# 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)**

# Annual Results for the year ended 31 March 2017
# Dividends and Closure of Books

## Highlights

- The Group's turnover decreased slightly by 0.6% from HK$7,791.2 million to HK$7,746.2 million
- Retail sales in HK and Macau were HK$6,184.5 million, broadly flat as compared to HK$6,185.8 million in the previous year
- The Group's retail network decreased from 291 to 288, a net decrease of 3 stores
- Profit for the year was HK$326.7 million, a decrease of 14.8% from HK$383.5 million last year
- Basic earnings per share were 11.2 HK cents as compared to 13.4 HK cents for the previous year
- Final dividend proposed is 8.0 HK cents (2016: 14.5 HK cents (final: 9.0 HK cents and special final: 5.5 HK cents)) per share, making a total annual dividend of 17.0 HK cents (2016: 23.5 HK cents) per share, payable in cash with a scrip dividend alternative

The Board of Directors of Sa Sa International Holdings Limited ("Company") has pleasure in presenting the consolidated results of the Company and its subsidiaries ("Group") for the year ended 31 March 2017 with comparative figures for the previous year as follows. The annual results have been reviewed by the audit committee of the Company.

# CONSOLIDATED INCOME STATEMENT
# FOR THE YEAR ENDED 31 MARCH 2017

| | Note | **2017**<br>**HK$'000** | 2016<br>HK$'000<br>Restated |
|---|---|---|---|
| Turnover | 4 | **7,746,152** | 7,791,244 |
| Cost of sales | 6 | **(4,517,334)** | (4,418,416) |
| Gross profit | | **3,228,818** | 3,372,828 |
| Other income | 5 | **107,757** | 117,379 |
| Selling and distribution costs | 6 | **(2,622,818)** | (2,690,878) |
| Administrative expenses | 6 | **(317,224)** | (341,694) |
| Other (losses) / gains - net | | **(1,240)** | 3,440 |
| Operating profit | | **395,293** | 461,075 |
| Finance income | | **10,105** | 9,380 |
| Profit before income tax | | **405,398** | 470,455 |
| Income tax expense | 7 | **(78,693)** | (86,985) |
| Profit for the year attributable to owners of the Company | | **326,705** | 383,470 |
| Earnings per share for profit attributable to owners of the Company for the year (expressed in HK cents per share) | 8 | | |
| Basic | | **11.2** | 13.4 |
| Diluted | | **11.2** | 13.4 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Profit for the year** | **326,705** | 383,470 |
| **Other comprehensive loss** | | |
| Item that will not be reclassified subsequently to profit or loss | | |
| Actuarial gains/(losses) on retirement benefit obligations | **2,593** | (3,241) |
| Items that may be reclassified to profit or loss | | |
| Cash flow hedges, net of tax | **87** | 61 |
| Currency translation differences of foreign subsidiaries recorded in translation reserve | **(21,576)** | (19,246) |
| **Other comprehensive loss for the year, net of tax** | **(18,896)** | (22,426) |
| **Total comprehensive income for the year attributable to owners of the Company** | **307,809** | 361,044 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

| | Note | **2017** | 2016 |
|---|---|---|---|
| **ASSETS** | | **HK$'000** | HK$'000 |
| **Non-current assets** | | | |
| Property, plant and equipment | | **284,242** | 321,089 |
| Rental deposits, prepayments and other assets | | **150,680** | 167,026 |
| Deferred tax assets | | **13,620** | 15,786 |
| | | **448,542** | 503,901 |
| **Current assets** | | | |
| Inventories | | **1,221,794** | 1,102,385 |
| Trade receivables | 10 | **67,076** | 79,150 |
| Other receivables, deposits and prepayments | | **222,940** | 207,060 |
| Time deposits | | **513,024** | 393,244 |
| Cash and cash equivalents | | **455,701** | 685,763 |
| | | **2,480,535** | 2,467,602 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payables | 11 | **313,913** | 261,495 |
| Other payables and accruals | | **291,792** | 321,307 |
| Income tax payable | | **44,871** | 50,496 |
| | | **650,576** | 633,298 |
| **Net current assets** | | **1,829,959** | 1,834,304 |
| **Total assets less current liabilities** | | **2,278,501** | 2,338,205 |
| **Non-current liabilities** | | | |
| Retirement benefit obligations | | **6,588** | 9,114 |
| Deferred tax liabilities | | **327** | 432 |
| Other payables | | **52,420** | 40,373 |
| | | **59,335** | 49,919 |
| **Net assets** | | **2,219,166** | 2,288,286 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | | **299,444** | 289,213 |
| Reserves | | **1,919,722** | 1,999,073 |
| **Total equity** | | **2,219,166** | 2,288,286 |

**Notes:**

1. **Basis of preparation**

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2 **Changes in accounting policies and disclosures**

(i) Amendments to 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

(ii) Early adoption of amendments to standards during the year ended 31 March 2017 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 result in additional disclosure to the consolidated statement of cash flows as the Group does not have significant non-cash changes arising from financing activities.

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

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

## 2. Changes in accounting policies and disclosures (continued)

(ii) Early adoption of amendments to standards during the year ended 31 March 2017 where early adoption is permitted (continued)

- HKFRS 2 (Amendment), "Classification and measurement of share-based payment transactions" (effective for annual periods beginning on or after 1 April 2018). This amendment clarifies the measurement basis for cash-settled share-based payments and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception to the principles in HKFRS 2 that requires an award to be treated as if it is wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

  The early adoption of HKFRS 2 (Amendment) does not have any impact to the Group as the Group does not have any cash-settled share-based payments or modification from cash-settled awards to equity-settled awards.

(iii) 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 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 15 (Amendment), "Clarification to HKFRS 15" (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)

***HKFRS 9, "Financial instruments"***

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be necessary to be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group is yet to undertake a detailed assessment on the relevant impact of such amendments to our hedging transactions.

## 2. Changes in accounting policies and disclosures (continued)

(iii) 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 (continued)

***HKFRS 9, "Financial instruments" (continued)***

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

***HKFRS 15, "Revenue from contracts with customers"***

HKFRS 15 will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The new standard permits either a full retrospective or a modified retrospective approach for the adoption.

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach:

(1) Identify the contract(s) with customer;
(2) Identify separate performance obligations in a contract;
(3) Determine the transaction price;
(4) Allocate transaction price to performance obligations; and
(5) Recognise revenue when performance obligation is satisfied.

The core principle is that the Group should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an earnings processes to an "asset-liability" approach based on transfer of control.

Currently, revenue from the slide display rental income is recognised over time, whereas revenue from the sales of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Management is currently assessing the impact of applying HKFRS 15 on the Group's financial statements by identifying the separate performance obligations in the contracts with customers and allocating the transaction prices, which could affect the timing of the revenue recognition.

***HKFRS 16, "Leases"***

HKFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces HKAS 17 "Leases", and related interpretations.

## 2. Changes in accounting policies and disclosures (continued)

(iii) 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 (continued)

***HKFRS 16, "Leases" (continued)***

Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$1,693,392,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The directors of the Company are in the process of assessing the financial impact of the adoption of the above new and amendments to standards. The Group will adopt the new standards and amendments to standards when it is appropriate to do so.

(iv) Prior to 1 April 2016, the Group recognised certain incentives received from suppliers as part of its revenue or offset against the Group's selling expenses. During the year end 31 March 2017, the Group has revisited its arrangements with its suppliers and considered incentives received from suppliers for which the Group did not provide any separable identifiable promotion services, should be accounted for as a reduction of its cost of sales. Adjustments have been made to reclassify the comparative information to conform with the current year presentation. These changes have been applied retrospectively in accordance with HKAS 8 and there were no net impact on the profit for the year ended 31 March 2016 and the balance sheet position as at 31 March 2016. The nature and amounts of the adjustments are summarised as follows:

(i) certain suppliers' incentives amounting to HK$54,631,000 which was previously recognised within "turnover" for the year ended 31 March 2016 is now offset against "cost of sales"; and

(ii) certain suppliers' incentives amounting to HK$26,819,000 which was previously recognised within "selling and distribution costs" for the year ended 31 March 2016 is now offset against "cost of sales".

The impact on the consolidated income statement for the year ended 31 March 2016 are presented as below:

| | 2015/16<br>HK$'000 |
|---|---|
| Decrease in turnover | 54,631 |
| Decrease in cost of sales | 81,450 |
| Increase in gross profit | 26,819 |
| Increase in selling and distribution costs | 26,819 |

## 3. Estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## 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 the year ended 31 March 2017, E-commerce qualifies as reportable segment; the comparatives have been restated. Business reportable segments identified are Hong Kong & Macau, Mainland China, E-commerce and All other segments. All other segments refer to segment results from markets in Singapore, Malaysia and Taiwan.

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

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

| | For the year ended 31 March 2017 | | | | |
|---|---|---|---|---|---|
| | **Hong Kong & Macau HK$'000** | **Mainland China HK$'000** | **E-commerce HK$'000** | **All other segments HK$'000** | **Total HK$'000** |
| **Turnover** | **6,266,540** | **276,497** | **475,189** | **727,926** | **7,746,152** |
| **Segment results** | **432,646** | **(15,082)** | **(67,144)** | **(23,715)** | **326,705** |
| **Other information** | | | | | |
| Capital expenditure | **53,333** | **6,054** | **1,817** | **20,677** | **81,881** |
| Finance income | **8,298** | **307** | **15** | **1,485** | **10,105** |
| Income tax expense/ (credit) | **82,987** | **-** | **(12,640)** | **8,346** | **78,693** |
| Depreciation | **61,872** | **10,301** | **2,132** | **28,672** | **102,977** |
| Provision/ (reversal of provision) for slow moving inventories and shrinkage | **18,158** | **(8,422)** | **8,215** | **14,124** | **32,075** |
| Impairment of property, plant and equipment | **3,137** | **1,997** | **-** | **5,289** | **10,423** |

## 4. Segment information (continued)

| | For the year ended 31 March 2016 (Restated) | | | | |
|---|---|---|---|---|---|
| | Hong Kong & Macau HK$'000 | Mainland China HK$'000 | E-commerce HK$'000 | All other segments HK$'000 | Total HK$'000 |
| Turnover | 6,268,925 | 303,803 | 433,991 | 784,525 | 7,791,244 |
| Segment results | 465,700 | (39,640) | (31,475) | (11,115) | 383,470 |
| Other information | | | | | |
| Capital expenditure | 60,159 | 11,632 | 2,813 | 42,431 | 117,035 |
| Finance income | 7,075 | 381 | 20 | 1,904 | 9,380 |
| Income tax expense/ (credit) | 86,591 | - | (6,217) | 6,611 | 86,985 |
| Depreciation | 80,905 | 11,107 | 1,810 | 29,469 | 123,291 |
| Provision for slow moving inventories and shrinkage | 52,607 | 17,547 | 5,449 | 9,651 | 85,254 |
| Impairment of property, plant and equipment | 7,776 | 2,298 | - | 7,175 | 17,249 |

| | **Hong Kong & Macau HK$'000** | **Mainland China HK$'000** | **E-commerce HK$'000** | **All other segments HK$'000** | **Total HK$'000** |
|---|---|---|---|---|---|
| **At 31 March 2017** | | | | | |
| Non-current assets | **353,243** | **15,487** | **3,207** | **76,605** | **448,542** |
| Current assets | **1,884,871** | **152,270** | **151,726** | **291,668** | **2,480,535** |
| **Total assets** | | | | | **2,929,077** |
| At 31 March 2016 | | | | | |
| Non-current assets | 382,529 | 24,444 | 4,233 | 92,695 | 503,901 |
| Current assets | 1,877,528 | 161,389 | 100,455 | 328,230 | 2,467,602 |
| Total assets | | | | | 2,971,503 |

## 5. Other income

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Slide display rental income | **60,750** | 62,767 |
| Sub-lease income | **47,007** | 54,612 |
| | **107,757** | 117,379 |

## 6. Expenses by nature

| | **2017**<br>**HK$'000** | 2016<br>HK$'000<br>Restated |
|---|---|---|
| Cost of inventories sold | **4,485,259** | 4,333,162 |
| Employee benefit expenses (including directors' emoluments) | **1,064,354** | 1,103,778 |
| Operating lease rentals in respect of land and buildings | | |
| - minimum lease payments | **924,502** | 947,388 |
| - contingent rent | **66,731** | 65,775 |
| Advertising and promotion expenses | **126,793** | 140,868 |
| Transportation, storage and delivery charges | **104,156** | 101,543 |
| Depreciation of property, plant and equipment | **102,977** | 123,291 |
| Building management fees, government rent and rates | **100,015** | 91,005 |
| Utilities and telecom | **59,946** | 63,339 |
| Sub-lease expenses | **45,113** | 54,304 |
| Repair and maintenance | **42,722** | 43,031 |
| Provision for slow moving inventories and shrinkage | **32,075** | 85,254 |
| Impairment of property, plant and equipment | **10,423** | 17,249 |
| Auditors' remuneration | | |
| - audit services | **3,433** | 3,476 |
| - non-audit services | **1,478** | 1,351 |
| Donations | **3,365** | 4,740 |
| Write-off of property, plant and equipment | **1,979** | 2,667 |
| Others | **282,055** | 268,767 |
| | **7,457,376** | 7,450,988 |
| Representing: | | |
| Cost of sales | **4,517,334** | 4,418,416 |
| Selling and distribution costs | **2,622,818** | 2,690,878 |
| Administrative expenses | **317,224** | 341,694 |
| | **7,457,376** | 7,450,988 |

## 7. Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates respectively.

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Current tax: | | |
| Hong Kong profits tax | | |
| Current | **49,376** | 61,433 |
| Over-provision in previous years | **(588)** | (321) |
| Overseas taxation | | |
| Current | **28,378** | 27,982 |
| Over-provision in previous years | **(76)** | (139) |
| **Total current tax** | **77,090** | 88,955 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | **1,603** | (1,970) |
| **Income tax expense** | **78,693** | 86,985 |

## 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 year.

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Profit attributable to owners of the Company | **326,705** | 383,470 |
| Weighted average number of ordinary shares in issue less shares held under the Share Award Scheme during the year (thousands) | **2,927,021** | 2,854,155 |

(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 year. 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 31 March 2017 has been included in the number of shares.

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Profit attributable to owners of the Company | **326,705** | 383,470 |
| Weighted average number of ordinary shares in issue less shares held under the Share Award Scheme during the year (thousands) | **2,927,021** | 2,854,155 |
| Adjustment for share options and awarded shares (thousands) | **2,049** | 1,127 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | **2,929,070** | 2,855,282 |

## 9. Dividends

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interim, paid – 5.0 HK cents (2016: 5.0 HK cents) per share | **148,043** | 142,234 |
| Special, paid – 4.0 HK cents (2016: 4.0 HK cents) per share | **118,434** | 113,788 |
| Final, proposed – 8.0 HK cents (2016: 9.0 HK cents) per share | **239,555** | 260,292 |
| Special, proposed – NIL (2016: 5.5 HK cents) per share | **-** | 159,067 |
| | **506,032** | 675,381 |

For final dividend, scrip dividend elections were offered to all shareholders. At a meeting held on 15 June 2017, the directors proposed a final dividend of 8.0 HK cents per share. The final dividend will be payable in cash with a scrip dividend alternative. This proposed dividend has not been reflected as dividend payables in these consolidated financial statements, but will be reflected as an appropriation of distributable reserve for the year ending 31 March 2018 if approved by the shareholders.

## 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 120 days. The ageing analysis based on invoice date of gross trade receivables is as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within 1 month | **48,674** | 48,968 |
| 1 to 3 months | **9,609** | 29,880 |
| Over 3 months | **9,840** | 2,520 |
| | **68,123** | 81,368 |

The carrying amounts of trade receivables approximate their fair values.

## 11. Trade payables

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

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within 1 month | **201,714** | 148,644 |
| 1 to 3 months | **96,992** | 85,320 |
| Over 3 months | **15,207** | 27,531 |
| | **313,913** | 261,495 |

The carrying amounts of trade payables approximate their fair values.

# MANAGEMENT DISCUSSION & ANALYSIS

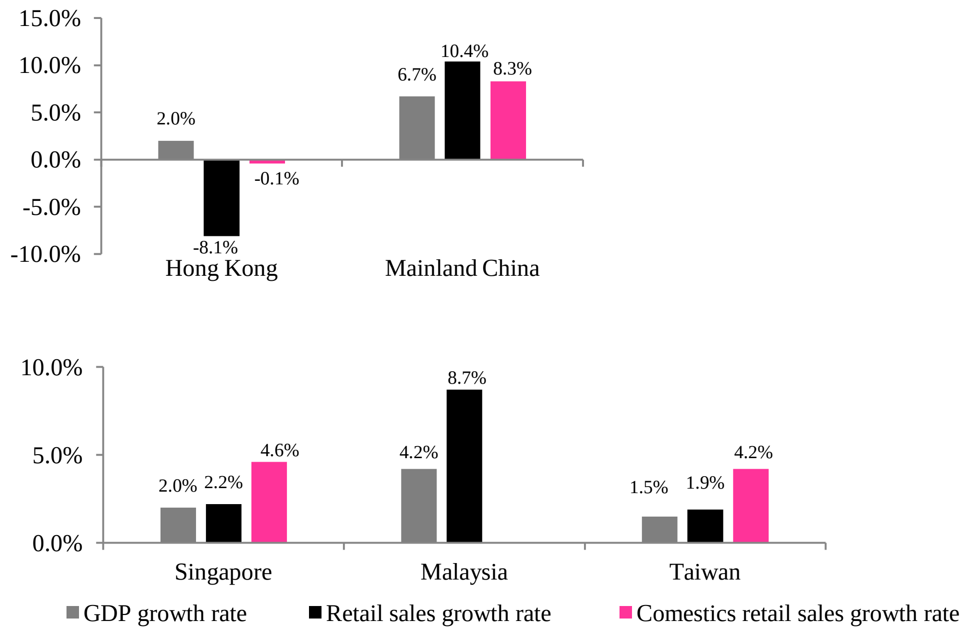
During the financial year, the Group's turnover slightly decreased by 0.6% from HK$7,791.2 million in the previous year to HK$7,746.2 million. Retail sales in Hong Kong and Macau amounted to HK$6,184.5 million, remaining broadly flat as compared with HK$6,185.8 million in the previous year. The Group's retail outlets decreased from 291 to 288, a net decrease of one "Sasa" store and a net decrease of two stores for single-brand counters.

The Group's profit for the year was HK$326.7 million, a decrease of 14.8% over the HK$383.5 million achieved in the last financial year. Basic earnings per share were 11.2 HK cents, as compared to 13.4 HK cents in the previous year. Final dividend proposed is 8.0 HK cents (2016: 14.5 HK cents (final: 9.0 HK cents and special final: 5.5 HK cents)) per share, making a total annual dividend of 17.0 HK cents (2016: 23.5 HK cents) per share for the year ended 31 March 2017, payable in cash with a scrip dividend alternative.

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

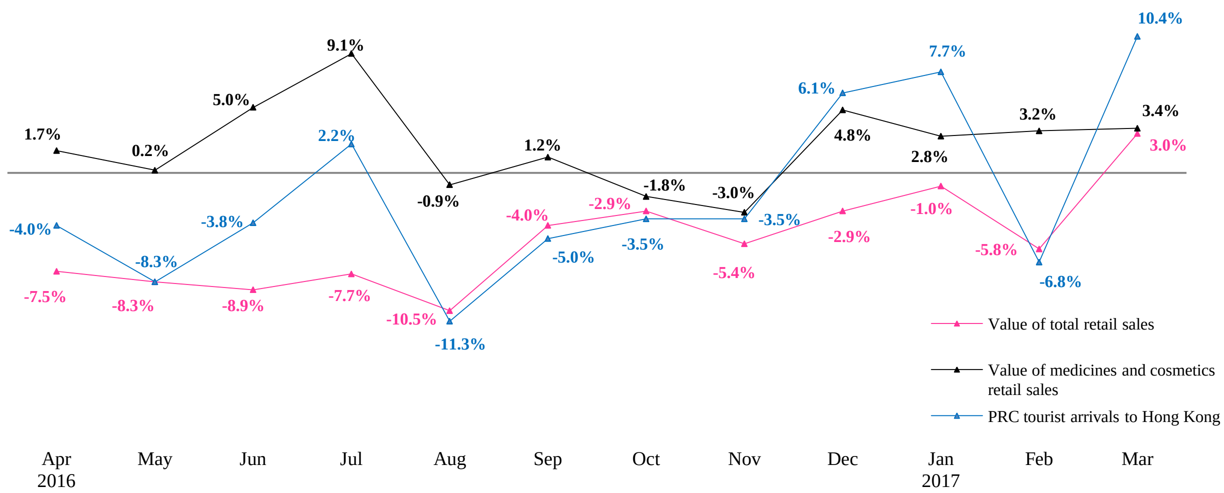
## Market Overview

**<u>GDP / Retail Sales / Cosmetics Retail Sales Growth in 2016</u>**




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

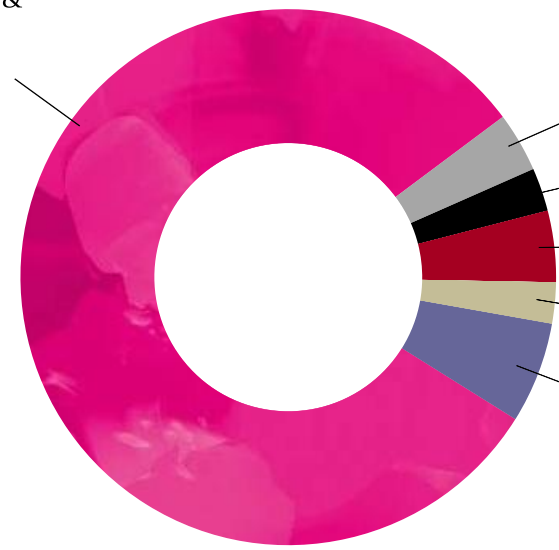
**<u>Year-on-Year Change of Retail Sales Performance in Hong Kong and PRC tourist arrivals in Hong Kong</u>**




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

## Retail and Wholesale Business

**FY16/17 Turnover Mix By Market**



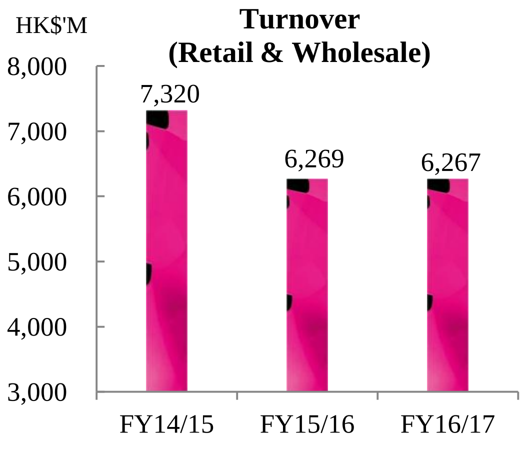

**Store Network By Market**

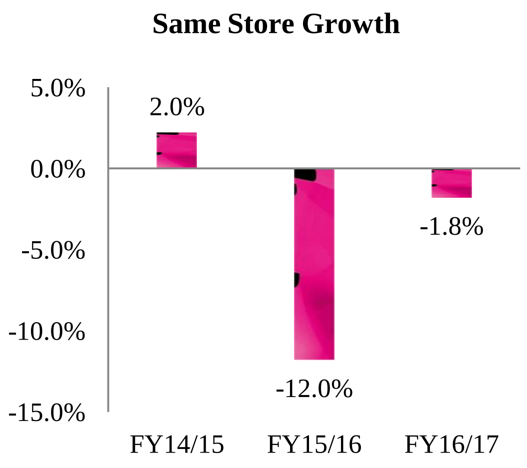
| **Multi-brand "Sasa" Stores** | As of 31 Mar 2016 | Opened | Closed | As of 31 Mar 2017 |
|---|---|---|---|---|
| Hong Kong & Macau | 111 | 13 | 9 | **115*** |
| Mainland China | 57 | 6 | 7 | **56** |
| Singapore | 23 | 0 | 3 | **20** |
| Malaysia | 65 | 8 | 3 | **70** |
| Taiwan | 31 | 4 | 10 | **25** |
| Total | 287 | 31 | 32 | **286** |

*Note:*
*As at 31 March 2017, there was one single-brand store/counter each in Hong Kong & Macau and Malaysia, totaling 288 retail outlets for the Group.*

**including six Sasa Boutique stores*

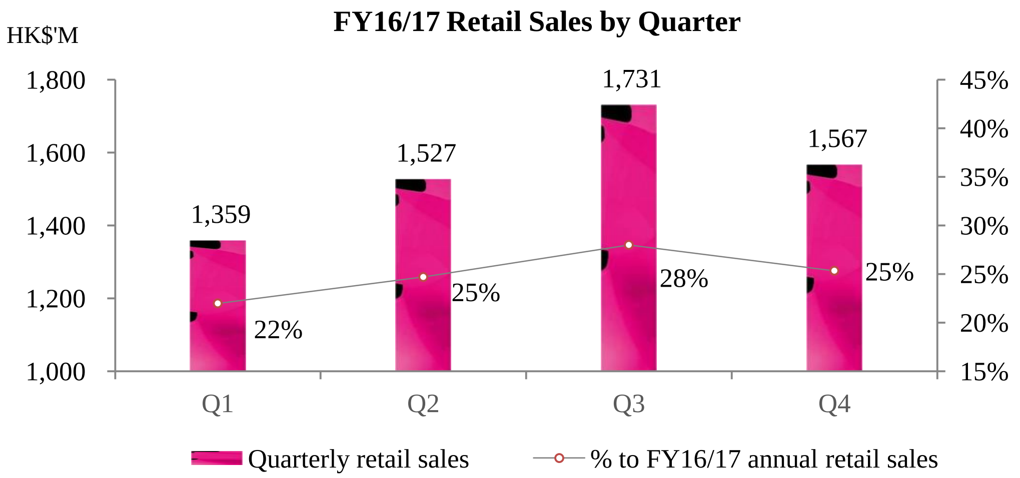
## Hong Kong and Macau




During the financial year, the Group's turnover in Hong Kong and Macau amounted to HK$6,266.5 million, remaining broadly flat as compared with the previous year (HK$ 6,268.9 million), while same store sales fell 1.8%. The number of transactions started to pick up at 2.9% while the total average sales value per ticket decreased by 2.8%.

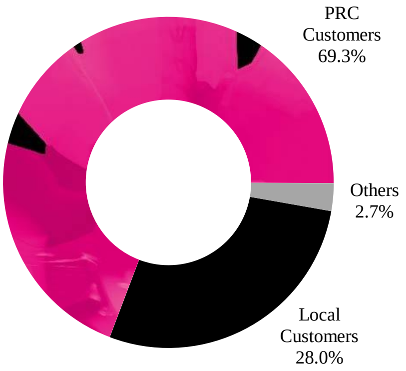
To place these figures in context, the number of transactions of Mainland China tourists and local consumers increased by 5.5% and 0.2% respectively; while average sales value per ticket of Mainland China tourists and local consumers decreased by 4.4% and 2.1% respectively.



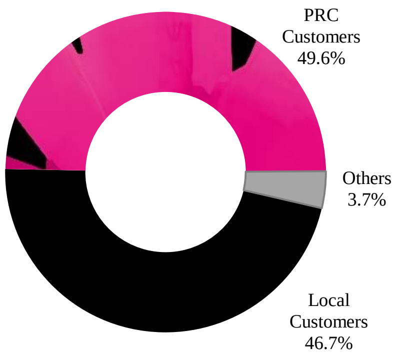

Note: The above data excludes the impact of deferred income adjustment on customer loyalty programme

**Customer Mix (for FY16/17 retail sales)**

**By sales value**




**By no. of transactions**




The decrease in retail sales continued to narrow starting from the first quarter, with an increase in retail sales being recorded in the third and fourth quarters. An increase in same store sales was also recorded in the fourth quarter, mainly driven by growing numbers of Mainland China customers, with the number of their transactions also growing by 8.0%.

The overall decline in sales was due to a continued decline in Mainland tourist arrivals in Hong Kong, a weaker Renminbi and changing consumer preferences, as well as the growing preference of local residents for outbound travel. Keener online and offline competition and the evolving nature of the customer journey also played their part.

The moderation in the decline of sales was due to a number of proactive measures taken by the Group. In response to changing consumer preferences, the Group added lower-price trendy Asian products to its range of offerings and expedited product purchasing procedures. The time required for product launch was reduced through flexible and effective sourcing procedures. The optimisation of product mix and improved product display also helped to realise the potential of product sales.

These measures have already made a positive impact on sales. The share of new products as well as trendy Asian products in the total product mix has increased. This has helped drive store traffic and the number of transactions, thereby improving retail performance and recovering Sa Sa's market share. Similar positive factors drove the gradual increase in Mainland tourists' retail sales, which grew by 0.9% over the year.

The seemingly unstoppable decline in the number of Mainland tourists visiting Hong Kong stabilised from the last quarter of FY 2016/17 onwards. According to Hong Kong Tourism Board, since December 2016, the number of overnight visitors from the Mainland grew at a faster rate than same-day visitors. From January to March 2017, the number of Mainland tourists grew by 3.8% as compared with last year, of which same-day visitors increased by 2.2% and overnight visitors increased by 6.4% respectively. These figures suggest that the effect of the one-trip-per-week Central Government policy on same-day visitation has probably been fully reflected. However, the strengthened Hong Kong Dollar encouraged more outbound travel by local residents, adversely affecting their spending in Hong Kong. Retail sales to local customers decreased by 2.0% in the financial year.

During the year, the average sales value per transaction continued to decrease, off-setting the positive effect of an increased number of transactions. This decrease was largely due to rapidly changing consumer preferences with an increasing emphasis on lifestyle. A growing number of consumers prefer to spend money on experiences rather than on products, leading to reduced spending power and a search for lower-price trendy products. The depreciation of the Renminbi also contributed to a slowdown in spending by Mainland tourists. In addition, the lack of human resources for promoting high price point products, house brand products and adding to basket, impacted both top line sales and the contribution of high gross profit items towards the total gross profit.

Gross profit margin decreased from 43.2% to 41.5%. The rapid change in consumer preferences led to a decrease in house brand sales mix from 41.9% to 38.5%. Efforts to drive sales in a slower market by launching a continuous programme of promotions also contributed to a lower gross profit margin. Actions have been taken to tackle the decreased gross profit in this financial year, with the percentage decrease slowly narrowing. The Group is making its own-label portfolio more comprehensive and launching new lower-price owned brands to raise consumers' purchasing desire, which will assist in driving sales and profits. The Group is also expediting new product launches and reinforcing the promotion of high gross profit house brand and new products.

In addition, the Group has implemented stringent cost controls, which have helped to alleviate the pressure on profit. Expenses ranging from shop expenses to administrative expenses all decreased, partially offsetting some of the negative impact of a weaker gross profit margin.

Rental costs are also under control. During the year, the Group adjusted its retail network, relocating certain shops. The result has been that the Group has had to pay duplicated rentals after opening nearby stores in better locations during the transitional period. If the Group had not taken advantage of a weaker rental market to improve the positioning of its stores, the result of rental costs' control would have been more pronounced.

As the rental adjustment cycle continues, market rentals are expected to progressively decrease. However, the positive effect on the Group's rental costs control will only begin to be reflected in the FY2017/18 results.

## Mainland China

Overall turnover for the Group's Mainland China operations in local currency decreased by 3.9% to HK$276.5 million, while same store sales in local currency terms decreased by 3.4%. The loss for the year amounted to HK$15.1 million.

The main reason for weaker turnover was the delay of new private label product launches while the respective China Food and Drug Administration registrations were processed. As soon as these registrations are completed in the next few months to complement online to offline promotions in the Group's stores, the competitiveness of the Group's product mix will improve. In the FY 2016/17, adjustments to the new warehouse increased operational costs. However, overall warehouse operational costs have started to decrease through various optimisation measures.

Boutique stores of a small size have continued to increase overall profitability, narrowing the overall loss in operations. However, the issue of the Terminal High Altitude Area Defense ("THAAD") anti-missile system has had an ongoing and significant impact on the market and consumers in Mainland China, with a corresponding negative effect on the Group's sales of Korean products. The Group has adjusted the product mix and promotional focus in the China market by promoting non-Korean products such as those from Taiwan and Japan.

## Singapore

During the financial year, turnover for the Singapore market was HK$200.7 million, a decrease of 9.7% in local currency terms, while same store sales dropped by 7.6% in local currency.

The total retail space in the Singapore property market has continued to increase over the last two years, diluting the traffic to our existing stores and leading to a decrease in turnover.

The decrease in gross profit was also caused by deleveraging as a result of sales contraction, and a decline in the sales of house brand products. The Group's performance in Singapore was further affected by the high turnover rate in the management team. This has made it difficult to build the requisite knowledge bank, and therefore has reduced management's effectiveness in a difficult market environment.

The Group restructured the management team in Singapore in the first half of the financial year, allocating higher performing management resources from Malaysia to assist Singapore operations. This has helped to control costs and improve management effectiveness. The decrease in sales narrowed in the second half as compared to the first half of the financial year.

The Group also rationalised the store portfolio during the year. These initiatives helped to improve same store sales performance significantly in the second half of the financial year.

Product offerings were aligned with the latest market demand, and the Group's digital presence was strengthened due to changes in the product mix. However, a significantly lower gross profit percentage as a result of these product mix changes impacted store level contribution.

## Malaysia

The Group's turnover in our Malaysia market was HK$332.1 million, an increase of 12.4% in local currency terms, while same store sales increased 6.2% in local currency.

The fundamentals of the Group's business in Malaysia are strong. Driven by a robust retail network and effective marketing campaigns, the Group's sales performance in Malaysia out-performed its competitors and the overall retail market.

However, due to a high base factor in the previous financial year, a faltering economy, declining consumer spending power, and the allocation of some management resources to Singapore, sales performance in the second half of the year was weaker – although performing better than the overall market.

## Taiwan

Turnover in the Group's Taiwan business during the financial year decreased to HK$195.1 million, representing a drop of 24.4% in local currency terms, while same store sales fell by 16.8% in local currency.

Sales performance was affected by poor consumption sentiment and the continuous decrease in Mainland Chinese visitors to Taiwan. The earlier restructuring of the management team led to deterioration in sales performance in the first half of the financial year. The current new management team has improved inventory management, which in turn has resulted in slower sales decline.

The Group continues to improve Taiwan's performance by strengthening the management team and rationalising the store network, increasing the profitability of profitable shops, and closing those with lower productivity.

## E-commerce

Turnover for the Group's e-commerce business amounted to HK$475.2 million, an increase of 9.5% over the previous financial year.

A decrease in sales in the first half of the financial year was the result of the Group switching to a new logistics provider in April 2016. The operational costs of the new provider were high but efficiency was low, resulting in lengthy fulfillment lead times and lower sales. As a result, the Group re-appointed the original logistics provider.

The increased movements of inventory due to order cancellations and the parallel running of two warehouses led to significant extra costs and losses. Compensation was made to customers with cancelled orders because of delivery problems caused by the relocation of the warehouse.

However, aggressive promotions in the second half of FY 2016/17 helped drive higher sales, which were supported by improvements in customer order fulfillment due to the reversion of logistics back to the original service provider. Gross profit margin declined during the second half due to these promotions while a new Free Trade Zone warehouse added to costs because of early stage inefficiencies.

The Group is restructuring operational flow to support multi-platforms and warehouses. Automation of processes is being implemented to improve efficiency and reduce costs, thereby enhancing the customer shopping experience. Studies are also underway to install new digital back-end systems and infrastructure to support sustained growth. Towards the end of the second half, measures were taken to address high losses with low product prices being adjusted upwards, minimum spending for free delivery raised, and delivery costs and times reduced.

## Brand Management

During the year, the Group's sales mix of own-label and exclusively distributed products, collectively referred to as House Brands, decreased from 41.0% to 38.0%.

To enhance product competitiveness and attract traffic in a slower market, the Group strategically broadened its product offerings to include more parallel import products that are faster time to market. High-price house brand products underperformed due to consumers preferring mid- to low-price products.

Limited resources in the product development team adversely affected the timeliness of our response to this fast-changing market, with new product launches still not rolling out as promptly as the market expects.

# Outlook and Strategies

The Hong Kong and Macau markets are the Group's major sources of sales income and profits. Although there are still uncertainties in these markets, they are gradually stabilising and showing signs of improvement. However, it is important to note that this improvement is set against the backdrop of last year's very weak base performance, and as such, a more significant and continuous improvement is required to warrant anything more than cautious optimism.

In the FY17/18 quarter-to-date (i.e. the period up to 11th June 2017), retail sales in Hong Kong and Macau increased by 3.6% year-on-year (FY16/17 1st Quarter: -5.3%) while same store sales decreased by 1.4% year-on-year (FY16/17 1st Quarter: -4.9%). Against a backdrop of ongoing regional economic and political instability, the Group will maintain its conservative approach to the business going forward.

As the market continues to gradually stabilise, the Group is working on several fronts to improve gross profit. Measures include expediting new private label product launches and strengthening private labels' sales promotion. In addition, operations at store level are being reviewed so that stores with lagging gross margins can be raised at least to the average level of performance.

Going forward, the Group will strive to improve the overall profits for markets outside of its core markets in Hong Kong and Macau, with a strategic focus on Mainland China. The Group will continue to optimise Mainland China's store network and productivity as well as developing its O2O capabilities and depth in order to achieve a break-even target. In regard to Taiwan and Singapore, which are operating at a loss, the Group will rationalise their operations and control costs, making them easier to manage and more flexible, with less reliance on the Group. In the profit-making Malaysia market, the foundation will be steadied and widened to contribute more to the Group.

The increasing popularity of digital media and e-commerce has fundamentally changed consumer behaviour. The intensifying online competition has also complicated the business environment. To respond to the challenges and seize the opportunities that the changing market has generated, the Group has begun to make changes to its business model in order to strengthen its long-term competitiveness. These initiatives include investment in digital media, exploring online and offline business integration, engaging interactive communications with customers, and improving their overall shopping experience. Clearly, it would be little short of a miracle to enact all these changes in a short time. However, the Group aims to continue to implement changes as our business and the market develop.

## Hong Kong and Macau

It is widely accepted that the decline in the Hong Kong retail market is mostly over and that the market is on the path towards stability, although this improvement requires stronger ongoing evidence to justify bolder optimism. During the financial year, the decrease in the number of Mainland Chinese visitors eased and a 6.1% increase was recorded in December 2016. The combined number of Mainland Chinese visitors in January and February 2017 increased slightly by 1.1% , whereas the Mainland China tourist figure in March surged by 10.4% as compared to the same period last year. This increase in Mainland Chinese visitors is only relatively recent, and the comparison benefits from a low base last year when Hong Kong was affected by the Mongkok riot. It is true that we have seen positive growth in sales in totality and on a same store basis for the last quarter of the financial year and in the first quarter to date in the new financial year. However, we will continue to monitor the increase in Mainland China inbound travel for signs of sustained improvement.

The depreciation of the Renminbi last year and changing consumer behaviour have led to decreased spending by Mainland Chinese visitors. However, their spending per transaction has grown since March 2017. As a result of the THAAD issue, Mainland Chinese visitors' demand for Korean brands has weakened, even though most trendy Korean products are mid- to low-price. These Mainland customers are partially shifting to non-Korean alternatives, which have a higher average price. This change in buyers' preferences has elevated spending per transaction and could signal that the decline in Mainland Chinese visitors' spending per transaction has finally bottomed out and may even gradually increase.

Korean products contributed significantly to the Group's gradual recovery in sales in the previous financial year. Due to the THAAD issue, this increase has slowed, which has presented the Group with a significant challenge. The Group will rearrange its product mix as well as marketing focus to compensate for the declining sales and attractiveness of Korean products—for example, by shifting emphasis to Taiwanese or Japanese products, which have similar characteristics and price range.

Local consumer confidence in Hong Kong is still weak but has stabilised, mainly due to low unemployment and the strengthening of the stock and property markets. However, the Group does not expect that the next financial year will bring marked improvements, since the Hong Kong market is facing several uncertainties and challenges. One of these challenges is the strong Hong Kong Dollar exchange rate, which encourages the outbound travel of local residents and consequently their spending overseas.

In the face of present and future uncertainties, the Group will continue to optimise its store network positioning and scale in the expectation that this will help market penetration and reduce costs. Seizing the opportunities arising from the rental adjustment cycle, the Group will relocate shops to more attractive locations in order to increase brand exposure and stimulate sales at a reasonable rental level.

Other optimisation measures include increasing stores in residential districts and transportation hubs, which will also grow our market share in Hong Kong. The Group will increase the number of stores in locations near to the border with Mainland China. In the past, the Group has chosen shops with a larger retail area in order to manage high traffic and growth. In the current market circumstances, the Group will focus on the penetration of stores as well as their profitability. In terms of store management, the Group will work on simplifying and centralising work flow, actively reducing the number of SKUs and slow moving products in order to provide more space for new trendy items. The Group remains hopeful that as the market stabilises, good cost control will have a positive effect on the Group's performance.

Competition in the Hong Kong cosmetic industry is still vigorous. With the increasing popularity of digital media and e-commerce, the traditional retail model is being challenged and customer expectations of the shopping experience have changed.

The Group aims at providing a more comfortable shopping environment, launching eye-catching products, strengthening product displays and deepening interactions with customers. These initiatives will make browsing and sampling products more enjoyable, raising customers' purchase intentions, and as a result, offering an improved overall shopping experience.

The Group will also promote other sales strategies as appropriate to adapt to the changing market competition, including optimising store areas, the product mix, product displays and new product launches. These measures will increase store productivity. In addition, Sa Sa's trendy store format will broaden the customer base, attracting more young and male customers. The Group is developing its VIP database and systems to strengthen its customer relationship management, laying a stronger foundation for online sales and O2O business.

## Mainland China

The THAAD issue continues to make a strong impact in Mainland China, negatively affecting the Group's sales of Korean products. The Group has adjusted its product mix, replacing some Korean products with comparable items from other countries.

Online sales continue to rapidly grow, putting pressure on physical stores but also offering opportunities. There are now abundant choices for physical store openings. As rentals come under pressure, rental costs are reducing. These factors have positive potential for the Group's store network expansion.

Utilising its experience of O2O operations in its Shenzhen Qianhai Bay store, the Group will further develop O2O business, increasing its share in the Group's overall operations. The O2O format strengthens the product mix in store, which improves the overall customer shopping experience. The Group will leverage its Hong Kong resources to create a wider and more differentiated range of offerings, introducing more up-to-date and trendy products.

The Group continues to strengthen management through engagement of experienced staff from Hong Kong to improve the attractiveness of its product offerings and strengthen inventory management. The Group aims to improve control processes as well as compliance levels, raising the standard of reporting and upgrading training.

Cost and operational effectiveness are crucial to operations in Mainland China. The Group will raise the operational efficiency of its warehouses to become more efficient in delivering products to warehouses and stores in China, reducing the level of inventory required and overall logistics costs.

Continuous efforts to optimise product importation into China and operational procedures will help to speed up new product launches in stores and improve stock replenishment. Such efforts also have the benefit of reducing stock level and overall costs, including stock holding costs.

## Singapore

In Singapore, the benefits arising from the takeover of operations by the Malaysian management team will continue to be realised as costs gradually come under control and the Singapore operations begin to stablise. In the future, the Group will maintain its focus on strengthening the Singapore management team and retail network, improving profits of profit-making stores whilst closing down low productivity stores to streamline operations, thereby enabling a more efficient and effective operation.

## Malaysia

The Group has a strong foundation in Malaysia, operating the largest beauty specialty chain in the country in terms of store number and coverage. However, Sa Sa has only recently begun to successfully penetrate the Malay market segment. In the near future, the Group will continue to adjust its product offerings and services in order to speed up the penetration of this customer segment. Building on Sa Sa's strong brand name and high acceptance of its brands, the full potential of the Malaysia market has yet to be realised.

## Taiwan

The restructuring of the Group's management team has led to an improvement in sales performance in the Taiwan market. However, the Taiwan business still faces a number of challenges. One of these is the declining number of Mainland Chinese visitors travelling to Taiwan. The Group will continue to reduce Taiwan's operational scale so that the business can be better and more efficiently managed to help narrow losses.

## E-commerce

The Group is evolving into a multiple platform, multiple warehouse customer oriented business. Therefore, the key to success is to enable our backend functions to support operational flexibility and faster growth. The Group also aims to implement more automation processes, which will assist in smoothing coordination both internally and externally. Automation will streamline logistics, reducing delivery time and fulfillment costs. The primary focus of these strategies is to substantially increase scale and scalability. The Group aims to strengthen cost-effectiveness so that customers with lower spending per transaction can be more quickly absorbed, thereby broadening the customer base and improving customer services.

The Group's Zhengzhou warehouse is undergoing process enhancement, improving coordination between the warehouses in Hong Kong and the Free Trade Zone in Mainland China. This in turn will enhance operational effectiveness and reduce costs. The Group has increased the number of staff at managerial level in its warehouses to assist in streamlining operations for efficiency and cost reduction. From 1 April 2017, spending per transaction to enjoy free delivery has been raised. As logistics continue to improve and delivery time and costs reduce, the minimum spending required for free delivery will be again lowered. This will enable rapid reduction of losses in the e-commerce business.

During FY 2016/17, the Group further expanded its sales channels by cooperating with Kaola.com, in addition to its existing partner JD.com. The Group will leverage on Mainland China's major online platforms and payment methods to increase its exposure and broaden its customer base. In addition, the company will focus on launching new products to attract traffic and boost sales. The Group will continue to explore new sales channels, set content strategy and improve the user experience. Since the Group's online sales through desktop computers is being rapidly overtaken by sales on mobile devices, a new mobile app will be launched in FY 2017/18 to replace the existing one.

### O2O Strategies

The Group's aim in implementing O2O is to provide seamless online and offline services, so that customers will have a more comprehensive and convenient shopping experience. O2O also increases interactions and allows Sa Sa to continue serving Mainland tourists after they have left Hong Kong to return home. In addition, it enables the Group's online product mix to complement that of its physical stores.

Building on its existing advantages in physical stores and brand name, the Group will further develop online business and cooperate with external business partners who are keen to explore O2O opportunities. In addition to utilising its online resources in digital marketing, the Group will also integrate its online and offline CRM platform. This will lay a firm foundation to provide a more tailored shopping experience to customers. Even when these customers are not regular visitors to Hong Kong, interaction can be maintained and they will continue to be served through online interaction and cross border fulfillment. Through these heightened O2O efforts, the Group aims to strengthen customer acquisition and customer loyalty, which in turn will help to increase spending per customer and lead to stronger sales growth.

### Brand Management

The Group understands the importance of accelerating new product launches to adapt to fast changing market trends. Sa Sa will forge close partnerships with suppliers while continuing to enhance branding and marketing initiatives for its own brands.

Low productivity SKUs will be eliminated to dedicate more marketing, shelf space and other resources to new products and existing products with high productivity. This will also reduce product management and storage costs, free up cash resources and reduce the risk of product obsolescence. The Group will restructure its house brands to satisfy the market preference for low- and mid-price Asian products, and will emphasise the development of low- to mid-price own label products.

## Human Resources

As at 31 March 2017, the Group had close to 5,000 employees. The Group's staff costs for the year under review were HK$1,064.4 million. Details on our human resources programs, training and development will be set out in the environment, social and governance report and the enterprise risk management report sections of the annual report for the year ended 31 March 2017.

## Financial Review

### Capital Resources and Liquidity

As at 31 March 2017, the Group's total equity funds amounted to HK$2,219.2 million including reserves of HK$1,919.7 million. The Group continued to maintain a strong financial position with cash and bank balances of HK$968.7 million. The Group's working capital amounted to HK$1,830.0 million. Based on the Group's steady cash inflow from operations, coupled with sufficient cash and bank balances and readily available banking facilities, the Group has adequate liquidity and financial resources to meet the working capital requirements as well as to fund its budgeted expansion plans in the next financial year.

During the year, the majority of the Group's cash and bank balances were in Hong Kong dollar, Renminbi, US dollar, Malaysian Ringgit, Singapore dollar, New Taiwan dollar 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 31 March 2017 were HK$2,219.2 million, representing a 3.0% decrease 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 31 March 2017 and 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 year. 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 31 March 2017, no asset of the Group was under charge to any financial institution.

## Contingent Liabilities

The Group had no significant contingent liability as at 31 March 2017.

## Capital Commitments

As at 31 March 2017, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$207.8 million.

# Conclusion

This is not the first year that Sa Sa has experienced a difficult economic environment and the complex challenges of an evolving market. The flexibility and resilience that have stood the Group in good stead in the past have continued into the present, and will enable the Group to focus on its core strengths and sharpen its competitiveness going forward. The Group aims to convert current challenges into opportunities, particularly in its core market of Hong Kong and Macau, and sees significant potential in the development of e-commerce, its integration with physical stores, and offering products that are directly responsive to changing consumer tastes and trends. The Group will therefore maintain its strategic focus on Mainland China and the evolving preferences of Mainland Chinese customers as well as of local and regional customers. This vision will continue to support the Group's position as a leading provider of beauty products in the Asia-Pacific region. The flexibility and resourcefulness of the Group's loyal staff and the long-term vision of its dedicated management team will ensure that Sa Sa continues to deliver sustained growth for many years to come.

# FINAL DIVIDEND

The Board recommends a final dividend of 8.0 HK cents (2016: 9.0 HK cents) per share with no special dividend (2016: 5.5 HK cents per share) for the year ended 31 March 2017. Such dividends will be proposed for approval at the annual general meeting ("AGM") of the Company on Tuesday, 29 August 2017, and, if approved, are payable to shareholders whose names appear on the register of members of the Company on Tuesday, 5 September 2017.

Subject to approval by the Company's shareholders at the AGM, the final dividend 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 in the middle of September 2017. The final dividend is expected to be paid on or around Monday, 16 October 2017.

# REVIEW OF ANNUAL RESULTS

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and the annual results for the year ended 31 March 2017. The figures in respect of the preliminary announcement of the Group's results for the year ended 31 March 2017 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers Hong Kong on this preliminary announcement.

# BUY-BACK, SALE OR REDEMPTION OF SHARES

During the year ended 31 March 2017, there was no buy-back, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries, except that the trustee of our 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 year ended 31 March 2017 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 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 maximizes 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.

### 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 annual report of the Company for the year ended 31 March 2017 containing more information on its corporate governance practices will be despatched to the shareholders on or around Friday, 14 July 2017, and be published on the respective websites of Hong Kong Exchanges and Clearing Limited and the Company in due course.

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' eligibility to attend and vote at the AGM, and entitlement to the final dividend (if payable), the Register of Members of the Company will be closed in accordance with the following timetable:

(i) For determining shareholders' eligibility to attend and vote at the AGM:

| | |
|---|---|
| ● Latest time to lodge transfer documents for registration | 4:30 p.m. on Friday, 25 August 2017 |
| ● Closure of Register of Members | Monday, 28 August 2017 to Tuesday, 29 August 2017 (both dates inclusive) |
| ● Record date | Tuesday, 29 August 2017 |

(ii) For determining entitlement to the final dividend (if payable):

| | |
|---|---|
| ● Latest time to lodge transfer documents for registration | 4:30 p.m. on Friday, 1 September 2017 |
| ● Closure of Register of Members | Monday, 4 September 2017 to Tuesday, 5 September 2017 (both dates inclusive) |
| ● Record date | Tuesday, 5 September 2017 |

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the AGM, or to qualify for the final dividend, all valid documents for the transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than the time set out above.

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, 15 June 2017

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***
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