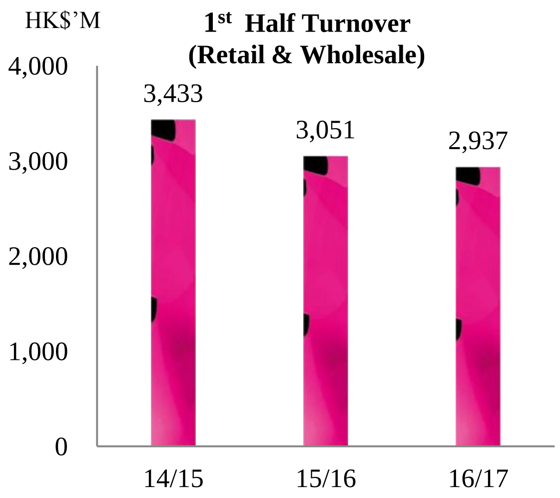


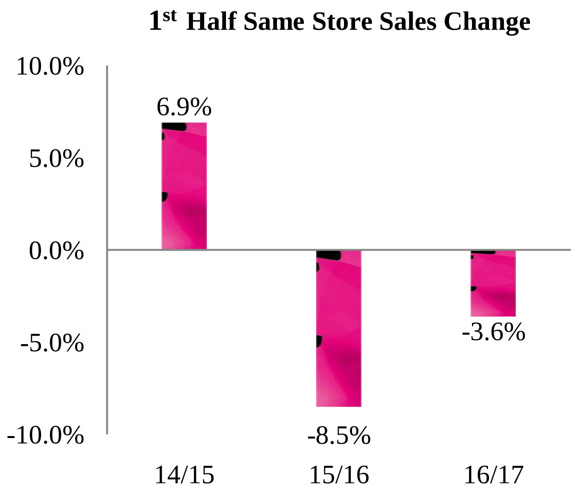
<u>Store Network By Market</u>

Multi-brand “Sasa” Stores	As of 31 Mar 2016	Opened	Closed	As of 30 Sep 2016
Hong Kong & Macau	111	6	5	**112**
Mainland China	57	2	6	**53**
Singapore	23	0	0	**23**
Malaysia	65	2	0	**67**
Taiwan	31	1	6	**26**
Total	287	11	17	**281**

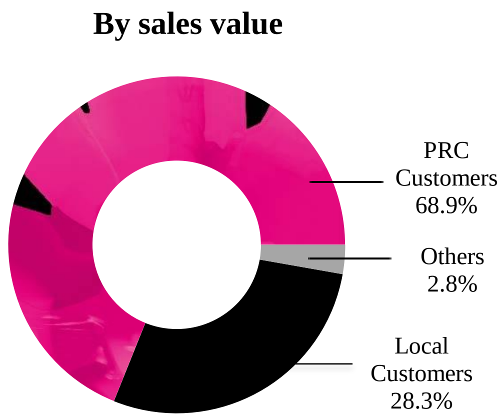
Note:
As at 30 September 2016, there was 1 single-brand store in Hong Kong & Macau and Malaysia respectively, totaling 283 retail outlets for the Group.

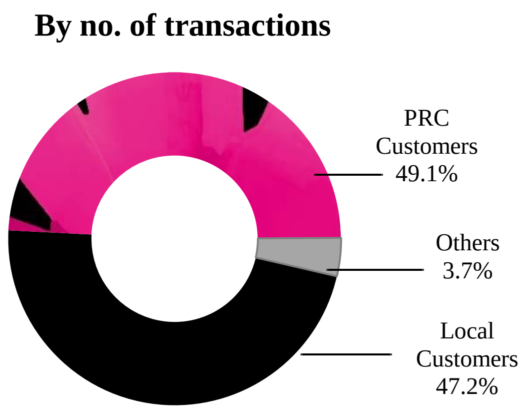
Hong Kong and Macau





Customer Mix (1st Half FY16/17 Retail Sales)





The Group's retail sales in Hong Kong & Macau for the period decreased by 3.6%, with same store sales falling 3.6% in comparison to the previous period. The number of transactions of local customers and Mainland Chinese customers increased by 0.2% and 4.4% respectively, while their average sales value per transaction decreased by 6.3% and 6.6% respectively.

The Group's retail sales in Hong Kong continued to be weak in comparison to the previous period. The decline in average sales value per transaction was the main reason for lower sales as the number of transactions held up despite an ongoing decline in Mainland tourist arrivals. The underlying reasons for the decrease in average sales value per transaction were a change in consumer product preferences, a strong Hong Kong dollar and a depreciating Yuan.

The policy change in Shenzhen permanent residents' multiple-entry permits to one-visit-one-week, which was implemented in April 2015, continued to have a significant impact on same day visitor traffic.

However, the decline in sales was significantly reduced beginning the first quarter of FY 2016/17 due to a gradual slowdown in the rate of declining Mainland tourist arrivals and an uptick towards positive growth in July 2016.

Sales were also supported by our strenuous efforts to adapt to new market preferences with faster product launches, adaptation to shorter product cycles and lower priced trendy Asian products. We have adopted a more flexible and effective merchandising process with an emphasis on time to market, streamlined product offerings and improved product displays.

Market Change

Korean product mix increased from 16.7% of total sales in the second half of FY 2015/16 to 23.5% of total sales in the first half of FY 2016/17, parallel imported product mix increased from 29.1% in the second half of FY 2015/16 to 31.7% in the first half of FY 2016/17, while house brand sales mix declined from 41.5% to 38.5% during the period.

This new product mix helped to increase store traffic, strengthen sales performance and win back market share in the first half. However, profitability was further dragged due to margin pressures. Gross profit margins dropped from 43.0% to 40.8%, due to more reliance on new product launches sourced through parallel importing, the weaker performance of private label products (mainly higher price items with a long product life cycle from Europe and USA), and to a lesser extent, continuous promotions to drive sales in a slower market.

We are starting to see the benefits of our strenuous efforts to rein in costs, which has allowed us to offset some of the negative effects of a lower gross profit margin.

Mainland China

Overall turnover for our Mainland China operations decreased by 4.3% in local currency terms to HK$135.0 million, while same store sales in local currency decreased 5.1% for the period. The loss for the period amounted to HK$13.7 million.

Boutique stores of a small size continued to contribute to overall profitability, and the recurring loss was narrowed down. However, the relocation of warehouses impacted profitability.

Singapore

During the period, the turnover for our Singapore operations was HK$101.3 million, a decrease of 11.1% in local currency terms over the previous period. The decrease in sales and profitability was due to weaker store traffic. This in turn reflected a substantial increase in retail space in Singapore over the past two years, with a significant dilution of sales in existing stores.

Management issues also impacted performance. The Singapore management team recorded high turnover, which created difficulties in retaining the knowledge base. This made our operations less effective amid a difficult market. However, a recent restructuring process drawing on the resources of our relatively strong Malaysian management team is expected to see cost savings and more effective management.

Malaysia

The turnover for our Malaysia operations was HK$163.4 million, a significant increase of 19.1% in local currency terms over the previous period. Same store sales growth rose 11.2% in local currency.

Our retail sales growth exceeded that of our peers as well as the overall retail market due to the Group’s strong retail network and effective marketing campaigns. Sales growth benefited from the implementation of the Goods and Sales Tax (GST) system, which had adversely impacted consumption sentiment in the first quarter of 2015. Management continued to strengthen after the restructuring of the previous year.

Taiwan

Turnover in the Group's Taiwan business decreased by 23.1% in local currency terms to HK$98.3 million during the period, and same store sales fell 19.5% in local currency.

Weak local consumption sentiment and the ongoing restructuring of our management team impacted our sales performance.

E-commerce – sasa.com

Turnover for sasa.com amounted to HK$193.0 million, representing a slight decrease of 0.1% over the previous period.

Sales were impacted by the appointment of a new logistics provider in April 2016 with the aim of increasing scalability. However, difficulties in the changeover resulted in a decision to return to the original service provider. Significant numbers of orders had to be cancelled and further costs were incurred by moving inventory back and forth as well as the running of two warehouses in parallel during the period. A change in management added to the logistics pressures.

However, profitability was also affected by more positive changes such as increased investment and advertising and promotion expenses aimed at strengthening competitiveness and brand exposure.

Building on the growth of mobile internet usage, which has already overtaken desktop internet usage in our sales processes, we launched a new mobile app during the period. In a further move to broaden our sales channels, we launched a collaboration with Kaola in addition to our partnership with T-Mall, JD.com and suning.com.

Brand Management

During the period, the Group's sales mix of own brand and exclusively distributed products, collectively referred to as House Brands, decreased from 41.3% to 38.8%.

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.

With Korean products outshining all others, we began catering to the higher demand for such products by launching a wider range of Korean product offerings, with the result that their sales rose 51.5% in Hong Kong and Macau. However, sales of non-house brand Korean products continued to outgrow our house brand Korean products.

Outlook

The Hong Kong retail market showed gradual signs of improvement during the period. However, the market has not yet fully recovered due to a number of factors. The strength of the US dollar and the linked Hong Kong dollar encouraged a rise in outbound travel by local people while discouraging inbound tourism. Local consumer confidence remained sluggish, although there were signs of stabilising. The unemployment rate remained low and the performance of the stock and property markets improved.

In regard to Mainland China, property prices rose much faster than household income, which thereby reduced disposable income. The depreciation of the Yuan also led to a slowdown in consumption. The one-trip-per-week restriction on Hong Kong travel for Shenzhen residents, which was adopted in April 2015, had a gradually lessening impact on sales.

Hong Kong and Macau

Competition continued to intensify within the Hong Kong cosmetics industry, with more standalone Korean brand stores, increasingly aggressive new small retailers and greater competition from online merchants. Nevertheless, the Group expects the decline in sales to continue to narrow in the second half of the fiscal year. Profitability will continue to be impacted by strong competition and with lower Gross Profit margins.

Effective cost controls

Going forward, the Group will continue to implement an effective regime of cost controls. In terms of store consolidation, we will undertake aggressive rental reductions in tourist areas and reposition our stores in residential areas with good growth prospects, including in the New Territories districts near the Mainland border.

The Group will optimise our store size with an emphasis on increasing penetration and store profitability rather than on the previous strategy of focusing mainly on growth. With rental pressures expected to moderate in a slower market, the Group will look for opportunities to open stores in prime locations with more reasonable rental levels. We will centralise and simplify workflows at store level to strengthen productivity and reduce costs. We will also reduce SKUs and clear slow moving stocks to make improved displays of new and productive SKUs.

In Macau, we are optimistic about retail sector growth, since the Central Government has identified Macau tourism as a key economic focus. Meanwhile, tourist attractions and hotel capacity are growing rapidly in Macau to attract and accommodate tourists.

Driving sales forward

The Group is currently adopting a new store format to capture new customer segments. We aim to enhance productivity with an optimised store size, improved product offerings and more attractive displays. To capture more young and male customers, we are launching new life style and trendy, gender neutral formats.

We are accelerating new product launches and building a VIP database to facilitate our CRM processes, online marketing and O2O development. The emphasis of our enhanced shopping experience is on new products, innovative product displays and interactivity to realise a fresh vision for our customer journey. We aim to provide a more comfortable shopping environment to upgrade the shopping experience, facilitate browsing and attract impulse purchases.

In the third quarter of FY 2016/17 (i.e. from 1 October 2016 to 20 November 2016), retail sales and same store sales in Hong Kong and Macau increased by 2.9% and 0.1% year-on-year respectively.

Mainland China

The dynamics of the cosmetics market are changing on the Mainland, with internet retailing growing at a rapid pace.

In the light of these challenges, the Group continues to strengthen management, with additional resources being deployed and new staff being recruited. We are also seconding experienced staff from Hong Kong to improve the attractiveness of our product offerings and strengthen inventory management. We aim to improve control processes as well as enhance compliance levels, raise the standard of reporting and upgrade our training.

Our O2O business operations are being further developed to align with government policy. We are introducing fast moving and trendy items, while leveraging on Hong Kong resources to introduce new brands to create a wider and more differentiated range of offerings.

Singapore, Malaysia and Taiwan

In Singapore, the Group will continue to realise synergies following the takeover of operations by the Malaysian management team.

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 by 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 streamline and review brand performance, 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 rationalise our network. The number of Mainland China consumers in Taiwan has been decreasing since the inauguration of the new President of Taiwan in May 2016. We are currently rebuilding our management team due to the weakness of the previous restructuring drive.

E-commerce – sasa.com

The Group's key strategy for our online platform is to strengthen our scalability from backend to fulfillment.

Our new Free Trade Zone warehouse allows us to significantly reduce fulfillment time and costs. It also enables us to serve customers with a smaller basket size, broaden our customer base and enhance our customer service due to a much shorter delivery time. We will leverage major Mainland online platforms and payment gateways to gain exposure and broaden our customer base. We will place greater emphasis on new product launches to attract traffic and drive sales, adopt fresh marketing channels, and develop our content strategy to improve the user experience.

O2O strategies

Amid intensifying competition from other shopping websites and mobile apps, we aim to coordinate online and offline operations to provide an improved O2O shopping experience to customers and to serve Mainland tourists after they have left Hong Kong to return home.

The Group will leverage our strength in retail business and our strong brand name to support our online operations while cooperating with external parties keen to explore O2O opportunities.

We will deploy the resources of our online operations for digital marketing and complement our physical stores with extensive online product offerings. Our robust efforts in digital marketing and the integration of our online and offline CRM platform will provide an enhanced shopping experience. Further development will allow us to maintain better contact with our customers and to continue to serve them even if they are not regular visitors to Hong Kong. Customer acquisition and retention will both improve and drive sales growth through these O2O efforts.

Brand Management

In regard to brand management, the Group will accelerate new product launches to adapt to fast changing market trends. We will forge close partnerships with suppliers and Korean beauty brands while continuing to enhance branding and marketing initiatives for our own brands.

We will eliminate low productivity SKUs, allow shelf space to be dedicated to new products and existing products with high productivity, reduce product management and storage costs, free up cash resources and also reduce the risk of product obsolescence. We will restructure our house brands to satisfy the market preference for low- and mid-price Asian products. We will place more emphasis on agent products and develop low- to mid-price own label products.

Human Resources

As at 30 September 2016, the Group had a total workforce of around 5,000 employees. Staff costs for the period ended 30 September 2016 were HK$510.3 million.

The Group always regard human capital as one of our most important assets. The Group has developed strategic human resources polices to attract, develop, motivate and retain an engaged workforce. In order to foster a working environment that can attract and motivate staff to achieve excellent performance, remuneration packages, development plans and staff benefits are reviewed on a regular basis. Various performance-based remuneration components, such as sales incentives and commissions, annual merit bonus, Key Performance Indicator (KPI) bonus and share options or share awards, are carefully designed.

To ensure the potential of staff is fully unleashed and to encourage them for further advancement, comprehensive training and development programmes such as orientation, coaching, on-the-job training, e-learning and other classroom training are offered.

Furthermore, to ensure that we have a continuous pipeline of future leaders, the Group offers exciting opportunities for top university graduates to join our structured Management Trainee Programmes in various functions, such as sales operations, logistics management and E-commerce. Financial subsidies are also offered to further study in order to encourage their continuous learning.

The Group puts staff engagement in the first place and thinks that communication is the key to success of staff relations. Various team-building activities and company events such as annual dinner and breakfast meetings are organised for this purpose. Furthermore, Corporate Social Responsibility (CSR) and charity events are also organised, not only to help the community but also to unite our staff and enhance their sense of belongings.

Financial Review

Capital Resources and Liquidity

As at 30 September 2016, the Group’s total equity funds amounted to HK$2,375.6 million including reserves of HK$2,086.4 million. The Group continued to maintain a strong financial position with cash and bank balances of HK$1,276.2 million. The Group’s working capital amounted to HK$1,954.3 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, Malaysian Ringgit, New Taiwan dollar, Renminbi, Singapore dollar, Swiss Franc and US dollar 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 2016 were HK$2,375.6 million, representing a 3.8% increase over the funds employed of HK$2,288.3 million as at 31 March 2016.

The gearing ratio, defined as the ratio of total borrowings to total equity, was zero as at 30 September 2016 and 31 March 2016.

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 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 2016, 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 2016.

Capital Commitments

As at 30 September 2016, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$104.3 million.

Conclusion

For many years, Sa Sa has been proud to deliver outstanding performance despite changes in the economic environment, stormy waters and market complexity. We therefore remain resolute in our belief that we can further strengthen our competitiveness in the coming years and convert difficult challenges into golden opportunities, such as those offered by O2O, by changing consumer behaviour and by the growing affluence of the less developed regions of Mainland China.

Our position as a leading provider of beauty products in the Asia Pacific is underpinned by the resilience of our business model, which can rapidly adapt to new trends, environments and markets. Based on the strength and flexibility of our loyal staff and the forward thinking of our pre-eminent leadership team, our vision is to deliver sustained, world-class growth for many years to come.

INTERIM DIVIDEND AND SPECIAL DIVIDEND

The Board has declared an interim dividend of 5.0 HK cents (2015: 5.0 HK cents) per share and a special dividend of 4.0 HK cents (2015: 4.0 HK cents) per share for the six months ended 30 September 2016, payable to shareholders whose names appear on the register of members of the Company on Friday, 9 December 2016. 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 of Hong Kong Limited 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 2016. The interim and special dividends are expected to be paid on or around Thursday, 19 January 2017.

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 Thursday, 8 December 2016 to Friday, 9 December 2016, 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 and transfer office, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Wednesday, 7 December 2016.

BUY-BACK, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2016, 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 2,274,000 shares at a total consideration of about HK$5.3 million.

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 2016 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. In respect of the one deviation from the CG Code, the roles of the chairman and chief executive officer are currently held by the same individual, namely, Dr KWOK Siu Ming Simon. The division of responsibilities between the two roles are, however, clearly established and set out in writing in the respective terms of reference for the chairman and the chief executive officer. With the high level of independence of our board, there are sufficient checks and balances despite the roles of the chairman and chief executive officer being one person. Dr Kwok, being one of the founders of the Group, has superior knowledge of our business and is a veteran in the retail industry. The board is therefore of the view 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 our operations. We will, nevertheless, periodically review the Board's structure going forward in light of the evolving needs of the Group and consider segregation of the two roles if and when appropriate.

For more information on our corporate governance practices, please refer to the Company's annual report 2015/16 published in July 2016.

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. This code applies to all directors and certain relevant employees who, because of their office or employment, are likely to be in possession of unpublished inside information in relation to the Company or its shares. Having made specific enquiry of all directors and the relevant employees, 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 2016 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 2016.

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
Sa Sa International Holdings Limited
KWOK Siu Ming Simon
Chairman and chief executive officer

Hong Kong, 23 November 2016

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, *GBS, JP*
Mr TAN Wee Seng