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 2019 and Trading Updates from 1 October to 18 November 2019

Highlights

- The Group's turnover for the continuing operations decreased by 15.7% to HK$3,494.1 million
- Retail sales in Hong Kong and Macau markets decreased by 19.4% to HK$2,813.9 million
- Slight loss was recorded in Hong Kong and Macau markets. Mainland China market and E-commerce business improved performance with losses narrowed by 18.8% and 2.0% respectively
- The Group's loss for the period was HK$36.5 million (2018: profit of HK$202.9 million)
- Basic loss per share amounted to 1.2 HK cents (2018: basic earnings per share of 6.7 HK cents)

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 2019. 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" refers to "The Hong Kong Special Administrative Region of China", "Macau" refers to "The Macau Special Administrative Region of China" and "Taiwan" refers to "Taiwan, China" .

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	**Unaudited Six months ended 30 September 2019 HK$'000**	2018 HK$'000
Continuing operations			
Turnover	4	**3,494,127**	4,147,220
Cost of sales	6	**(2,165,511)**	(2,478,982)
Gross profit		**1,328,616**	1,668,238
Other income	5	**35,382**	48,022
Selling and distribution costs	6	**(1,246,981)**	(1,320,637)
Administrative expenses	6	**(152,294)**	(163,741)
Other gains - net		**807**	2,916
Operating (loss)/profit		**(34,470)**	234,798
Finance income		**10,134**	10,638
Finance costs	7	**(13,912)**	-
(Loss)/profit before income tax		**(38,248)**	245,436
Income tax credit/(expense)	8	**1,718**	(41,269)
(Loss)/profit for the period from continuing operations		**(36,530)**	204,167
Loss for the period from discontinued operation		**-**	(1,306)
(Loss)/profit for the period attributable to owners of the Company		**(36,530)**	202,861
(Loss)/earnings per share for (loss)/profit from continuing operations attributable to owners of the Company for the period (expressed in HK cents per share)	9		
Basic		**(1.2)**	6.7
Diluted		**(1.2)**	6.7
(Loss)/earnings per share for (loss)/profit attributable to owners of the Company for the period (expressed in HK cents per share)	9		
Basic		**(1.2)**	6.7
Diluted		**(1.2)**	6.7

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
(Loss)/profit for the period	**(36,530)**	202,861
Other comprehensive loss		
Item that will not be reclassified to profit or loss		
Actuarial gains on retirement benefit obligations	**-**	12
Items that may be reclassified to profit or loss		
Cash flow hedges, net of tax	**(199)**	(714)
Currency translation differences of foreign subsidiaries recorded in translation reserve	**(11,426)**	(27,406)
Other comprehensive loss for the period, net of tax	**(11,625)**	(28,108)
Total comprehensive (loss)/income for the period attributable to owners of the Company	**(48,155)**	174,753
Total comprehensive (loss)/income for the period attributable to owners of the Company arises from:		
Continuing operations	**(48,155)**	177,715
Discontinued operation	**-**	(2,962)
	(48,155)	174,753

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited 30 September 2019 HK$'000**	Audited 31 March 2019 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**355,928**	351,100
Right-of-use assets		**1,476,117**	-
Rental deposits, prepayments and other assets		**140,357**	162,225
Deferred tax assets		**24,606**	4,808
		1,997,008	518,133
Current assets			
Inventories		**1,491,778**	1,413,726
Trade receivables	11	**82,437**	112,701
Other receivables, deposits and prepayments		**226,911**	221,274
Time deposits		**239,986**	589,512
Cash and cash equivalents		**548,709**	551,134
		2,589,821	2,888,347
LIABILITIES			
Current liabilities			
Trade payables	12	**231,437**	471,499
Other payables and accruals		**300,008**	328,851
Lease liabilities		**604,796**	-
Income tax payable		**44,642**	63,190
		1,180,883	863,540
Net current assets		**1,408,938**	2,024,807
Total assets less current liabilities		**3,405,946**	2,542,940
Non-current liabilities			
Other payables		**49,447**	50,475
Lease liabilities		**934,926**	-
Deferred tax liabilities		**480**	214
Retirement benefit obligations		**4,150**	5,643
		989,003	56,332
Net assets		**2,416,943**	2,486,608
EQUITY			
Capital and reserves			
Share capital		**309,560**	309,560
Reserves		**2,107,383**	2,177,048
Total equity		**2,416,943**	2,486,608

Notes:

1. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 September 2019 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 2019 ("2019 Annual Financial Statements"), which has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2019, as described in those annual financial statements.

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

a) Amendments to standards and interpretation mandatory for the first time for the financial year beginning 1 April 2019 and were early adopted in prior years

- HKAS 19 (Amendment), "Plan Amendment, Curtailment or Settlement"
- HKAS 28 (Amendment), "Long-term Interests in Associates and Joint Ventures"
- HK (IFRIC) 23, "Uncertainty over Income Tax Treatments"

b) New standard and amendment to standard mandatory for the first time for the financial year beginning 1 April 2019 and was not early adopted in prior years

- HKFRS 9 (Amendments), "Prepayment Features with Negative Compensation"

  The narrow-scope amendments made to HKFRS 9 "Financial Instruments" in December 2017 enable entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss. To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model. The amendment to HKFRS 9 did not have any material impact on the Group's accounting policies and did not require retrospective adjustments.

- HKFRS 16, "Leases"

  The Group has adopted HKFRS 16 retrospectively from 1 April 2019, as permitted under the specific transitional provisions in the standard. The reclassification and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 April 2019.

  (a) Adjustments recognised on adoption of HKFRS 16

  The following table shows the adjustments for change in accounting policy recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

2. Accounting policies (continued)

b) New standard and amendment to standard mandatory for the first time for the financial year beginning 1 April 2019 and was not early adopted in prior years (continued)

	Audited 31 March 2019 As originally presented HK$'000	HKFRS 16 HK$'000	Unaudited 1 April 2019 Retstated HK$'000
Condensed consolidated interim statement of financial position (extract)			
Non-current assets			
Right-of-use assets	-	1,622,028	1,622,028
Deferred tax assets	4,808	4,691	9,499
Current liabilities			
Other payables and accruals	(328,851)	20,074	(308,777)
Lease liabilities	-	(687,427)	(687,427)
Non-current liabilities			
Lease liabilities	-	(983,692)	(983,692)
Equity			
Reserves	2,177,048	(24,326)	2,152,722

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The lessee's weighted average incremental borrowing rate applied to the lease liabilities on 1 April 2019 was at 1.7%.

	2019 HK$'000
Operating lease commitments disclosed as at 31 March 2019	1,453,653
Less: discounted using the lessee's incremental borrowing rate at the date of initial application	(130,770)
Less: short-term leases recognised on a straight-line basis as expense	(14,071)
Add: adjustments as a result of a different treatment of extension and termination options	362,307
	1,671,119

2. Accounting policies (continued)

b) New standard and amendment to standard mandatory for the first time for the financial year beginning 1 April 2019 and was not early adopted in prior years (continued)

	2019 HK$'000
Leases liabilities recognised as 1 April 2019	
Of which are:	
Current lease liabilities	687,427
Non-current lease liabilities	983,692
	1,671,119

The associated right-of-use assets for properties leases were measured on a retrospective basis as if the new rules had always been applied. The associated right-of-use assets for property leases, which had been subleased out and classified as finance leases, were recognised as receivables and measured at the amount equal to the net investment calculated with the implicated interest rates in the finance leases on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	30 September 2019 HK$'000	1 April 2019 HK$'000
Properties leases	**1,476,117**	1,622,028
Leasehold land (note)	**92,611**	94,322
	1,568,728	1,716,350

Note:
Leasehold land previously classified as finance lease as at 31 March 2019 is reclassified as right-of-use assets as of 1 April 2019. The Group presents the leasehold land separately from the right-of-use assets and contains within property, plant and equipment.

Lease receivables for sub-lease arrangement classified as finance leases are recognised since the adoption of HKFRS 16 within “rental deposits, prepayments and other assets” under non-current assets and “other receivables, deposits and prepayments” under current assets.

2. Accounting policies (continued)

b) New standard and amendment to standard mandatory for the first time for the financial year beginning 1 April 2019 and was not early adopted in prior years (continued)

(i) Impact on segment disclosures, loss before income tax and loss per share

Segment assets as at 30 September 2019 increased as a result of the change in the accounting policy. Right-of-use assets are now included in segment assets, whereas right-of-use assets were previously excluded from segment assets. The following segments were affected by the change in policy:

	Segment assets HK$'000
Hong Kong & Macau	1,361,337
Mainland China	16,874
All other segments	97,906
	1,476,117

Loss before income tax and loss per share for loss attributable to owners of the Company for the six months period ended 30 September 2019 increased by HK$1,612,000 and 0.05 HK cents respectively as a result of the adoption of HKFRS 16.

(ii) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases within reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the use of recognition exemption to lease with a remaining lease term of less than 12 months at 1 April 2019;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date of the Group relied on its assessment made applying HKAS 17.

(b) The Group's leasing activities and how these are accounted for

The Group leases various retail stores, offices and warehouses. Rental contracts are typically made for fixed periods from 1 to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

2. Accounting policies (continued)

b) New standard and amendment to standard mandatory for the first time for the financial year beginning 1 April 2019 and was not early adopted in prior years (continued)

Before the adoption of the standard, leases of premises were classified as finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the lease liabilities and finance costs. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

Payments associated with short-term leases is recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

(i) Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

2. Accounting policies (continued)

c) The following amendments to standards have been issued but are not effective for the financial year beginning 1 April 2019 and have not been early adopted

- HKAS 1 (Amendment), "Amendments to Definition of Material" (effective for annual periods beginning on or after 1 April 2020)

- HKFRS 3 (Amendment), "Definition of Business" (effective for annual periods beginning on or after 1 April 2020)

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

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 2019, with the exception of changes in estimates that are required in determining the provision for deferred revenue on customer loyalty programme and the determination of lease term and discount rate.

(a) Deferred revenue on customer loyalty programme

As at 30 September 2019, deferred revenue for customer loyalty programme amounted to HK$6,651,000. The amount of deferred revenue recognised in each period fluctuates according to various factors including changes in estimated redemption rates and fair values of the redemption gifts.

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

(b) Determination of lease term and discount rate

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the Group has enforceable right to extend the lease term and the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

In determining the discount rate, the Groups are required to exercise considerable judgement in relation to determine the discount rate taking into account the nature of the underlying assets and the terms and conditions of the leases, at both the commencement date and the effective date of the modification.

4. Segment information

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

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

	Six months ended 30 September 2019				
	Hong Kong & Macau HK$'000	**Mainland China HK$'000**	**E-commerce HK$'000**	**All other segments HK$'000**	**Total HK$'000**
Turnover	**2,890,456**	**132,307**	**170,016**	**301,348**	**3,494,127**
Segment results	**(3,253)**	**(12,921)**	**(16,648)**	**(3,708)**	**(36,530)**
Other information					
Capital expenditure	**53,340**	**2,440**	**7,412**	**5,536**	**68,728**
Finance income	**9,129**	**99**	**32**	**874**	**10,134**
Finance costs	**12,203**	**236**	**-**	**1,473**	**13,912**
Income tax (credit)/expense	**763**	**-**	**(4,765)**	**2,284**	**(1,718)**
Depreciation on property, plant and equipment	**46,808**	**2,084**	**905**	**11,626**	**61,423**
Depreciation on right-of-use assets	**371,116**	**5,114**	**-**	**38,263**	**414,493**
Provision for slow moving inventories and shrinkage	**18,790**	**1,769**	**975**	**2,409**	**23,943**
Impairment of property, plant and equipment	**122**	**-**	**-**	**-**	**122**
Impairment of right-of-use assets	**3,810**	**341**	**-**	**-**	**4,151**

4. Segment information (continued)

	Six months ended 30 September 2018				
	Hong Kong & Macau HK$'000	Mainland China HK$'000	E-commerce HK$'000	All other segments HK$'000	Total HK$'000
Turnover	3,525,537	138,363	185,274	298,046	4,147,220
Segment results	240,229	(15,914)	(16,989)	(3,159)	204,167
Other information					
Capital expenditure	50,130	3,027	261	17,080	70,498
Finance income	9,525	103	34	976	10,638
Income tax expense /(credit)	43,701	-	(5,566)	3,134	41,269
Depreciation on property, plant and equipment	39,227	3,735	900	10,672	54,534
Provision for slow moving inventories and shrinkage	20,912	2,629	3,648	3,507	30,696
Impairment of property, plant and equipment	2,175	-	-	-	2,175

	Hong Kong & Macau HK$'000	**Mainland China HK$'000**	**E-commerce HK$'000**	**All other segments HK$'000**	**Total HK$'000**
At 30 September 2019					
Non-current assets	**1,816,603**	**27,878**	**8,364**	**144,163**	**1,997,008**
Current assets	**2,039,391**	**133,697**	**143,342**	**273,391**	**2,589,821**
Total assets as per condensed consolidated interim statement of financial position					**4,586,829**
At 31 March 2019					
Non-current assets	446,086	11,819	6,935	53,293	518,133
Current assets	2,367,208	137,686	115,494	267,959	2,888,347
Total assets as per consolidated statement of financial position					3,406,480

5. Other income

	Six months ended 30 September 2019 HK$'000	2018 HK$'000
Slide display rental income	**35,382**	32,812
Sub-lease income	**-**	15,210
	35,382	48,022

6. Expenses by nature

	Six months ended 30 September 2019 HK$'000	2018 HK$'000
Cost of inventories sold	**2,141,568**	2,448,286
Employee benefit expenses (including directors' emoluments)	**554,626**	577,210
Depreciation expenses		
- right-of-use assets	**414,493**	-
- property, plant and equipment	**61,423**	54,534
Building management fees, government rent and rates	**55,797**	54,356
Advertising and promotion expenses	**46,412**	57,404
Lease rentals in respect of land and buildings		
- lease rental for short term leases	**24,665**	-
- contingent rent	**21,388**	25,811
- minimum lease payments	**-**	444,619
Utilities and telecommunication	**26,376**	28,745
Transportation, storage and delivery charges	**25,165**	33,019
Provision for slow moving inventories and shrinkage	**23,943**	30,696
Repair and maintenance	**19,265**	24,677
Impairment of right-of-use assets	**4,151**	-
Auditors' remuneration		
- audit services	**1,903**	1,897
- non-audit services	**511**	556
Donations	**1,835**	3,244
Write-off of property, plant and equipment	**1,142**	783
Impairment of property, plant and equipment	**122**	2,175
Sub-lease expenses	**-**	14,560
Others	**140,001**	160,788
	3,564,786	3,963,360
Representing:		
Cost of sales	**2,165,511**	2,478,982
Selling and distribution costs	**1,246,981**	1,320,637
Administrative expenses	**152,294**	163,741
	3,564,786	3,963,360

7. Finance costs

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
Imputed finance costs on lease liabilities	**13,912**	-

8. Income tax (credit)/expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2018: 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	
	2019	2018
	HK$'000	HK$'000
Current tax		
- Hong Kong profits tax	**2,846**	27,106
- Overseas taxation	**10,404**	14,672
Deferred tax relating to origination and reversal of temporary differences	**(14,968)**	(509)
	(1,718)	41,269

9. (Loss)/earnings per share

From continuing operations

(a) Basic (loss)/earnings per share from continuing operations is calculated by dividing the (loss)/profit 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	
	2019	2018
	HK$'000	HK$'000
(Loss)/profit from continuing operations attributable to owners of the Company	**(36,530)**	204,167
Weighted average number of ordinary shares in issue less shares held under the Share Award Scheme during the period (thousands)	**3,093,069**	3,036,970

9. **(Loss)/earnings per share (continued)**

(b) For the six month ended 30 September 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.

For the six months ended 30 September 2018, diluted earnings per share from continuing operations is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: share options and shares held under the Share Award Scheme during the period. For the share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and future service cost. For shares held under the Share Award Scheme, awarded shares granted to the employees but not yet vested as at 30 September 2019 has been included in the number of shares.

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
(Loss)/profit from continuing operations attributable to owners of the Company	**(36,530)**	204,167
Weighted average number of ordinary shares in issue less shares held under the Share Award Scheme during the period (thousands)	**3,093,069**	3,036,970
Adjustment for share options and awarded shares (thousands)	**-**	591
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**3,093,069**	3,037,561

From continuing and discontinued operations

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

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
(Loss)/profit from continuing operations attributable to owners of the Company	**(36,530)**	204,167
Loss from discontinued operation attributable to owners of the Company	**-**	(1,306)
(Loss)/profit for the purpose of basic and diluted (loss)/earnings per share from continuing and discontinued operations	**(36,530)**	202,861

9. (Loss)/earnings per share (continued)

The denominators used are the same as those detailed above for both basic and diluted (loss)/earnings per share from continuing operations.

From discontinued operation

The basic and diluted loss per share for the discontinued operation in 2018 is 0.04 HK cents per share.

The calculations of basic and diluted loss per share from the discontinued operation are based on:

	Six months ended 30 September 2018 HK$'000
Loss attributable to owners of the Company from the discontinued operation	(1,306)
Weighted average number of ordinary shares in issue less shares held under the Share Award Scheme during the period (thousands)	3,036,970

During the period ended 30 September 2018, diluted loss per share equals to basic loss per share as the potential ordinary shares were not included in the calculation of diluted loss per share because they are anti-dilutive.

10. Dividend

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
Interim, declared – Nil (2018: 7.0 HK cents per share)	**-**	216,454

The Board has decided not to declare an interim dividend for the six months ended 30 September 2019.

11. 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 2019 HK$'000	31 March 2019 HK$'000
Within 1 month	**58,028**	87,391
1 to 3 months	**16,026**	22,140
Over 3 months	**8,383**	3,170
	82,437	112,701

The carrying amounts of trade receivables approximate their fair values.

12. Trade payables

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

	30 September 2019 HK$'000	31 March 2019 HK$'000
Within 1 month	**145,360**	370,818
1 to 3 months	**64,941**	86,687
Over 3 months	**21,136**	13,994
	231,437	471,499

The carrying amounts of trade payables approximate their fair values.

MANAGEMENT DISCUSSION & ANALYSIS

For the six months ended 30 September 2019 (“period”), the Group’s turnover for the continuing operations amounted to HK$3,494.1 million, representing a decrease of 15.7% from HK$4,147.2 million for the six months ended 30 September 2018 (“previous period”). Retail sales in Hong Kong and Macau markets decreased by 19.4% from HK$3,489.9 million to HK$2,813.9 million.

The Group’s loss for the period was HK$36.5 million, compared to a profit of HK$202.9 million recorded in the same period last year. Excluding the impact from the adoption of HKFRS 16, the Group's loss for the period was HK$34.9 million. Excluding the retail business in Taiwan, which was discontinued in the financial year of 2017/18, the profit for the continuing operations reported in the last corresponding period was HK$204.2 million.

Basic loss per share amounted to 1.2 HK cents (2018: basic earnings per share of 6.7 HK cents). In view of the challenging and uncertain operating environment in our core market in Hong Kong, the Board does not propose an interim dividend for this reporting period in accordance with the Group’s policy to pay dividends out of profits and for reasons of responsible risk management in the current operating environment.

The Group has been included in the Hang Seng Composite MidCap Index, FTSE World Index Series and MSCI Index Series. The Group has been a constituent member of Hang Seng Corporate Sustainability Benchmark Index since 2011. The Group is also an eligible stock for Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, and has been included as a constituent of some indexes under Hang Seng Stock Connect Greater Bay Area Index Series since May 2019.

Market Overview

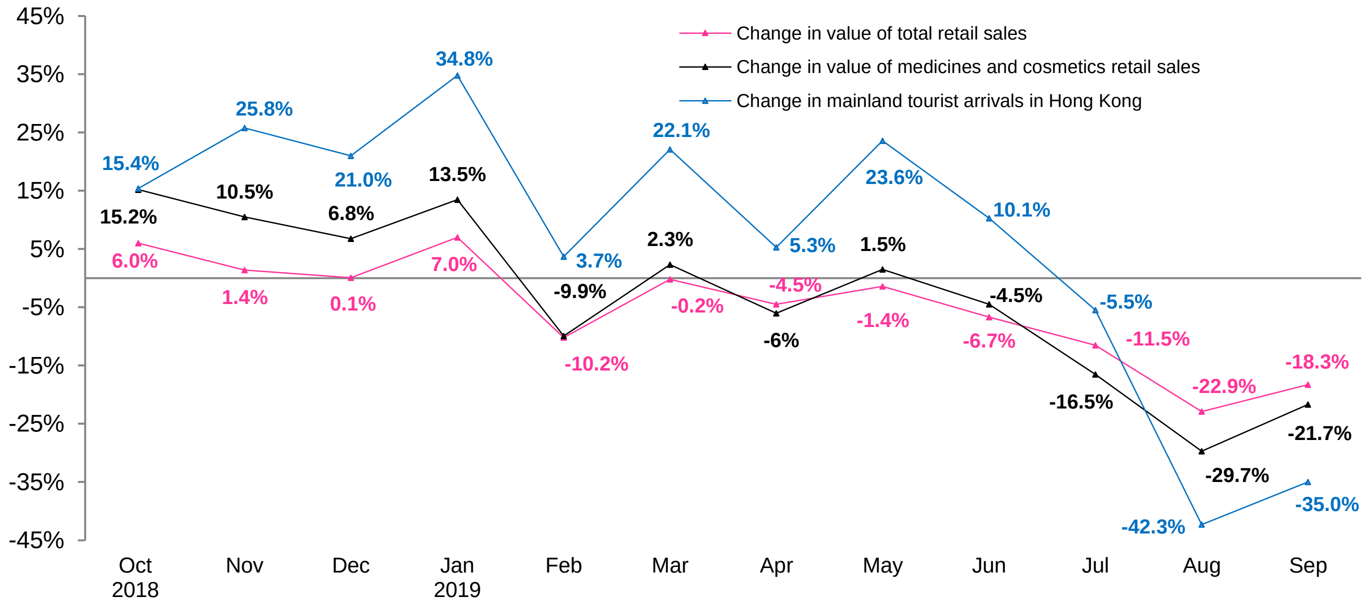
Retail Sales / Medicines and Cosmetics Sales in 2019 (year-on-year change)

Market	Retail Sales Change	Medicines and Cosmetics Sales Change
Hong Kong	-10.7% (Apr – Sep)	-12.4% (Apr – Sep)
Mainland China *(Note 1)*	8.2% (Jan – Sep)	12.4% (Jan – Sep)
Singapore	-3.5% (Apr – Sep)	1.1% (Apr – Sep)
Malaysia	7.3% (Apr – Sep)	*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 the corresponding governments' statistics bureaus.*
4) *There are some inconsistencies in definition and survey methodology for cosmetics retail sales by different government statistics bureaus.*

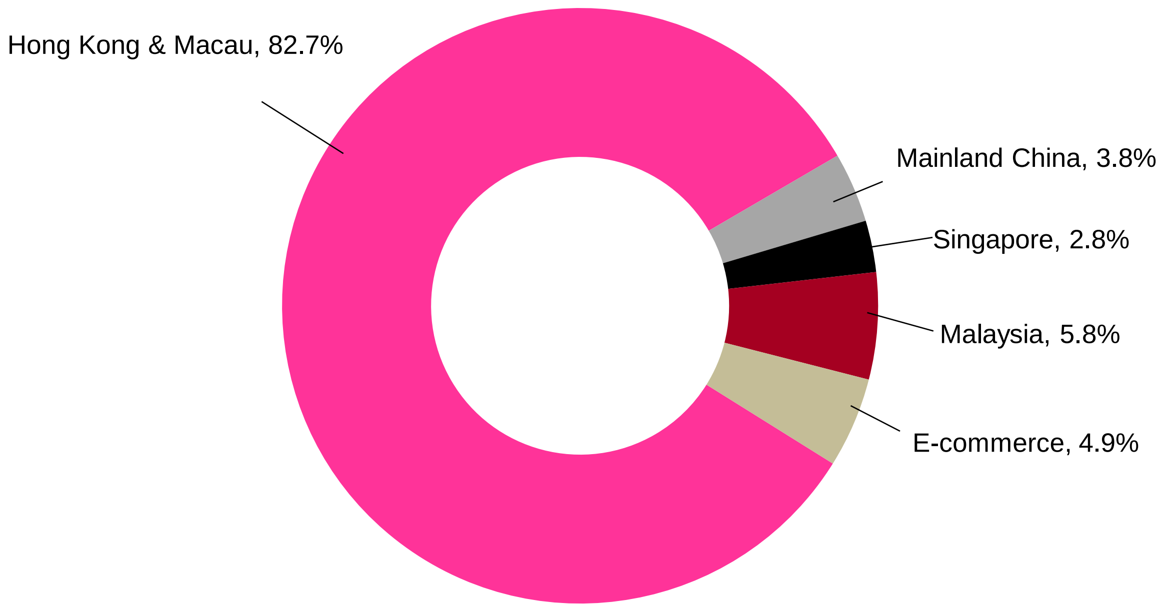
Retail Sales Performance in Hong Kong and Mainland Tourist Arrivals in Hong Kong (year-on-year change)



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

Retail and Wholesale Business

1st Half FY2019/20 Turnover Mix by Market

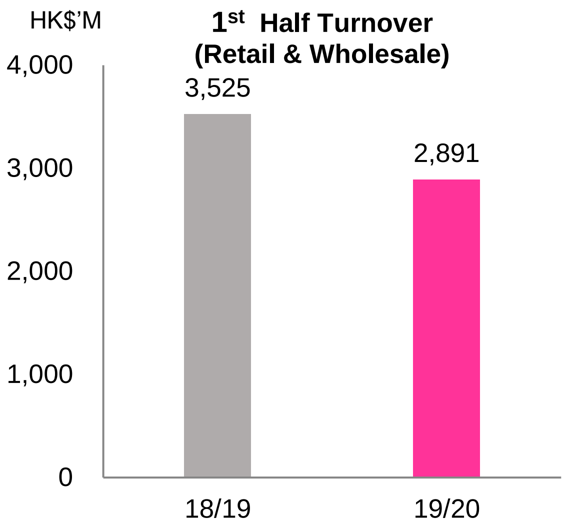


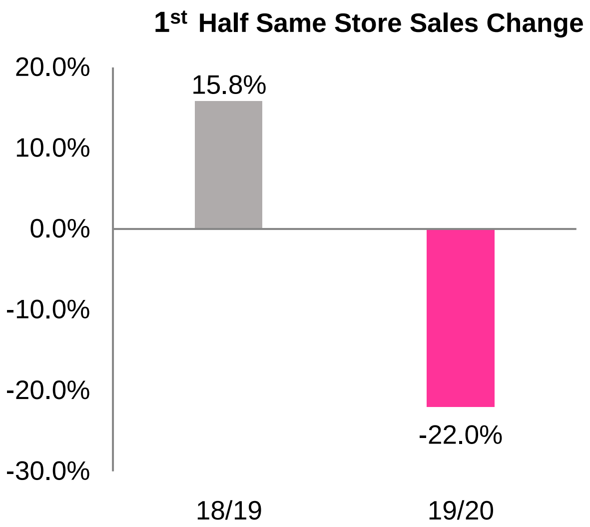
Store Network by Market

Market (Continuing operations)	As of 30 Sep 2018	As of 31 Mar 2019	Opened*	Closed*	As of 30 Sep 2019
Hong Kong & Macau	120	118	8	8	118
Mainland China	54	54	2	10	46
Singapore	22	21	0	0	21
Malaysia	77	81	4	5	80
Total	273	274	14	23	**265**

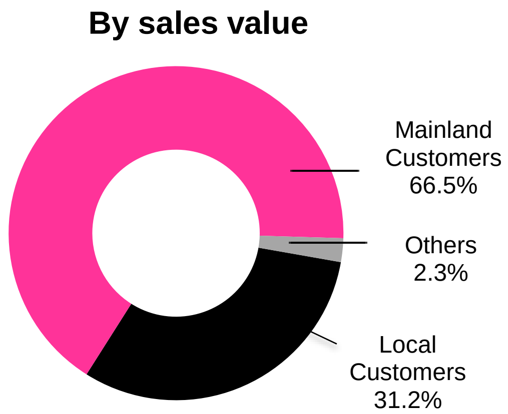
**Note:*
The number of stores opened and closed within six months between 1 April 2019 and 30 September 2019.

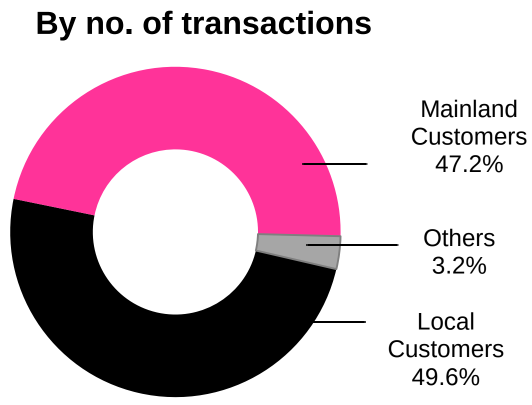
Hong Kong and Macau





Customer Mix (1st Half FY2019/20 Retail Sales)





In the first quarter, the Sino-US trade war and Renminbi (RMB) depreciation affected consumption sentiment along with Sa Sa's sales performance, resulting in a 12.7% decline in retail sales in Hong Kong and Macau.

In mid July, the Hong Kong Retail Management Association ("The Association") adjusted its original forecast of Hong Kong's total retail sales value from single-digit growth to a double-digit decline for the whole year of 2019. The Association expressed its concern that the ongoing social instability would seriously impact Hong Kong's international image as a safe and world-class tourist and shopping destination.

The Hong Kong market weakened further from July onwards when a drastic decline in Mainland tourists was recorded in Hong Kong due to the outbreak of social incidents. According to statistics from the Hong Kong Tourism Board, Mainland tourist arrivals recorded negative growth of 5.5% in July 2019 after 17 consecutive months of positive growth. The downward trend continued in August and September, with steeper declines of 42.3% and 35.0% respectively. Retail and wholesale sales of the Hong Kong and Macau markets therefore declined further in the second quarter by 24.2%, mainly caused by the decrease in tourist arrivals. Retail sales in Hong Kong market reduced by 35.4%, as compared to 11.3% growth in Macau, in the second quarter.

The number of transactions contributed by Mainland tourists in the Group's Hong Kong stores decreased significantly by 51.2% year-on-year from July to September 2019, while that of local consumers recorded a slight decline of 3.0%. However, since Mainland tourists contribute a much larger proportion of revenue in this market, the Group's overall retail sales performance in the second quarter decreased by 35.4% in Hong Kong.

Following travel warnings issued against Hong Kong by a number of countries, sales contributed by European and Southeast Asian customers in the second quarter also recorded a decline of 27.0% and 32.9% respectively in Hong Kong. Shops in tourist districts suffered the most, with popular tourist destinations like Tsim Sha Tsui, Causeway Bay and Mongkok facing a steep sales decline of around 50%-60% in August and September. Some shops were closed temporarily in residential areas, which saw a less significant sales decline.

On a more positive note, sales in the Macau market delivered a double-digit increment in August and September, mainly attributable to the increase in tourist arrivals from Mainland China and Hong Kong.

For the Hong Kong and Macau markets, overall retail sales in the interim period were HK$2,813.9 million, representing a year-on-year decline of 19.4%. This decrease was mainly due to a 24.8% sales decline in Hong Kong market, while sales in Macau market rose by 3.6% in the six-month period. The substantial reduction in sales and in gross profit margin explained below resulted in a loss of HK$3.3 million in the interim period for Hong Kong and Macau markets. Excluding the impact from the adoption of HKFRS 16, the loss was HK$1.4 million, compared to a profit of HK$240.2 million in the last corresponding period.

The number of transactions of Mainland tourists fell by 25.3% year-on-year in the first half year in Hong Kong and Macau markets, resulting in 14.9% decline in the overall transaction volume. The number of transactions of local customers dropped marginally by 1.7%. During the interim period, average sales per transaction increased slightly by 0.2% year-on-year for locals, and decreased 0.5% for Mainland tourists. As the basket size for locals was relatively smaller than that for Mainland tourists, the overall basket size dropped by 5.2% due to the change in the proportion of the customer mix.

Developing product strategy

Popular Korean beauty products created significant sales volume in recent years with highly sought-after trendy products. However, with their attraction beginning to wane, customers have returned to tried and tested premium brands as they tighten their purse strings under the impact of the Sino-US trade war. They have therefore reined in their impulse buying of new novelty products.

Catering to this changing customer preference towards premium products, the Group actively improved its offerings in the premium category. An increase in the unit price of the products sold in the interim period to both local and Mainland customers was reported, driving up the unit price by 6.3% in total, even though they buy less items, down by 10.9%, in each transaction.

Many of Sa Sa's own brand products are designed to be linked to premium products. The Group has seen improvements in the house brand sales mix following the decision to improve its offerings in the premium category. The house brand mix hit a low of 32.5% in May 2019 and gradually improved to 36.5% in September 2019. The overall house brand mix was 34.3% in the interim period, compared to 35.8% in the same period last year. This improvement in house brand mix in the second quarter partially countered the negative effect on gross profit margin of aggressive store promotions for inventory reduction. However, proactive wholesale activities also increased pressure on gross profit margin, with overall gross profit margin in Hong Kong and Macau declining to 37.0% from 39.9% in the same period last year.

Reducing inventory to a healthy level

In order to manage the Group's inventory at a level that is appropriate for the current reduced level of sales and to provide an offering with strong appeal to the broad customer base, the Group has launched more promotional campaigns with attractive discounts to boost sales and lower the inventory level to a healthy level. Thanks to these efforts, Sa Sa's inventory level as at 30 September 2019 was around HK$1,491.8 million, approximately HK$221.9 million lower than that of last year despite very slow sales in the last six months. Nevertheless, the Group's cash balance and accounts payable decreased by HK$370.5 million and HK$329.6 million, respectively, as more inventory was financed by the Group. Cash and bank balance was HK$788.7 million as of 30 September 2019. The Group is confident that the inventory and cash levels are healthy and adequate for its operational needs.

Rationalising the shop network

As of 30 September 2019, the number of Sa Sa shops in Hong Kong and Macau markets was 118 as compared to 120 on the same day last year. Apart from staff costs, shop rental is the largest expense in the Group's operations in Hong Kong and Macau markets, taking up to 14.6% of sales in the first half of the year. In view of the extremely difficult operating environment in Hong Kong, the Group strived to reduce rental expenses for reasons of survival and requested landlords to reduce rental and some landlords have agreed to offer short-term rental reductions during this difficult time. However, the current rental reductions are far from adequate and without much impact for the Group.

In the second half year, rental negotiations will continue for the rest of the Group's shops. More aggressive rental reduction approach would be considered including store size reduction and closures with the primary goal of restoring store profit contribution promptly, and to safeguard the livelihood of staff to the fullest extent.

Stringent cost management

In addition to the critical area of rental reduction, the Group has taken aggressive measures to manage and reduce costs. Frontline staff have received lower take home pay as a result of reduced commission income, which is sales and gross profit margin based. Although this reduction is a result of unfavourable market circumstances, the Group is taking proactive measures to protect the common interest of a desired level of income for both the Group and for commission based frontline staff. Throughout the Group, stringent control is being exercised on headcount by natural attrition. In addition, staff at certain grades or above in the back office have begun to take two to four days "no pay leave" every month from September onwards. Staff have also been encouraged to clear their annual leaves in order to lower the Group's related provision costs.

Our efforts to reduce inventory level will help the Group save holding costs. Reduced capital expenditure on renovation and store openings will also help preserve cash and reduce depreciation costs. Other savings include administrative and promotional costs, travel costs, and repair and maintenance costs. The Group is also centralising and streamlining work processes to improve operational and cost effectiveness.

The above cost-saving and optimisation measures will not only help the Group resume profitability as soon as possible, but also improve the Group's cost structure. These measures will strengthen the Group's productivity and competitiveness and benefit Sa Sa's long-term development.

New Retail is the key to future success

The Group has placed more emphasis on e-commerce and has accelerated the pace of integration of online and offline operations ("O2O") to increase competitiveness, provide a better O2O shopping experience to customers, and serve Mainland tourists after they have left Hong Kong to return to their home base.

In October, the Group piloted the launch of a WeChat mini-programme to enable frontline sales staff to continuously interact with customers, and to sell products via this online platform without the need for customers to visit physical stores. The Group believes the platform will help recapture some of its lost traffic and sales in Hong Kong. Equally important, it offers frontline staff who are suffering from lower take home pay an opportunity to continuously engage with customers and conduct sales through social media to boost their income.

The Group's IT development strategy has been being reviewed in order to more effectively support business development. This review is aimed at enhancing automation of working procedures and improving overall operational efficiency.

Mainland China

Overall turnover for the Mainland China operations slightly increased by 0.2% in local currency terms to HK$132.3 million, while same store sales in local currency rose by 9.4% for the period.

Higher same store sales growth was mainly driven by the improvement in product portfolio. Following the restructuring of the local product sourcing team, the Group introduced more locally sourced trendy products in its Mainland China retail shops to attract traffic and boost the average spending of customers. A double-digit growth in the number of products bought per transaction boosted the overall basket size in the first half year. Transaction volume also slightly improved, reflecting the effectiveness of trendy products in drawing foot traffic to the Group’s stores. While the house brand mix improved in the period, its gross profit margin declined, resulting in a slight decrease in the gross profit margin of 0.1 percentage point year-on-year for the Mainland China market in the interim period.

The WeChat mini-programme, linking the Group’s frontline staff and customers, was launched in August 2019. The programme has already demonstrated its ability to reach customers outside the Group’s retail store network at a low cost over the report period. The Group launched a new VIP membership system, with the entrance level lowered, in order to acquire new members and boost sales. The conversion rate from members to higher spending VIPs notably improved during the period thanks to a number of member-centric promotions.

Due to the net closure of eight shops year-on-year as of 30 September 2019, overall sales for this segment stayed flat in the report period. Nevertheless, the store level contribution rose by 39.8% year-on-year thanks to improvements in same store sales. The total loss narrowed by 18.8% to around HK$12.9 million.

E-commerce

Turnover of the Group’s e-commerce business decreased by 8.2% to HK$170.0 million on a year-on-year basis. Mainland China consumers generated more than 90% of revenue, with third party platforms being the major source of revenue. Overall, these platforms reported 15.1% sales growth year-on-year in the interim period, contributing to more than 67% of sales in the e-commerce segment.

However, the Group’s website and mobile app reported a 34.6% sales decline, which was a key factor in the overall weaker sales performance for e-commerce business. The Group believes that its existing online channels are touch points of Sa Sa, playing a changing role in showcasing the Group’s brands and enabling interaction with customers throughout the customer journey.

The integration of the Hong Kong warehouses for retail and e-commerce operations boosted the Group’s operating efficiency for logistics. The logistics expense to sales ratio was reduced to 9.4% this year from 12.9% in the last corresponding period. Delivery time was shortened further from an average of 6.0 days in the same period last year to 5.6 days in the interim period. Although the positive contribution at the operating level was insufficient to cover back office expenses, the loss narrowed slightly by 2.0% year-on-year in the interim period.

Singapore

The Singapore Retail Sales Index recorded eight months of negative growth from February to September 2019, due to lower consumer sentiment and tightened consumer spending.

As of 30 September 2019, the Group operated 21 shops in Singapore. The opening of new shopping malls in the city directed foot traffic away from those areas where Sa Sa operated in the first quarter, leading to an 11.0% decline in same store sales in the first quarter. This impact gradually faded in the second quarter. As a result, the Group's turnover for the Singapore operations was HK$99.4 million in the period, a decline of 4.6% on a year-on-year basis in local currency terms, with same store sales declining by 7.8% in local currency.

Although no new store was opened in the first half of the financial year, resources were allocated to frontline staff management in order to build a stronger foundation for continuous same store contribution. The Group piloted the launch of a performance improvement scheme for under-performing frontline staff, which was aimed at improving monthly sales performance and service standards.

Another effective way of retaining loyal customers and encouraging repeat purchases is Sa Sa's VIP system. The Group implemented various VIP-focused initiatives during the interim period, such as member-centric benefits and promotions, along with the introduction of a VIP e-membership cardless scheme.

Malaysia

The turnover for the Group's Malaysia operations was HK$201.9 million, an increase of 8.2% in local currency terms, while same store sales slightly dropped by 0.2% in local currency terms. To place this in context, according to Retail Group Malaysia, growth for the retail industry for the first half of 2019 was 4.2%.

As of 30 September 2019, the Group operated 80 stores compared to 77 stores in the same period last year. Sales grew by 8.2%, mainly attributable to four new shop openings during the first half of the year as well as the 10 new shop openings in the previous financial year respectively. Sales were also driven by VIP systems and related marketing campaigns to build customer loyalty. The local VIP system grew its membership base by 24.0% and boosted the average ticket size of VIP by 10.0% in the first half of the year.

In terms of marketing, the Group organised in-store promotional activities to create impulse buying. Local brand partnerships were leveraged to drive in-store traffic, complemented by cross- and up-selling of house brands to drive margins. The Group launched partnerships with shopping malls and third party platforms for promotional events as well as social media campaigns to gain brand exposure and to reach out to a larger pool of its untapped target audience.

In addition to maintaining its focus on growing domestic Chinese customers, the Group continued to expand its Malay customer base by building brand awareness within this community. Due to a lower base, sales from Malay customers grew at a faster rate than those of the domestic Chinese, driving up the contribution from the Malays as a percentage of total sales in the report period. Sa Sa worked closely with more top KOLs in the make-up category, in which the majority of followers are Malay women, resulting in a significant increase in Malay follower engagement on KOL platforms and on Sa Sa's social media.

Outlook

Hong Kong and Macau

In Hong Kong, social incidents continue to seriously disrupt travel and business in the city. Many major annual events such as the Hong Kong Cyclothon and the Hong Kong Wine & Dine Festival have been cancelled. It is expected that tourist arrivals will deteriorate further at prime seasons such as Christmas and Chinese New Year, with recovery to original levels not expected in the near term.

As Hong Kong's second and third quarter GDP showed negative growth of 0.5% and 3.2% quarter-to-quarter respectively, the Hong Kong economy has entered into a technical recession. The social instability and slowdown in the local economy have affected the retail and catering industries, with the situation in many directly impacted industries deteriorating significantly. From July to September 2019, the combined unemployment rate in the retail, accommodation and food services sector was 4.9%, which is much higher than the overall unemployment rate of 2.9% in Hong Kong. The Group believes that the rising unemployment rate will further dampen local consumer sentiment.

To cope with the increasingly challenging environment, the Hong Kong Government announced a new round of HK$2 billion economic stimulus in late October 2019 to support enterprises in hard-hit sectors such as retail, catering, transport and tourism, and to safeguard jobs. Meanwhile, the government has launched a cash incentive plan to support travel agents, helping the tourism sector to tap more new business and supporting employment in the industry. These measures are expected to provide a pass-on effect to industries related to tourism, including the retail sector.

As for Macau, according to statistics published by Macau's Statistics and Census Service, about 2.8 million inbound tourists were recorded in September 2019, representing growth of 8% on a year-on-year basis. Of which, tourists from Hong Kong, increased by 27.2% year-on-year, while Mainland tourists increased 5.7% on the same basis. Macau Government Tourism Office predicts the number of tourists to Macau in 2019 will be 40 million approximately, recording a year-on-year increase of around 11.7%. In addition, the local government has strengthened tourism supporting facilities and optimised its tourism policy. The government aims to encourage the industry to launch new travel itineraries in order to attract more tourists in support of the long-term development of Macau's tourism industry.

The Group aims to respond to forthcoming market challenges with flexibility and determination, and to adjust its operations according to a strategy that is both disciplined and forward thinking. This involves preserving cash and other resources, and in building business processes and technical capabilities to leverage the new retail opportunities of the Greater Bay Area.

The Group is cautious on the short-term outlook but is optimistic about the long-term sustainability of its business, not only for traditional physical stores business, but also for New Retail. This will enable the Group to provide both offline and online engagement and sales services to customers throughout the Greater Bay Area.

Looking at the long-term macro environment, Hong Kong is well positioned in the Greater Bay Area to benefit from the increased flow of people, goods, information, capital and trade within the region. The mega infrastructure projects, including the Express Railway Link and the Hong Kong-Zhuhai-Macau Bridge, as well as the supportive policies of the Central Government will undoubtedly benefit the retail industry in Hong Kong and Macau.

Enhancing store contribution

Rental costs are the key element for sustainable operation of any stores, especially in the current circumstances. So far only short-term rental reductions have been obtained by the Group in some high street stores in Hong Kong. Street store landlords are generally more accommodating and willing to weather the storm together with retail tenants to build a more sustainable future.

Some landlords that own and manage shopping malls have started to announce rental reduction measures, but usually not to the extent that high street store owners are willing to accommodate. Such reductions are far from adequate given the current difficult operating environment. Store profitability is the most important operation parameter for the Group in determining its store network. The Group will continuously review market conditions and strive for a corresponding reduction in rentals based on the sales and profitability of each store. Reduction in store area or store relocation to neighbouring areas may also be considered for lowering costs when appropriate, or even the replacement of long-term leases with short-term leases when contracts expire. Closure of underperforming stores will also be considered. In addition, the Group will continue to optimise its store network by reducing number of shops in tourist areas. All these measures are expected to enable Sa Sa to maintain the competitiveness of its store network, protect the profitability of its stores, and safeguard the livelihood of its employees.

In Macau, the number of the Group's stores was nine as of 30 September 2019. The Group believes that the Macau market is relatively stable and has the potential for further growth. The Group is therefore seeking suitable locations for new stores and to further expand its market share.

Implementing a customer-centric product strategy

The recent trend of customer preferences towards premium brands is favourable for Sa Sa, since it has over four decades of experience in parallel importing premium products to the Hong Kong market. The Group's good connections with quality suppliers and its quality assurance processes differentiate Sa Sa from its peers in the industry. The usage of big data enables the Group to effectively adjust its product portfolio, and accelerate the launch of new products as well as products with high sales volume to adapt to rapidly changing customer preferences. This strategy will boost revenue growth and drive profit contribution through a leveraging effect.

The Group will continue to eliminate low productivity SKUs and reduce excessive stockholding level of other products in order to reduce the overall level of inventory, thereby preserving cash and creating room for popular or products with high sales volume. With service excellence as Sa Sa's number one core value, the Group will continue to focus on service to help build relationships and trust with customers while also strengthening Sa Sa as a top-of-the-mind brand in the market.

Focusing on digitalisation and IT advancement

IT advancement will continue to enable Sa Sa to streamline work processes, increase operational efficiency and enhance overall competitiveness. The Group recognises that the provision of an excellent shopping experience that consumers truly enjoy is essential, and that it requires both online and offline efforts. Sustained efforts are therefore focused on the improvement of digital marketing, and the enhancement of product offerings and store displays.

The pilot launch of the WeChat mini-programme in Hong Kong market was piloted in October 2019, which enables Sa Sa beauty consultants to engage more fully with customers and allows them to make repeat purchases without visiting Sa Sa's physical stores. More features will be introduced through this WeChat mini-programme. The above O2O operation will lay the foundation of the new retail model for the Group's future development.

The Group is also preparing to change its in-store Point of Sale ("POS") system of Hong Kong stores, with the aim of accelerating the processing time of credit cards and other payment solutions, simplifying and automating promotions during checkouts, and enabling the Group to move towards customer self-checkout. This new POS system is expected to launch in Hong Kong stores by the end of the financial year ending March 2020. When combined with other developments in the pipeline, the new POS system has the capability to enhance both the physical store and online shopping experience.

In the long term, the Group aims to enhance the combined strength of Sa Sa's extensive physical store network in Hong Kong, Macau and Mainland China and its professional beauty consultant team, providing the team with extensive digital media engagement capabilities with customers. This strategy will free customers from geographical and time constraints, thereby creating a "customer-centric" new retail service model to upgrade the overall shopping experience.

Mainland China

Mainland tourists have been the major revenue contributor to the Group's Hong Kong and Macau markets. In view of the uncertainty over the timing of the recovery of tourist arrivals in Hong Kong, the Group has recognised that the store network expansion in Mainland China needs to be urgently accelerated. The Group aims to open more shops on the Mainland, especially in Southern China.

Continuous efforts will be made to enhance the product portfolio by speeding up the roll-out of trendy and new products in this market. This is a key strategy for attracting foot traffic and boosting same store sales.

In regard to the WeChat mini-programme, the Group is gradually increasing the number of SKUs sold on this platform following the pilot launch. The degree of process automation will be upgraded in order to tackle the larger volume of business efficiently in the future. At the same time, investment will be made in training and incentives for frontline staff so as to increase the usage and sales generated by this mini-programme. Promotional efforts will be enhanced on the platform through advertising and joint promotions with other brands.

The newly revamped VIP programme enables the Group to strengthen customer relationship management, increase repeat purchases and launch sales-driven promotions. This VIP programme will be deployed as a key tool for retaining long-term customers for the Group. Investment in the system will continue in order to acquire new members and boost the active customer base.

E-commerce

Intense competition across various e-commerce platforms in recent years has driven third party platforms to become more cost efficient and to offer better opportunities for driving sales and profits for the Group. Sa Sa's own channels are relatively costly to run and require a higher cost to attract a greater flow of traffic. The main focus for 2020 is the development of new third party platforms. Meanwhile, continuous improvement of the operational and marketing capabilities of existing platforms will be a critical success factor. This is especially true for Koala and Xiaohongshu, which have significantly changed their operating rules, advertising and promotion expenses structure and management teams.

In regard to its own channels, the Group launched a new e-commerce engine in September 2019. The customer data provided by this new e-commerce engine will enable Sa Sa to explore the opportunity of offering personalised promotions and services for customers. Product strategy remains a priority. Instead of driving sales volume, the Group will invest in developing Sa Sa's own brands and those exclusively distributed brands that demonstrate high growth potential, in order to improve gross profit margin. Parallel imports of premium brands will be leveraged mainly for driving traffic and resources among platforms.

The Group aims to regularly review the operations strategy. Going forward, the Group will adopt an array of measures, including seeking partnerships focusing on cost-effectiveness as well as improving customer experience, competitiveness and the scope of development via various platforms, with the ultimate aim of achieving profitability for the business.

Singapore

The Ministry of Trade and Industry downgraded Singapore's GDP growth forecast for 2019 to the range of 0.0% to 1.0%, from the previous forecast of 1.5% to 2.5%. GDP growth in many of Singapore's key final demand markets in the second half of 2019 was expected to slow from, or remain similar to, that recorded in the first half. This ongoing downturn has been caused by the continuing uncertainty of by the Sino-US trade conflict.

The Group believes that product portfolio is the key to success in enhancing sales performance. In Singapore, Sa Sa's key focus will be driving sales growth for exclusive brands or own brands, both of which deliver higher gross margins. At the same time as introducing new products to the portfolio, the Group will continuously review and eliminate underperforming brands and SKUs to clear retail space for higher productivity products.

The looming Sino-US trade war will inevitably impact Singapore. The Group will adopt a conservative approach in the Singapore market with its main focus being on the organic growth of existing stores. The principle is to boost sales through highly cost effective ways. The Group will review local market conditions regularly and adjust its business strategy accordingly, striving to retain overall strength and flexibility for the long-term development for the Group.

Malaysia

Retail Group Malaysia expected retail sales growth in the third and fourth quarter of 2019 would be 3.2% and 5.8% respectively. The full year growth forecast was 4.4%, down from 4.9% forecast in June 2019.

Trade disputes among major economies have led to slower export growth in Malaysia, declining stock market performance and a weakening local currency. These factors have led to lower consumer confidence levels, uncertain future job prospects and unwillingness to spend more.

Against this backdrop, the Group will continue to explore malls located within the established catchment zones of city centre or suburban areas. Projects developed by successful mall operators or reputable developers will be prioritised. The Group plans to expand to 100 stores from currently 80 shops in the coming three years, while being strategically selective with mall locations and reputable developers.

Further plans include ongoing penetration into the wider Malay consumer market through engagement of local Malay spokespersons or ambassadors, supported by growing Sa Sa's make-up segment in this market. The Group will continue to collect and build consumer insights, understanding and behaviour in relation to market trends, and to develop and maintain a relevant, strategic and sustainable product portfolio. New and attractive products will be introduced, such as limited editions for special occasions and festivals.

Meanwhile, the Group will continue to invest in digital marketing and IT to improve sales and marketing channels, as well as to provide a comfortable shopping experience. The launch of Sa Sa's local mobile app is rescheduled to the end of 2019. The click-and-collect model will also be made available via the mobile app and shopping website, enabling the Group to provide a wider product portfolio offering to customers. Other O2O synergies will be developed to collect more customer data and enhance the shopping experience.

Q3 operational sales data

For the third quarter from 1 October to 18 November 2019, the Group's turnover decreased by 31.6% 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	-39.4%	-39.1%
Mainland China	-0.3%	13.0%
Singapore	-11.8%	-11.0%
Malaysia	9.5%	1.8%
E-commerce	-12.8%	[redacted]
Group turnover	-31.6%	

Remarks: The above data includes the impact of Deferred Income Adjustment for VIP bonus points and has not been reviewed nor audited by the auditors of the Company.

Human Resources

As at 30 September 2019, the Group had close to 4,500 employees. The Group's staff costs for the six months ended 30 September 2019 were HK$554.6 million.

Financial Review

Capital Resources and Liquidity

As at 30 September 2019, the Group's total equity funds amounted to HK$2,416.9 million including reserves of HK$2,107.4 million. The Group continued to maintain a strong financial position with cash and bank balances of HK$788.7 million. The Group's working capital amounted to HK$1,408.9 million. Based on the Group's steady cash inflow from operations, coupled with sufficient cash and bank balances and readily available banking facilities, the Group has adequate liquidity and financial resources to meet the working capital requirements as well as to fund its budgeted expansion plans in the next financial year.

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

Financial Position

Total funds employed (representing total equity) as at 30 September 2019 were HK$2,416.9 million, representing a 2.8% decrease over the funds employed of HK$2,486.6 million as at 31 March 2019.

The gearing ratio, defined as the ratio of total borrowings to total equity, was zero as at 30 September and 31 March 2019.

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 2019, 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 2019.

Capital Commitments

As at 30 September 2019, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$13.4 million.

Conclusion

Although the Hong Kong government has launched various relief measures to support the industry, the retail market is expected to remain challenging in the near term as the worsening economic outlook and social instability in Hong Kong continue to weigh on consumer sentiment and inbound tourism.

In the midst of these challenges, the top priority of the Group is to protect profitability and to safeguard the interests and livelihood of its employees. Stringent cost controls remain an ongoing endeavour for Sa Sa, while the Group has been aggressively reducing rental costs with the aim of resuming profitability for its stores. It has also stepped up measures for overall cost reduction and streamlined work processes to improve operational and cost effectiveness as well as to enhance overall productivity.

In accordance with monitoring market conditions, the Group has been strategically adjusting its direction in non-core markets and businesses. The Group will rationalise its unprofitable non-core businesses, aiming at focusing the Group's resources on the core businesses and those with higher growth potentials. In the mid to long term, the Group foresees the full realisation of the potential of the Greater Bay Area. The favourable policies and infrastructure development planning of the Central Government will further drive foot traffic and economic prosperity within the region, while nurturing the further growth of the retail industry. Sa Sa is set to capture the vast business opportunities that lie ahead and to pave the way for restoring its business growth.

Alongside the Group's commitment to embracing the era of New Retail and becoming more "customer-centric", focus will be placed on improving the effectiveness of Sa Sa's overall O2O business by using social media to accelerate the integration of online and offline operations. Sa Sa will thereby strive to strengthen its competitiveness, cater for changing customer preferences and better serve Mainland tourists after they have left Hong Kong to return to their hometown. Capitalising on its physical store network, professional beauty consultant team, maturing nation-wide logistics capabilities as well as its e-commerce touch points, the Group is confident of moving the Sa Sa brand forward in the new retail era, and of creating a seamless O2O shopping experience for its customers.

Although the road to recovery is full of challenges, the Group believes that, with the management and entire staff working closely together, Sa Sa will achieve a common goal of restoring profitability and delivering long-term value. The Group believes that Sa Sa's agility and responsiveness will remain its core competency, leading the Group through this difficult time and laying a solid foundation for the development of the new retail model in the future.

INTERIM DIVIDEND

The Board has decided not to declare an interim dividend for the six months ended 30 September 2019 (2018: 7.0 HK cents per share).

BUY-BACK, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2019, 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 2019 and up to the date of this announcement, we have complied with all but two 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.

Code Provision E.1.2
Under this code provision, the chairman of the Board should attend the annual general meeting of the Company. Dr KWOK Siu Ming Simon, the chairman of the Board, did not attend the annual general meeting on 2 September 2019 because he was unwell on that day. The vice-chairman, Dr KWOK LAW Kwai Chun Eleanor, was chosen by the directors present to act as chairman of the meeting and the AGM proceeded smoothly with the attendance of the external auditor and all board members except the board chairman.

For more information on our corporate governance practices, please refer to the Company's annual report 2018/19 published in July 2019.

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 notification and clearance process before dealing can take place under the Model Code were reviewed and improved during the financial year 2018/19. 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 2019 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 2019.

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, 21 November 2019

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*