making life beautiful

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

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 178)

Interim Results for the six months ended 30 September 2020 and Trading Updates from 1 October to 15 November 2020

Highlights

- The Group's turnover for the continuing operations decreased by 62.1% to HK$1,286.1 million
- Sales of retail and wholesale in Hong Kong and Macau SARs reduced by 70.4% to HK$856.0 million
- Taking into account its discontinued operation, the Group incurred a loss for the period of HK$242.0 million, compared to a loss of HK$36.5 million recorded for the previous period
- Excluding the provision for impairment of HK$46.1 million made in accordance with HKAS 36 that applied to retail store assets (including right-of-use assets and property, plant and equipment), a loss for the Group of HK$201.8 million was recorded for the continuing operations during the period
- Basic loss per share amounted to 7.8 HK cents (2019: 1.2 HK cents)
- In view of the challenging and uncertain business environment in our operating markets, the Board has resolved not to pay any interim dividend for the reporting period (2019: Nil)

The board of directors of Sa Sa International Holdings Limited (the "**Company**") presents the unaudited condensed consolidated interim financial information of the Company and its subsidiaries (the "**Group**") for the six months ended 30 September 2020. 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.

Note: "Hong Kong" or "Hong Kong SAR" means the Hong Kong Special Administrative Region of the People's Republic of China; and "Macau" or "Macau SAR" means the Macau Special Administrative Region of the People's Republic of China.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Unaudited Six months ended 30 September 2020 HK$'000	2019 HK$'000 Restated
Continuing operations			
Turnover	4	**1,286,128**	3,394,664
Cost of sales	6	**(867,212)**	(2,113,505)
Gross profit		**418,916**	1,281,159
Other income	5	**93,896**	35,191
Selling and distribution costs	6	**(643,535)**	(1,189,242)
Administrative expenses	6	**(112,309)**	(145,849)
Impairment of right-of-use assets and property, plant and equipment	12	**(46,130)**	(4,273)
Other gains - net		**3,118**	834
Operating loss		**(286,044)**	(22,180)
Finance income		**4,083**	10,083
Finance costs	7	**(8,957)**	(13,410)
Loss before income tax		**(290,918)**	(25,507)
Income tax credit	8	**43,033**	1,718
Loss for the period from continuing operations		**(247,885)**	(23,789)
Profit/(loss) for the period from discontinued operation	9	**5,884**	(12,741)
Loss for the period attributable to owners of the Company		**(242,001)**	(36,530)
Loss per share for loss from continuing operations attributable to owners of the Company for the period (expressed in HK cents per share)	10		
Basic		**(8.0)**	(0.8)
Diluted		**(8.0)**	(0.8)
Loss per share for loss attributable to owners of the Company for the period (expressed in HK cents per share)	10		
Basic		**(7.8)**	(1.2)
Diluted		**(7.8)**	(1.2)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 September **2020** **HK$'000**	 2019 HK$'000 Restated
Loss for the period		**(242,001)**	(36,530)
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Cash flow hedges, net of tax		**20**	(199)
Currency translation differences of foreign subsidiaries recorded in translation reserve		**9,320**	(11,426)
Other comprehensive income/(loss) for the period, net of tax		**9,340**	(11,625)
Total comprehensive loss for the period attributable to owners of the Company		**(232,661)**	(48,155)
Total comprehensive (loss)/income for the period attributable to owners of the Company arises from:			
Continuing operations		**(238,328)**	(34,762)
Discontinued operation	9	**5,667**	(13,393)
		(232,661)	(48,155)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	Unaudited 30 September 2020 HK$'000	Audited 31 March 2020 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**254,409**	281,531
Right-of-use assets		**556,368**	761,107
Rental deposits and other assets		**85,644**	118,120
Deferred tax assets		**161,821**	115,146
		1,058,242	1,275,904
Current assets			
Inventories		**825,703**	1,005,900
Trade receivables	13	**65,471**	60,617
Other receivables, deposits and prepayments		**241,018**	276,237
Time deposits		**21,214**	82,122
Cash and cash equivalents		**572,394**	559,381
Income tax recoverable		**9,869**	7,026
		1,735,669	1,991,283
LIABILITIES			
Current liabilities			
Trade payables	14	**252,434**	219,246
Other payables and accruals		**217,936**	235,057
Lease liabilities		**459,117**	574,006
Income tax payable		**28,652**	35,066
		958,139	1,063,375
Net current assets		**777,530**	927,908
Total assets less current liabilities		**1,835,772**	2,203,812
Non-current liabilities			
Other payables		**38,594**	32,674
Lease liabilities		**363,287**	505,064
Retirement benefit obligations		**1,710**	1,710
Deferred tax liabilities		**88**	52
		403,679	539,500
Net assets		**1,432,093**	1,664,312
EQUITY			
Capital and reserves			
Share capital		**310,319**	310,319
Reserves		**1,121,774**	1,353,993
Total equity		**1,432,093**	1,664,312

Notes:

1. **Basis of preparation**

This condensed consolidated interim financial information for the six months ended 30 September 2020 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting". The interim report does not include all the notes of the type normally included in annual financial report. Accordingly, this interim report should be read in conjunction with the annual financial statements for the year ended 31 March 2020 ("2020 Annual Financial Statements"), which have 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 2020, 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.

Grants from the government are recognised at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

a) Amendment to standard mandatory for the first time for the financial year beginning 1 April 2020 and were early adopted in prior years

- HKFRS 9, HKAS 39, HKFRS 7 (Amendment), "Interest Rate Benchmark Reform"

b) Amendments to standards mandatory for the first time for the financial year beginning 1 April 2020 and were not early adopted in prior years

- HKAS 1 and HKAS 8 (Amendment), "Amendments to Definition of Material"
- HKFRS 3 (Amendment), "Definition of Business"

The adoption of these amendments to standards did not have any material impact on the Group's accounting policies and did not require retrospective adjustments.

c) Early adoption of amendments to standards issued but not yet effective for the financial year beginning 1 April 2020 where early adoption is permitted

- HKAS 1 (Amendment), "Classification of Liabilities as Current or Non-current" (effective for annual periods beginning on or after 1 April 2022). The amendment clarifies that the liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The right to defer only exists if the entity complies with any relevant conditions at the reporting date. The early adoption of HKAS 1 (Amendment) does not have any impact to the Group as the Group does not have any liabilities with a substantive right to defer settlement as at 30 September 2020.
- Annual Improvements Project (Amendment), "Annual Improvements to HKFRS 2018-2020" (effective for annual periods beginning on or after 1 April 2022). The Annual Improvements to HKFRS 2018-2020 contains the following amendments to HKFRS:
    - HKFRS 1 (Amendment), "Subsidiary as a First-time Adopter". HKFRS 1 allows an exemption if a subsidiary adopts HKFRS at a later date than its parent. This amendment allows entities that have taken this HKFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to HKFRS.

2. Accounting policies (continued)

c) Early adoption of amendments to standards issued but not yet effective for the financial year beginning 1 April 2020 where early adoption is permitted (continued)

- HKFRS 9 (Amendment), “Fees Included in the 10% Test for Derecognition of Financial Liabilities”. The amendment addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under this amendment, costs or fees paid to third parties will not be included in the 10% test.

- HKFRS 16 (Amendment), “Illustrative Examples Accompanying HKFRS 16”. The amendment removes the illustration of payments from the lessor relating to leasehold improvements in order to remove any potential confusion about the treatment of lease incentives.

- HKAS 41 (Amendment), “Taxation in Fair Value Measurements”. The amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in HKAS 41 with those in HKFRS 13 “Fair Value Measurement”.

The early adoption of Annual Improvements Project (Amendment) does not have any impact to the Group.

▪ HKFRS 3 (Amendment), “Reference to the Conceptual Framework” (effective for annual periods beginning on or after 1 April 2022). The amendment has updated HKFRS 3 “Business Combinations” to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. In addition, the amendment added a new exception in HKFRS 3 for liabilities and contingent liabilities. The early adoption of HKFRS 3 (Amendment) does not have any impact to the Group as the Group does not have any business combination during the six months ended 30 September 2020.

▪ HKAS 16 (Amendment), “Property, Plant and Equipment: Proceeds before Intended Use” (effective for annual periods beginning on or after 1 April 2022). The amendment prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use, and clarifies that an entity is “testing whether the asset is functioning properly” when it assesses the technical and physical performance of the asset. The early adoption of HKAS 16 (Amendment) does not have any impact to the Group as the Group does not have any proceeds received while the Group is preparing the asset for its intended use during the six months period ended 30 September 2020.

▪ HKAS 37 (Amendment), “Onerous Contracts – Cost of Fulfilling a Contract” (effective for annual periods beginning on or after 1 April 2022). The amendment clarifies the meaning of cost of fulfilling a contract and explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendment also clarifies that before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. The early adoption of HKAS 37 (Amendment) does not have any impact to the Group as the Group does not have any significant onerous contracts as of and during the six months ended 30 September 2020.

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 uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2020.

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.

During last financial period, the Group discontinued the business of retailing of cosmetic products in Singapore (Note 9) which was previously included in "all other segments"; the comparatives have been restated. Since "all other segments" refer to the market in Malaysia only, "all other segments" has been renamed to "Malaysia". The business reportable segments identified are Hong Kong and Macau SARs, Mainland China, E-commerce and Malaysia.

Segment assets consist primarily of property, plant and equipment, right-of-use assets, deferred tax assets, inventories, receivables, deposits and prepayments, time deposits, cash and cash equivalents and income tax recoverable. Capital expenditure comprises additions to property, plant and equipment.

4. Segment information (continued)

The breakdown of key segment information including total turnover from external customers is disclosed below.

	Six months ended 30 September 2020				
	Hong Kong & Macau SARs HK$'000	**Mainland China HK$'000**	**E-commerce HK$'000**	**Malaysia HK$'000**	**Total HK$'000**
Turnover	856,051	117,252	186,095	126,730	1,286,128
Segment results	(238,580)	(4,763)	(2,637)	(1,905)	(247,885)
Other information					
Capital expenditure	12,815	5,749	5	2,267	20,836
Finance income	3,173	99	8	803	4,083
Finance costs	7,874	249	-	834	8,957
Income tax (credit)/expense	(41,987)	-	(1,187)	141	(43,033)
Depreciation on property, plant and equipment	37,485	1,606	260	5,916	45,267
Depreciation on right-of-use assets	209,282	4,831	-	17,728	231,841
Provision/(reversal of provision) for slow moving inventories and shrinkage	20,573	(1,900)	2,324	(126)	20,871
Impairment of property, plant and equipment	2,982	-	-	-	2,982
Impairment of right-of-use assets	43,148	-	-	-	43,148

4. Segment information (continued)

	Six months ended 30 September 2019				
	Hong Kong & Macau SARs HK$'000	Mainland China HK$'000	E-commerce HK$'000	Malaysia HK$'000 (Restated)	Total HK$'000 (Restated)
Turnover	2,890,456	132,307	170,016	201,885	3,394,664
Segment results	(3,253)	(12,921)	(16,648)	9,033	(23,789)
Other information					
Capital expenditure	53,340	2,440	7,412	5,288	68,480
Finance income	9,129	99	32	823	10,083
Finance costs	12,203	236	-	971	13,410
Income tax (credit)/expense	763	-	(4,765)	2,284	(1,718)
Depreciation on property, plant and equipment	46,808	2,084	905	9,561	59,358
Depreciation on right-of-use assets	371,116	5,114	-	20,202	396,432
Provision for slow moving inventories and shrinkage	18,790	1,769	975	850	22,384
Impairment of property, plant and equipment	122	-	-	-	122
Impairment of right-of-use assets	3,810	341	-	-	4,151

At 30 September 2020	**Hong Kong & Macau SARs HK$'000**	**Mainland China HK$'000**	**E-commerce HK$'000**	**Malaysia HK$'000**	**Total HK$'000**
Non-current assets	**953,306**	**30,108**	**4,988**	**69,840**	**1,058,242**
Current assets	**1,251,683**	**121,951**	**165,459**	**196,576**	**1,735,669**
Total assets as per condensed consolidated interim statement of financial position					**2,793,911**
At 31 March 2020					
Non-current assets	1,174,950	21,919	1,706	77,329	1,275,904
Current assets	1,540,945	124,153	95,195	184,455	1,944,748
Total segment assets					3,220,652
Discontinued operation					46,535
Total assets as per consolidated statement of financial position					3,267,187

5. Other income

	Six months ended 30 September	
	2020	2019
	HK$'000	HK$'000
		Restated
Slide display rental income	**13,833**	35,191
Government subsidies (note)	**80,063**	-
	93,896	35,191

Note:
Wage subsidies of HK$75,254,000 were granted or to be granted from the Hong Kong SAR government's Employment Support Scheme under Anti-Epidemic Fund for the use of paying wages of employees from June to September 2020 during the six months ended 30 September 2020.

Government subsidies of HK$3,160,000 were granted from the one-off Retail Sector Subsidy Scheme, and Beauty Parlours, Massage Establishments and Party Rooms Subsidy Scheme under Anti-Epidemic Fund launched by the Government of the Hong Kong SAR. The Group has complied all attached conditions before 30 September 2020 and recognised in the income statement.

Remaining subsidies of HK$1,649,000 were granted from other subsidy schemes launched by government of Macau SAR and Malaysia. The Group has complied all attached conditions before 30 September 2020 and recognised in the income statement.

6. Expenses by nature

	Six months ended 30 September	
	2020	2019
	HK$'000	HK$'000
		Restated
Cost of inventories sold	**846,341**	2,091,121
Employee benefit expenses (including directors' emoluments)	**321,609**	529,849
Depreciation expenses		
- right-of-use assets	**231,841**	396,432
- property, plant and equipment	**45,267**	59,358
Building management fees, government rent and rates	**44,456**	53,387
Provision for slow moving inventories and shrinkage	**20,871**	22,384
Advertising and promotion expenses	**19,218**	44,022
Transportation, storage and delivery charges	**16,677**	23,204
Utilities and telecommunication	**12,874**	25,519
Repair and maintenance	**12,367**	18,673
Auditors' remuneration		
- audit services	**1,745**	1,771
- non-audit services	**449**	455
Donations	**1,046**	1,835
Write-off of property, plant and equipment	**341**	1,142
Lease rentals in respect of land and buildings		
- lease rental for short-term leases	**38,594**	22,243
- contingent rent	**11,168**	20,760
- rent concession related to COVID-19 (note)	**(61,970)**	-
Others	**60,162**	136,441
	1,623,056	3,448,596
Representing:		
Cost of sales	**867,212**	2,113,505
Selling and distribution costs	**643,535**	1,189,242
Administrative expenses	**112,309**	145,849
	1,623,056	3,448,596

6. **Expenses by nature (continued)**

Note:
Rent concession related to COVID-19 amounted to HK$61,945,000 was included in selling and distribution costs from continuing operations and HK$25,000 was included in administrative expenses from continuing operations.

7. **Finance costs**

	Six months ended 30 September	
	2020	2019
	HK$'000	HK$'000
		Restated
Interest expenses on lease liabilities	**8,957**	13,410

8. **Income tax credit**

Hong Kong profits tax has been provided for at the rate of 16.5% (2019: 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	
	2020	2019
	HK$'000	HK$'000
Current tax		
- Hong Kong profits tax	**3,242**	2,846
- Overseas taxation	**93**	10,404
Deferred tax relating to origination and reversal of temporary differences	**(46,368)**	(14,968)
	(43,033)	(1,718)

9. **Discontinued operation**

During the last financial period, the Group discontinued the business of retailing of cosmetic products in Singapore. The results of the discontinued operation for the six months ended 30 September 2020 and 2019 are presented below:

	Six months ended 30 September	
	2020	2019
	HK$'000	HK$'000
Turnover	**-**	99,463
Other income and gains, net	**5,884**	215
Cost of sales and expenses	**-**	(112,419)
Profit/(loss) before income tax	**5,884**	(12,741)
Income tax expense	**-**	-
Profit/(loss) from discontinued operation	**5,884**	(12,741)
Currency translation differences of foreign subsidiaries recorded in translation reserve	**(217)**	(652)
Total comprehensive income/(loss) from discontinued operation	**5,667**	(13,393)

9. Discontinued operation (continued)

Profit/(loss) for the period of Singapore retail operation has been arrived at after charging:

	Six months ended 30 September 2020 HK$'000	2019 HK$'000
Depreciation of property, plant and equipment	**-**	2,065
Depreciation of right-of-use assets	**-**	18,061
Provision for slow moving inventories and shrinkage	**-**	1,559
Interest expenses on lease liabilities	**-**	502

The net cash flows incurred by the discontinued operation are as follows:

	Six months ended 30 September 2020 HK$'000	2019 HK$'000
Net cash (used in)/generated from operating activities	**(6,583)**	8,277
Net cash used in investing activities	**(15)**	(348)
Net cash used in financing activities	**(23,989)**	(7,536)
Net (decrease)/increase in cash and cash equivalents from discontinued operation	**(30,587)**	393

Earnings/(loss) per share for profit/(loss) from discontinued operation attributable to owners of the Company for the period are as follows:

	Six months ended 30 September 2020 HK cents	2019 HK cents
Basic earnings/(loss) per share from discontinued operation	**0.2**	(0.4)
Diluted earnings/(loss) per share from discontinued operation	**0.2**	(0.4)

10. Loss per share

From continuing operations

(a) Basic loss per share from continuing operations is calculated by dividing the loss from continuing operations 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 2020 HK$'000	2019 HK$'000
Loss from continuing operations attributable to owners of the Company	**(247,885)**	(23,789)
Weighted average number of ordinary shares in issue less shares held under the Share Award Scheme during the period (thousands)	**3,101,043**	3,093,069

10. Loss per share (continued)

From continuing operations (continued)

(b) For the six months ended 30 September 2020 and 2019, diluted loss per share from continuing operations equals to basic loss per share from continuing operations as the potential ordinary shares were not included in the calculation of diluted loss per share because they are anti-dilutive.

From continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	Six months ended 30 September	
	2020	2019
	HK$'000	HK$'000
Loss from continuing operations attributable to owners of the Company	**(247,885)**	(23,789)
Profit/(loss) from discontinued operation attributable to owners of the Company	**5,884**	(12,741)
Loss for the purpose of basic and diluted loss per share from continuing and discontinued operations	**(242,001)**	(36,530)
Weighted average number of ordinary shares in issue less shares held under the Share Award Scheme during the period (thousands)	**3,101,043**	3,093,069

11. Dividend

The Board has resolved not to pay any interim dividend for the six months ended 30 September 2020 (2019: Nil).

12. Impairment of right-of-use assets and property, plant and equipment

As at 30 September 2020, net book amount of retail store assets represented property, plant and equipment and right-of-use assets amounting to HK$58,293,000 (2019: HK$137,898,000) and HK$429,321,000 (2019: HK$1,284,953,000) respectively. The Group regards each individual retail store as a separately identifiable cash-generating unit. Management carried out an impairment assessment for the retail store assets, including property, plant and equipment and right-of-use assets, which have an impairment indicator.

The carrying amount of the retail store assets is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The estimates of the recoverable amounts were based on value-in-use calculations using discounted cash flow projections based on the financial forecasts approved by management covering the remaining tenure of the lease, with major assumptions such as percentage change in revenue, percentage change in running cost and gross profit margin. As a result, an impairment loss of property, plant and equipment and right-of use assets of HK$2,982,000 and HK$43,148,000 (2019: HK$122,000 and HK$4,151,000) respectively were recognised in selling and distribution costs.

12. Impairment of right-of-use assets and property, plant and equipment (continued)

Key assumptions used in the value-in-use calculations for the recoverable amount of retail store assets in Hong Kong and Macau SARs market are as follows:

Percentage change in revenue:	based on the estimated timing of easing quarantine restrictions at the borders and the recovery of Mainland tourist arrivals and the consequential effect on the foot traffic of the Group's retail stores
Pencentage change in running cost:	based on the estimated change related to the Group's cost saving plan and measures
Gross profit margin:	based on the historical data and change in product mix

13. 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 120 days. The ageing analysis of trade receivables by invoice date is as follows:

	30 September 2020 HK$'000	31 March 2020 HK$'000
Within 1 month	**43,474**	30,952
1 to 3 months	**12,907**	14,396
Over 3 months	**9,090**	15,269
	65,471	60,617

The carrying amounts of trade receivables approximate their fair values.

14. Trade payables

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

	30 September 2020 HK$'000	31 March 2020 HK$'000
Within 1 month	**153,503**	79,430
1 to 3 months	**72,645**	84,716
Over 3 months	**26,286**	55,100
	252,434	219,246

The carrying amounts of trade payables approximate their fair values.

MANAGEMENT DISCUSSION & ANALYSIS

For the six months ended 30 September 2020 (“period”), the Group’s turnover for the continuing operations amounted to HK$1,286.1 million, representing a decrease of 62.1% from HK$3,394.7 million for the six months ended 30 September 2019 (“previous period”), excluding the discontinued operation. Sales of retail and wholesale in Hong Kong and Macau SARs reduced by 70.4% to HK$856.0 million. The Group’s retail outlets for the continuing operations decreased from 244 last year to 231 as of 30 September 2020.

Taking into account its discontinued operation, the Group incurred a loss for the period of HK$242.0 million, compared to a loss of HK$36.5 million recorded for the previous period. Excluding the provision for impairment of HK$46.1 million made in accordance with HKAS 36 that applied to retail store assets (including right-of-use assets and property, plant and equipment), a loss for the Group of HK$201.8 million was recorded for the continuing operations during the period.

Basic loss per share amounted to 7.8 HK cents (2019: 1.2 HK cents). In view of the challenging and uncertain business environment in our operating markets, the Board has resolved not to pay any interim dividend for the reporting period in accordance with the Group’s policy to pay dividends out of profits and for reasons of responsible risk management under the current operating environment (2019: Nil).

The Group has been included in the Hang Seng Composite SmallCap Index, Hang Seng Small Cap (Investable) Index, FTSE World Index Series and MSCI Index Series. We have been a constituent member of Hang Seng Corporate Sustainability Benchmark Index since 2011.

Impact of COVID-19 Pandemic

Since the outbreak of the Novel Coronavirus Disease 2019 (“COVID-19” or “pandemic”) in early 2020, Sa Sa has demonstrated its own corporate responsibility by putting the health and safety of its employees, customers, business partners, and the entire community as its top priority. Apart from proactively implementing public health measures recommended by the local health authorities, the Group has also kept abreast of the latest developments in regard to the pandemic.

Hong Kong and Macau SARs are the core markets of the Group with the most employees. To protect the health and safety of all employees in its stores and offices, the Group has adopted a host of preventive measures to reduce the risk of the virus spreading within the community. Once an employee is tested positive for COVID-19, the respective retail store or office floor is closed immediately for thorough cleaning and disinfection, and employees who have been in close contact are required to undergo compulsory quarantine for 14 days as well as COVID-19 tests. The Group also promptly announces the latest status of infected employees through multiple channels to ensure that its employees, customers, and business partners immediately receive the latest information. During the peak of the pandemic outbreak, the Group introduced flexible work arrangements for employees to prevent them from gathering in the office. At our retail stores, all customers are required to measure their body temperature and wear masks before entering the stores. All employees, whether in stores or offices, have to wear masks, clean and sanitise their hands regularly and report their physical condition by measuring body temperature twice daily no matter if they are working in the office or from home.

With the pandemic raging globally, many countries have implemented various public health measures and entry-exit restrictions, which have had varying degrees of impact on all markets where the Group operates its retail stores. Catering to customers’ needs for protective products, the Group sourced globally for products including masks, hand sanitisers as well as disinfectant wipes etc., and launched its own brand of hand sanitisers, with a view to protecting the community while driving business performance. In the meantime, the Group has accelerated the development of its online channels and home delivery service in all markets to avoid the distress of customers queuing at its stores and the risk of infection arising therefrom, an initiative that has also helped propel the development of the Group's local online business. Other contingency strategies of the Group will be explained in detail in the business review section.

With COVID-19 catalysing the evolution of the entire retail market, the Group has reviewed its business operations in response to the behavioural changes in the consumer market. By effectively integrating online and offline ("O2O") operations, the Group strives to improve the customer shopping experience to achieve sustainable business growth. The Group has also recognised the importance and urgency of workflow automation, and has unwaveringly sped up office digitalisation and process automation, as well as e-commerce and O2O business, thereby seeking to increase long-term financial returns.

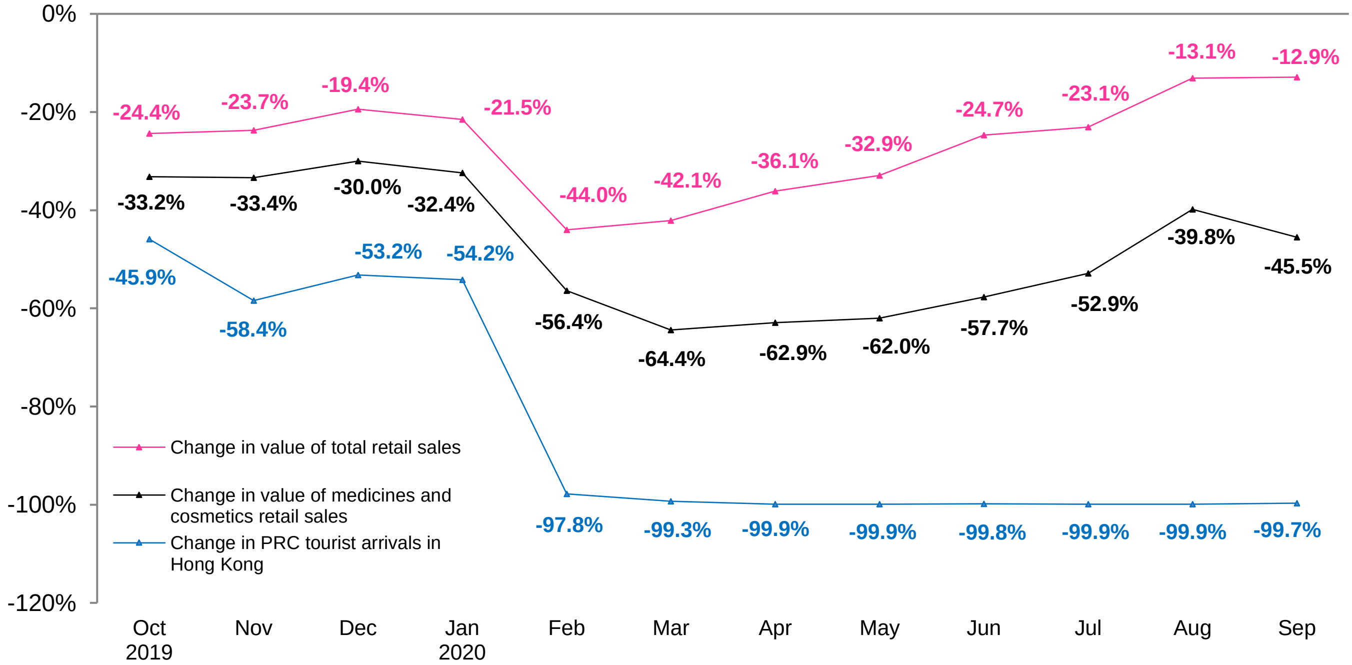
Market Overview

Retail Sales / Medicines and Cosmetics Sales in 2020 (year-on-year change)

Market	Retail Sales Change	Medicines and Cosmetics Sales Change
Hong Kong SAR	-24.7% (Apr – Sep)	-54.9% (Apr – Sep)
Mainland China *(Note 1)*	-7.2% (Jan – Sep)	4.5% (Jan – Sep)
Malaysia	-12.2% (Apr – Aug)	*Note 2*

Note:
1) *Only cosmetics sales statistics were included in the Mainland China market.*
2) *There were no medicines and cosmetics sales statistics provided by the Malaysian Government.*
3) *All of the above data were sourced and estimated from statistics published by corresponding governments' statistics bureaus.*
4) *There are some inconsistencies in definition and survey methodology for cosmetics retail sales by different government statistics bureaus.*

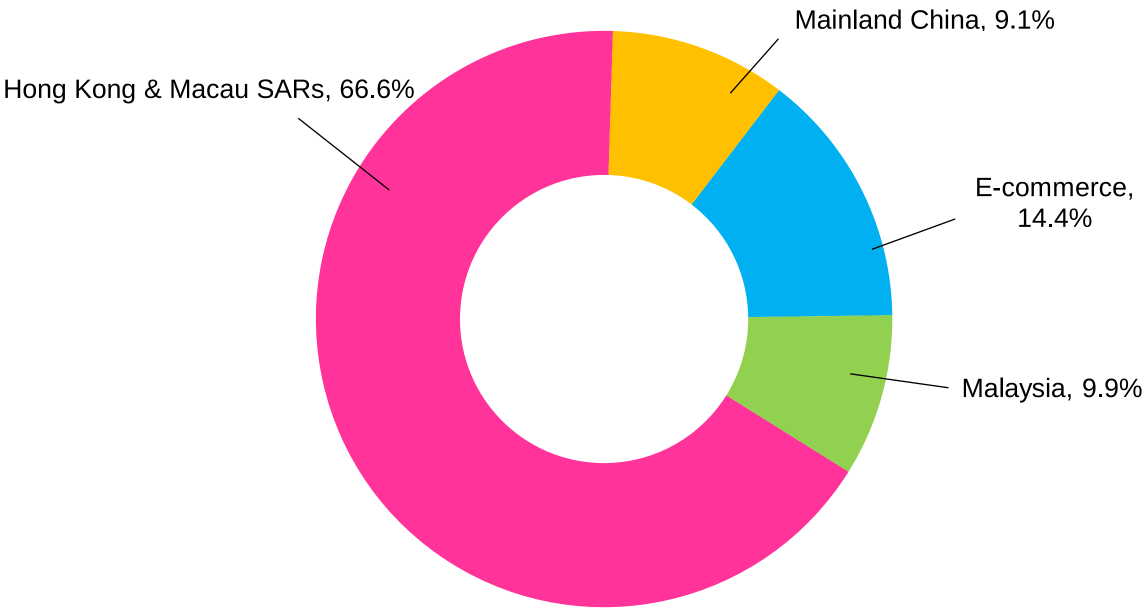
Retail Sales Performance in Hong Kong SAR and PRC Tourist Arrivals in Hong Kong (year-on-year change)



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

Retail and Wholesale Business

1st Half FY2020/21 Turnover Mix by Market



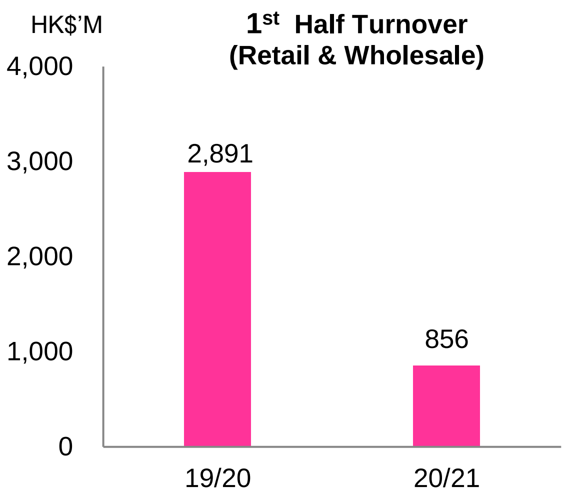
Store Network by Market

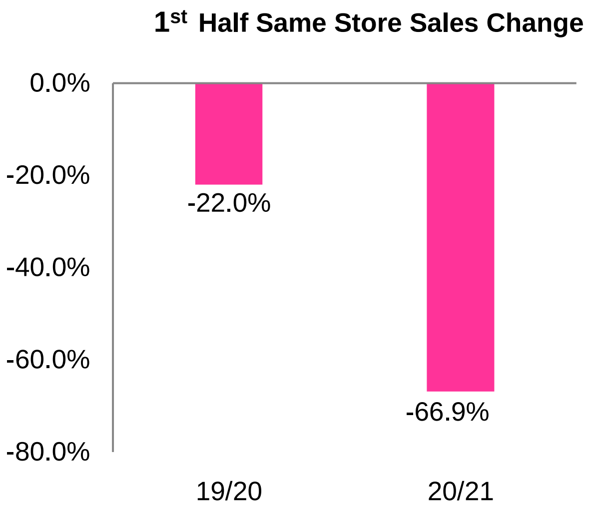
Market (Continuing operations)	As of 30 Sep 2019	As of 31 Mar 2020	Opened*	Closed*	As of 30 Sep 2020
Hong Kong & Macau SARs	118	112	-	6	106
Mainland China	46	44	5	1	48
Malaysia	80	79	1	3	77
Total	244	235	6	10	**231**

**Note:*

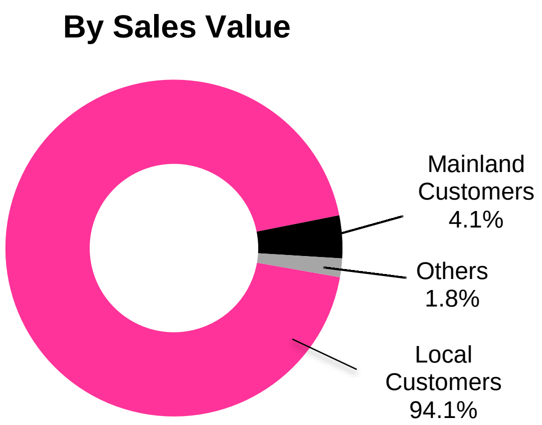
- *The number of stores opened and closed within six months between 1 April 2020 and 30 September 2020.*
- *As at 30 September 2019, there were 21 retail stores in Singapore market in total. Since the Group announced the closure of Singapore business in December 2019, all retail stores have been closed before 31 March 2020.*

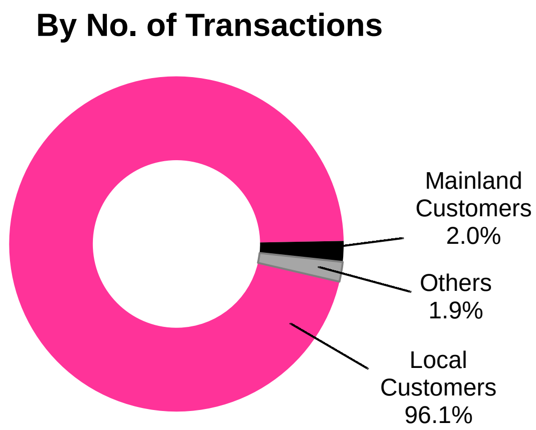
Hong Kong and Macau SARs





Customer Mix (1st Half FY2020/21 Retail Sales)





Since early 2020, the COVID-19 outbreak alongside the escalating Sino-US tensions have aggravated the already weakened local consumption. To impede the spread of COVID-19 during the period, the Hong Kong and Macau SAR governments introduced border control measures and suspended the individual visit scheme for Mainland Chinese visitors. In the process they literally put a stop to tourist arrivals and substantially curtailed the entire retail industry, which relies heavily on tourism. This inevitably struck a heavy blow to the Group's business in Hong Kong and Macau SARs.

Hong Kong SAR

During the period, Hong Kong SAR maintained its stringent border control measures until the end of September in response to the COVID-19 outbreak, resulting in a drastic decline in tourist arrivals. The statistics from the Hong Kong Tourism Board showed that with the number of tourists from Mainland China plummeting by 99.9% year-on-year, total tourist arrivals between April and September 2020 registered a 99.8% year-on-year decline. Meanwhile, the number of transactions contributed by Mainland Chinese tourists plunged and led to a substantial year-on-year decrease of 98.2% in sales. The government also introduced bans on gathering as well as social distancing initiatives to a varying extent, leading to low local traffic in the city.

Sales were also hindered as five stores were temporarily closed for at least 14 days due to diagnosed cases of frontline staff. Sales to locals declined by 19.2% year-on-year, whilst the number of transactions and average sales per transaction dropped by 11.2% and 9.1% year-on-year, respectively.

The labour market in Hong Kong SAR came under tremendous pressure with the unemployment rate reaching as high as 11.7% in consumption and tourism-related sectors for the period of July to September. Consumer sentiment remained weak despite the government's payout scheme to stimulate consumption; according to the Hong Kong Census and Statistics Department, retail sales between April and September 2020 shrank by 24.7% year on year. The 2020 Q3 report published by Midland IC&I Research Department estimated a record high retail store vacancy rate of nearly 13% in the four core districts of Central, Causeway Bay, Tsim Sha Tsui, and Mong Kok , with more than 4,000 street shops lying vacant in Hong Kong SAR. The number of vacant shops in the four core districts nearly doubled year-on-year, reflecting a grave business environment for the retail industry. Based on the aforesaid, the performance of Hong Kong SAR business of the Group did not improve notably in the second quarter as compared to that in the first quarter, while retail sales for the period declined by 68.4% year-on-year to HK$670.6 million.

The pace and degree of recovery of the retail industry will depend heavily on whether the city is able to bring the pandemic under control. If the pandemic cannot be contained in the foreseeable future, the business environment is expected to further deteriorate.

Macau SAR

After the suspension of the individual visit scheme for Mainland Chinese visitors in January, Macau SAR further tightened quarantine restrictions at the border in late March, resulting in near zero tourist arrivals to the city. Sales at our stores contributed by tourists plunged 98.2% year-on-year, resulting in total retail sales in Macau SAR declining by 78.0% to HK$151.6 million. Since tourist sales make up a larger portion of Macau SAR's business, a greater impact from the pandemic was seen in the retail sales of Macau SAR as compared to that of Hong Kong SAR.

On a positive note, the Macau SAR government has rolled out two phases of a consumption subsidy scheme in order to stimulate local consumption. Since the pandemic was largely brought under control by mid April, sales from locals resumed positive growth from May onwards. With the Group's primary target customers shifting from tourists to locals, sales contributed by locals recorded a 9.9% year-on-year increase during the first quarter, and further surged 83.2% in the second quarter. With Macau SAR reopening borders for multiple cities in Mainland China in mid August, and further extending access to all Mainland Chinese visitors at the end of September, tourist arrivals registered a sequential increase. The Group's overall sales in the second quarter increased by 95.6% as compared to the first quarter. However, as tourist arrivals lagged considerably behind the level of arrivals for the previous period, and sales growth from locals could not fully offset the impact of the acute decline in tourist arrivals, retail sales in Macau SAR during the period dropped by 78.0% year-on-year.

Overall, retail sales dropped by 70.8% in the first half of FY2020/21 in Hong Kong and Macau SARs, while same-store-sales declined by 66.9%. The overall number of transactions decreased by 51.5%. Given that the sales values from Mainland Chinese tourists and locals decreased disproportionately by 98.2% and 11.9% respectively, the sales mix between Mainland Chinese tourists and locals also changed significantly. The loss of Hong Kong and Macau SARs amounted to HK$238.6 million during the period, as compared to a loss of HK$3.3 million recorded in the previous period. Excluding the provision for impairment of HK$46.1 million made in accordance with the HKAS 36 that applied to retail store assets (including right-of-use assets and property, plant and equipment), the Group's loss in this market was HK$192.5 million.

Rationalising Store Network to Reduce Rental Expenses

Retail stores used to be the focus and the core of the Group's business. Rental expenses therefore accounted for the biggest expense of the Group's retail operations. Since September last year, the Group has actively rationalised its store network to reduce operating costs and expedite a profit turnaround. Poor performing stores in the tourist areas or stores with unsatisfactory rental reduction have been closed in order to reduce the cost of the physical retail stores network since retail stores in tourist areas bore the brunt of severe declines in tourist arrivals during the period. The Group closed six more stores with a majority of them located in Hong Kong SAR's tourist districts such as Tsim Sha Tsui and Causeway Bay as their leases expired. This followed the closure of nine stores in the second half of the previous financial year. The Group also sped up the development of e-commerce business to diversify its business. As of 30 September 2020, the number of retail stores in Hong Kong and Macau SARs was 106, representing a net decrease of 12 year-on-year, among which 11 closed stores were located in the tourist districts.

The Group continued its negotiations with landlords for rental concessions during the period in an effort to cut rental costs in accordance with the respective stores' sales performance and business demand in the districts, led to a year-on-year increase of HK$57.4 million in rental concessions. Total savings from the above together with store closures, shop rental reduction upon contract renewals amounted to HK$150.3 million in the first half of the year as compared to the same period last year. The Group has also reduced the leased space for its logistics centre in Hong Kong SAR, which helped to contribute to a 35.9% year-on-year decrease in overall logistics expenditure, thereby arriving at a leaner cost structure.

A further 21 shops are subject to lease renewal within this financial year. Expecting a slow rebound in the number of Mainland Chinese tourists in the second half of the year, the Group will persist in its goal of store network rationalisation and rental expense reduction, aiming to close more stores in the second half of the year.

Retaining Working Capital is the Key

In order to retain sufficient working capital and maintain liquidity, the Group's top priority is to implement stringent inventory and cost management. During the period, the Group conducted clearance sales for products with high inventory levels, shorter shelf-lives or lower turnover rates. As a result, the Group's inventory was lowered to HK$825.7 million as of 30 September 2020, which was a reduction of HK$180.2 million comparing to the end of March 2020.

As of 30 September 2020, the cash and bank balance stood at HK$593.6 million, a reduction of HK$195.1 million and HK$47.9 million when compared to 30 September 2019 and 31 March 2020 respectively. This is adequate for the current operating needs of the Group. The Group has also increased its revolving loan facilities as working capital reserve in light of market uncertainty. These facilities remained unused as at 30 September 2020.

The Group has further streamlined its operations, and strengthened digitalisation and automation in order to reduce costs and enhance operational efficiency. The Group has made additional cost-saving efforts, including cutting unnecessary and non-productive expenses in various departments, in order to to minimise costs and optimise cost structure, thereby laying a solid foundation for the Group's healthy development in the future.

In the first half of the year, staff costs in Hong Kong and Macau SARs were reduced by HK$185.8 million and 46.6% year-on-year due to the implementation of a cost reduction programme. The Group adopted unpaid leave arrangements and a temporary salary reduction scheme for three months, with salary reduction still applicable to executive directors and senior management until now but at a lower reduction percentage; whilst members of staff have been encouraged to clear their annual leaves. In order to alleviate the burden of labour costs, the Group applied for the Hong Kong SAR government's "Employment Support Scheme". The first tranche of the subsidy amounting to HK$59.9 million was received at the end of June and was used entirely for paying wages. Currently, except for the reduction of remunerations and salaries for board members and management-level employees, pay cuts or unpaid leave arrangements have not been applied to other employees from June. The Group has also applied for the second tranche of the Scheme.

Catering to Market Dominated by Local Customers

During the period, the Group introduced products in response to market demand and trends to cater for local customers' needs and preferences, including protective products, personal care and health supplement products. The Group also improved the in-store product display to drive their sales, with the aim to seize opportunities to engage consumers and build a stable and loyal local customer base.

In view of the downturn in the retail market, the Group stimulated local consumption by launching a diverse line-up of promotional activities such as clearance sales, collaboration with payment solution providers and local credit card companies, VIP offers and so on, as well as enhancing promotion through social media. The aforementioned campaigns were effective in drawing the foot traffic of local customers, boosting sales as well as reducing inventory. They, however, put pressure on our gross profit margin, which dropped from 37.0% to 29.6% year-on-year during the period. Considering that the inventory level as at the end of September declined significantly year-on-year, the Group has proactively introduced new products since the second quarter to increase gross profit margin and enhance sales performance, therefore gross profit margin started to rebound in October.

With the pandemic prompting a shifting of customer traffic towards online channels, the Group has redoubled its efforts to develop e-commerce business and further integrate O2O operations with promising results achieved. More details will be elaborated on in the “E-commerce” section.

Mainland China

Against the backdrop of COVID-19, total turnover for the Group’s Mainland China operations during the period decreased by 10.0% in local currency terms to HK$117.3 million, while same store sales in local currency terms dipped by 1.0%. The Group operated 48 stores in Mainland China as of 30 September 2020 as compared to 46 stores in the previous period.

Operations of the Group continued to be affected by the pandemic as the Chinese government implemented strict preventive measures, leading to a decline in shop traffic during the period. Following the stabilised pandemic situation in May and the control of the break out in Beijing in July, sales of the Group started to pick up steadily with a narrowing decline in same store sales. Consequently, same store sales in the first half year slightly dropped 1.0% year-on-year.

In face of the challenging business environment, the Group sought to reinforce its product and brand management, and spared no effort in controlling costs. During the period, the Group restructured its brand management team, enhanced the competitiveness of its overall product portfolio and expedited the introduction of local best-selling products to respond to customers’ preferences, which showed satisfactory results in attracting customer traffic. Supported by continuous improvements in sales productivity per head and the cost effectiveness of store operations efficiency, the Group also improved its mapping of the O2O operations and accelerated new store openings. In the first half of the year, the Group opened five new stores and achieved a satisfactory sales performance. By strategically concentrating resources on opening new stores in key city clusters, the Group benefitted from effective centralised management and enhanced store cost-effectiveness and operational efficiency.

In terms of our operational management, the Group implemented reforms in the remuneration structure for frontline staff in the first half of the year, which effectively strengthened the sales performance and productivity of the Group. For logistics, we relocated our dangerous goods warehouse specially established for perfume and spray products from Shanghai to Wuhan in August, in order to enjoy a better geographical advantage and further enhance the efficiency of nation-wide delivery. The original warehouse in Shanghai has been retained as the second support centre for the balance of entire risk. The Group has also set up an e-commerce warehouse in Shanghai for the WeChat mini-programme to further enhance the efficiency of online business distribution and customer experience. Relevant operations will be elaborated on in detail in the “E-commerce” section.

E-commerce

Turnover of the Group’s e-commerce business increased by 9.5% year-on-year to HK$186.1 million, of which contributions from O2O business amounted to HK$37.5 million and accounted for 20.2% of the turnover of e-commerce business as compared to nearly zero in the previous period.

In April, Sa Sa strategically closed its own shopping website serving Mainland consumers in response to their changing online shopping behaviour. In addition, the change of controlling shareholder and management of our major third-party platform Kaola last year caused a short-term impact on overall sales, resulting in a year-on-year decline of 13.8% in the first quarter. The Group conducted a series of internal structural integrations for its e-commerce operations, encompassing areas such as sales channels, products and e-commerce teams, in order to improve its supply chain, product mix and competitiveness. In the second quarter, following the remarkable growth of social commerce in Hong Kong SAR and Mainland China, as well as our own website in Hong Kong SAR, sales increased by 36.0% and 38.7% year-on-year and quarter-on-quarter, respectively.

In the first half of the year, the Group's social commerce activities developed rapidly, and O2O has become the growth engine of the Group's e-commerce business. The personal service element of O2O offers the advantages of more favourable sales mix, gross margin and basket size as compared to pure online sales. Our WeChat mini-programme, which was launched last October to serve Mainland China, supplemented traditional online product offerings with the personal services of our beauty consultants to complete a multiple touch-point service to those who were not allowed to visit Hong Kong and Macau SARs during the period. In Hong Kong SAR, the Group launched protective products on our Hong Kong website in May in response to the pandemic induced surge in local market demand for protective products, thereby fueling traffic and sales growth in our online store.

The Group selected beauty consultants and provided them with training to cultivate them as key opinion leaders ("KOLs") to conduct live broadcasts in different social media platforms in Mainland China and Hong Kong SAR, sometimes teaming up with better known KOLs to build traffic and drive sales. Such strategies improved business performance by attracting new customers and contributed to sales growth and customer loyalty. These are prerequisites for the sustainable long-term growth of the Group.

The Group's future success will lie in embracing information technology and digitalisation. As the COVID-19 outbreak has accelerated the trend of online shopping, the Group will unleash the advantages of e-commerce and physical stores complementing one another, while continuously improving the customer experience in each online sales channel, thereby moving towards the new retail era.

Malaysia

Turnover of the Group in Malaysia was HK$126.7 million, a decrease of 35.4% year-on-year in local currency terms, while same store sales also declined 20.1% in local currency terms. As of 30 September 2020, the Group operated 77 stores, compared to 80 stores in the same period last year.

In response to the COVID-19 outbreak, the Malaysian government implemented a Movement Control Order in mid March. The Group's stores were forced to close temporarily, which severely dented store operations and sales. During the period, the Group's business operations were curtailed as the stores were closed mandatorily for more than a month. Despite the Malaysian government easing restrictions in early May when stores began to provide limited services, retail sales in the first quarter decreased by 42.4%. Nevertheless, thanks to the six-month blanket loan moratorium launched by the government in April in order to alleviate citizens' financial burdens, the Group's sales performance in the second quarter eventually improved. As our stores resumed operations and a new store opened, the decline in retail sales narrowed to 28.9% in the second quarter.

The Group continued to carry out a series of cost reduction measures, including negotiating with landlords over rental reduction, and cutting back staff costs through unpaid leave arrangements and workforce adjustments in different departments. Benefitting from the "Prihatin Rakyat Economic Stimulus Package", the Group received a wage subsidy totaling RM$360,000 for a period of three months, saving 2.8% of staff costs for the Group. To avoid over-stocking, clearance sales were introduced to lower inventory level successfully by 22 days year-on-year. The Group further rationalised its store network by closing poor performing and loss-making stores. During the period, three stores were closed to bring down rental expenses.

Driven by the immense local demand for protective and personal care products during the pandemic outbreak, the Group strategically refocused on popular product categories including food, healthcare and sanitising products, as well as the fragrance products that are popular with local customers. To further boost sales, the Group offered various shopping discounts during the period, and cooperated with different third parties such as shopping malls, telecom companies and banks to drive shop traffic. In addition, the Group strengthened its online sales in response to the accelerating adoption of online shopping due to the pandemic. An online home delivery service was launched in March and was positively received by customers for its speed of delivery and packaging, even though it only accounted for a small proportion of turnover at this early stage.

Outlook and Strategies

Hong Kong and Macau SARs

The unstable pandemic situation has complicated and overshadowed the market environment. Businesses across sectors are facing different levels of operating pressure. The Hong Kong SAR government revised down the economic growth forecast for 2020 to between -6% and -8%, reflecting the gloomy economic outlook in the short to medium term.

During the pandemic, social distancing and the rising unemployment rate have hampered consumer sentiment, with consumption sectors such as retail, catering and tourism bearing the brunt, particularly when the city's tourism industry was forced to a standstill. The Hong Kong Retail Management Association noted that the city’s retail industry is currently facing its biggest crisis in history. One quarter of the shops in Hong Kong SAR were expected to shut down after this year, while the retail environment for the second half and for the whole year remains unpredictable. The management expects the business of the Group will continue to be dominated by local customers in the coming months even after border reopening, given the number of visitors to Hong Kong SAR can hardly return to normal levels in the short term and a longer time period is anticipated for the tourism industry to revive.

In regard to Macau SAR, following the issuance of consumption e-vouchers to residents in April and the reopening of the Zhuhai border on 18 August, the issuance of tourist visas for residents of various provinces and cities in Mainland China was resumed starting from late September. The Macau SAR government also launched a stimulus campaign in an attempt to expand the customer base, boost the economy and secure employment, including offering consumption e-vouchers to Mainland Chinese visitors worth MOP$290 million through WeChat. By creating favourable business conditions for different industries, the Macau SAR government set its sights on accelerating the economic pick-up and stabilising the employment rate, which has resulted in a speedier internal recovery as compared to Hong Kong SAR. Meanwhile, casinos in Macau SAR have leveraged their opportunities and intensified promotions in order to attract more visitors. The Group will proactively seize more business opportunities during the golden shopping periods of Christmas and Chinese New Year, in the hope of causing sales to rebound significantly in Macau SAR.

Due to the pandemic, demand for personal care, protective and natural organic products has surged. In response to the necessity for changes in the product mix, the Group has set aside its previous strategies that focused on trendy products, and opted for enhancing its procurement strategies through effective product category management complemented by improved product display. The Group will ramp up its digital marketing strategy, capitalising on live broadcasts and other promotional channels to attract more customers, whilst bolstering the loyalty of its customers by utilising its VIP and customer relationship management systems.

Amidst the adverse circumstances of the retail market, Sa Sa will continue to seek changes proactively and will prudently and flexibly tailor its business strategies. At the same time, the Group will strive to achieve a profit turnaround as fast as it can through exploring market opportunities and sustaining its competitiveness in the ever-changing market. The management believes that the pandemic has brought about fundamental changes to consumer behaviour. Even if the pandemic stabilises in the future, e-commerce will continue to gain greater prominence. Therefore, it is at the forefront of our concerns to expedite the development of the new retail model. The Group will shelve its traditional retail business model in favour of accelerating the development of its e-commerce business, whereby the compatibility between traditional retailing and e-commerce businesses will be enhanced. Leveraging the synergistic and complementary effects, the Group will adhere to its dual-track business model to provide customers with seamless O2O customer services, which, through extensive enhancement of the customer experience and interactions, are set to make up for the lost sales from physical stores. To support the expansion of its social commerce and O2O operations, the Group will devote greater efforts to training frontline and back office employees of our traditional retail team, while improving the commission and reward system to heighten the work efficiency of employees. The Group will also deepen cooperation with third-party online platforms to meet the exponentially growing online consumer base.

Aiming to fuel further business growth, the Group will make the most of its O2O business to reduce operating risks and increase business flexibility. By adopting rental cost saving measures including adjusting and rationalising the store network (particularly stores located in Hong Kong SAR's tourist areas suffering substantial losses) as well as seeking rental relief, the Group will be able to reduce the overall operating costs of the store network to improve profitability. In addition, in order to boost efficiency and perform stringent cost controls, the Group will expedite the progress of automation in stores and offices to improve and simplify work processes. Amongst the initiatives, the new in-store Point of Sale ("POS") system was pilot launched in mid August, which is expected to further save operating costs for the Group and improve the customer shopping experience, so as to prepare the Group for the return of tourists.

Mainland China

The China market presents tremendous growth potential as always. With the pandemic being largely contained in Mainland China, life has gradually returned to normal, thereby driving domestic demand. The Bank of China Research Institute estimated that GDP growth in Mainland China will rebound to approximately 5.6% in the fourth quarter, which will provide a good pathway for the Group's development.

The continued improvement in internal management and product procurement teams in Mainland China has enabled the Group to expedite store openings. Same store sales in the second quarter and October consequently recorded positive growth with satisfactory sales performance achieved in new stores during the second quarter. Since it is easier to negotiate lease terms with landlords, the Group has set its sights on further expanding its market coverage in Mainland China by focusing resources on developing pivotal regions and core city clusters, aiming to enhance store management and operational efficiency. Meanwhile, through giving full play to its online channels, the Group will gradually march towards the ultimate goal of growing its O2O business network right across China in the long run.

On the sales front, the Group will continue to optimise our marketing strategies by introducing more local trendy products to accommodate customer demand and to increase shop traffic. The Group will also invest in marketing Sa Sa's own brand products to reinforce its brand image in association with high-quality products. In addition, the Group will enhance its promotional efforts via live broadcasts, self-media and social media to improve the goodwill of Sa Sa and its own brand products, as well as the sales of these products in Mainland China, thereby providing a growth impetus to revenue and overall gross margin in the future.

E-commerce

The COVID-19 outbreak has made the general public worldwide avoid going out, resulting in a gradual change in consumer shopping behaviour. E-commerce has inevitably become the focal point of the retail industry, thereby creating opportunities for Sa Sa's e-commerce business.

Conscious of the importance of expediting the development of e-commerce business, Sa Sa has actively adapted to the new normal in the retail industry. With the overwhelming support and collaborative efforts of frontline and back office employees in traditional retail departments, the Group has enhanced its O2O business to provide customers with better quality and a more convenient shopping experience. To support the development of e-commerce business, the Group has directed additional expertise to oversee its digitalisation and e-commerce business. Looking ahead, the Group will continue to bolster the team and build a solid foundation for its e-commerce business.

In view of the significant increase in online shoppers and the new trend of social commerce in the industry, the Group will devote greater efforts to this new retail model, by connecting with customers through leveraging the strength of Sa Sa's beauty consultants. The Group will make use of the WeChat mini-programme to interact with Mainland customers, striving to improve customer loyalty and promote sales through WeChat's enormous public and private domain traffic. The Group will redouble its efforts to develop third-party platform business and establish partnerships with more well-known e-commerce platforms. Going forward, the Group will continue to expand its e-commerce sales channels and assess market feedback, further exploring its potential and broadening its target customer base to consumers in Hong Kong SAR and Southeast Asia.

With the rising prominence of social commerce, the Group has started working with different social platforms for live broadcasting, including launching the campaign "Sa Sa KOL Selects" on Facebook in June 2020, which recommends beauty and protective products and provides limited-time offers to Facebook users, thereby facilitating higher interaction and engagement, and attracting online shoppers. Taking into account the house brand product sales mix, gross margin and basket size, social commerce has greater potential as compared to pure online sales. Social commerce can reduce the Group's reliance on physical stores in the long run, thus alleviating the burden of rental expenses and achieving higher operating efficiency.

In addition, the growing number of merchants on third-party platforms has resulted in intensified price competition. The Group's house brands (own brands and exclusive brands) will shelter the Group from excessive price competition in the long run. Correspondingly, the Group will invest more resources in building its brand, strategically boosting gross profit margin and market share to strengthen the long-term competitiveness of Sa Sa.

Malaysia

The Malaysian economy remains uncertain due to the pandemic. The Malaysia Retail Chain Association predicts that the retail industry is lacking near-term catalysts and will face a long-term recovery with a slower growth rate for at least 6 to 8 months.

The Group is committed to strictly controlling expenditure and inventory in a multi-pronged approach, including negotiations for rental reductions and shortening lease terms to allow greater flexibility for operations. In consideration of the uncertain retail outlook, the Group remains prudent in terms of store opening, and will focus on improving store efficiency by optimising its existing store network.

The Group seeks to attract more local customers to gain bigger market share. The Group will closely monitor market trends and customer preferences, so as to adjust its product mix in a timely manner to enhance its unique sales propositions to target customers. To increase its penetration into targeted customer segments, the Group will optimise its promotional strategies through engaging influencers on online and social media platforms, as well as offering special promotions for exclusive brand products and corporate discounts in collaboration with third parties. Meanwhile, the Group will provide more professional training to beauty consultants, so as to offer a more professional and better-quality interactive service experience to customers, and to enhance their loyalty.

With the increasing popularity of online shopping, the Group will further expand its online platforms and strategically strengthen its partnerships with local and international third-party platforms to enhance its competitiveness. In September 2020, the Group's new store brand Selectiv' by SASA was launched on Shopee, the second-largest e-commerce platform in Southeast Asia, and GrabMart, an internationally well-known e-commerce platform. Furthermore, several brands have been newly introduced in the Malaysian beauty website Hermo. Looking ahead, the Group will seek to deepen cooperation with more online platforms, and proactively explore additional sales channels to increase revenue and capture the promising opportunities in the beauty industry.

FY20/21 Q3 Operational Sales Data (Continuing Operations)

For the third quarter from 1 October to 15 November 2020, the Group's retail and wholesale turnover decreased by 34.8% compared to the same period last year. The year-on-year changes of retail sales and same store sales are shown in the table below.

In local currencies	YoY Change (%)	
	Retail Sales	Same Store Sales
HK & Macau SARs	-48.7%	-44.3%
Mainland China	23.9%	9.7%
Malaysia	-39.9%	-36.4%
E-commerce	143.2%	[redacted]
Group Turnover	-34.8%	

Remarks：The above data includes the impact of Deferred Income Adjustment for VIP bonus points.

Human Resources

As at 30 September 2020, the Group had close to 3,400 employees. The Group's staff costs for the six months ended 30 September 2020 were HK$321.6 million.

Financial Review

Capital Resources and Liquidity

As at 30 September 2020, the Group's total equity funds amounted to HK$1,432.1 million including reserves of HK$1,121.8 million. The Group continued to maintain a strong financial position with cash and bank balances of HK$593.6 million. The Group's working capital amounted to HK$777.5 million. Based on the Group's steady cash inflow from operations, coupled with sufficient cash and bank balances and readily available banking facilities and considering the potential impact of COVID-19 outbreak on the Group's operation, the Group has adequate liquidity and financial resources to meet its working capital requirements in the next twelve months from the balance sheet date.

During the period, the majority of the Group's cash and bank balances were in Hong Kong dollar, Malaysian Ringgit, Singapore dollar, US dollar, Renminbi, and Swiss Franc 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 2020 were HK$1,432.1 million, representing a 14.0% decrease over the funds employed of HK$1,664.3 million as at 31 March 2020.

The gearing ratio, defined as the ratio of total borrowings to total equity, was zero as at 30 September and 31 March 2020.

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 non-US dollar denominated purchases. These hedging policies are regularly reviewed by the Group.

Charge on Group Assets

As at 30 September 2020, 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 2020.

Capital Commitments

As at 30 September 2020, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$18.1 million.

Conclusion

Although COVID-19 has brought enormous challenges to the entire retail industry and to Sa Sa, it has also accelerated the evolution of the industry. In response to the current market conditions and changes in consumer behaviour, Sa Sa has promptly carried out reforms in terms of business, and has implemented aggressive cost control strategies to reduce losses.

In recognition of the gradually shifting of consumption patterns from traditional retail channels to online platforms, the Group is determined to stride into the new retail era and reduce its reliance on physical stores. By investing more resources on social commerce and hastening the integration of O2O business, the Group will strive to improve the overall efficiency of its online and offline operations, with the ultimate goal of providing a seamless O2O shopping experience to its customers. While adjusting the business model, the Group will continue to strengthen its brand, adjust its product mix and comprehensively improve the customer shopping experience, thereby increasing its competitiveness in the market.

Looking ahead, the operating environment of the retail industry is expected to remain highly challenging. However, the Group has made tremendous efforts to adapt and laid a solid foundation for its future business model. Despite the economic headwinds that still lie ahead, Sa Sa will relentlessly implement its strategic reform plan, supporting the Group to overcome adversity in a flexible manner while developing its new retail model, thereby delivering long-term value to its stakeholders.

INTERIM DIVIDEND

The Board has resolved not to pay any interim dividend for the six months ended 30 September 2020 (2019: Nil).

BUY-BACK, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2020, 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 2020 and up to the date of this announcement, we have complied with all but one of the code provisions under the CG Code.

Code Provision A.2.1

The roles of chairman and chief executive should be separate and should not be performed by the same individual under code provision A.2.1 of the CG Code. We have deviated from the code in that Dr KWOK Siu Ming Simon is both the chairman and CEO of the Company. 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. Dr Kwok, being one of the founders of the Group, has superior knowledge of our business and is a veteran of 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 2019/20 published in July 2020.

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

The Company has adopted its own written policy regarding securities transactions on terms no less exacting than the standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (Model Code). The Model Code is extended to certain "relevant employees" who, because of their office or employment, is likely to possess inside information in relation to the Company or its securities. The Company has received confirmation from all directors and relevant employees that they have complied with the policy throughout the period under review.

The interim report of the Company for the six months ended 30 September 2020 will be dispatched to shareholders and published on the respective websites of Hong Kong Exchanges and Clearing Limited and the Company in the middle of December 2020.

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

By order of the board of directors
Sa Sa International Holdings Limited
KWOK Siu Ming Simon
Chairman and Chief Executive Officer

Hong Kong, 19 November 2020

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

Executive Directors
Dr KWOK Siu Ming Simon, *SBS, JP* (Chairman and Chief Executive Officer)
Dr KWOK LAW Kwai Chun Eleanor, *BBS, JP* (Vice-chairman)
Dr LOOK Guy (Chief Financial Officer)
Ms KWOK Sze Wai Melody

Non-executive Director
Ms LEE Yun Chun Marie-Christine

Independent non-executive Directors
Ms KI Man Fung Leonie, *GBS, SBS, JP*
Mr TAN Wee Seng
Mr CHAN Hiu Fung Nicholas, *MH*