Chairman's Statement

I am pleased to report that Sa Sa International Holdings Limited continued to deliver solid growth in the Group's overall performance for the year ended 31 March 2012 (the "fiscal year"). The fiscal year was in many ways an outstanding one for the Group, enabling us to maintain and further fortify our position as the leading and most preferred cosmetics retailer in Asia. The Group's turnover rose significantly, and the resulting operating leverage allowed us to achieve a solid growth in profit after tax. In particular, in Hong Kong, the buoyant local consumer market received a major boost from the growth in Mainland tourist arrivals and spending. As a result, our sales in Hong Kong and Macau achieved robust growth of 29.8% year-on-year to HK$5,092.7 million, approximately 64% of which was derived from sales to Mainland tourists, while profit after tax increased by 41.9% year-on-year to HK$674.4 million. In our markets of Singapore, Malaysia and Taiwan, we recorded double-digit growth in sales and increased the number of our stores from 77 to 92, which helped us to gain market share. We continued to build our network in a disciplined and measured manner, with our footprint increasing across the region. This was especially true of our expansion in Mainland China, where at the end of the fiscal year the number of "Sa Sa" stores was 48, an increase of 85% over the previous fiscal year. Both our Hong Kong and Mainland China markets provided and continue to provide a wealth of opportunities, allowing us to generate profits with substantial scope for further growth.

In line with our ongoing growth strategy, the leverage on our core businesses continues to support our initiatives to build a base for future growth beyond Hong Kong. This expansion strategy affected the Group's profitability for the fiscal year. However, we firmly believe that we are striking the right balance between short-term profitability and long-term prospects. During the fiscal year, the Group's turnover rose 30.7% to HK$6,405.1 million, while profit after tax increased by 35.4% to HK$689.7 million.

The Board of Directors proposed a final dividend of 3.5 HK cents per share and a special dividend of 8 HK cents per share. Subject to shareholders' approval, the dividends are payable on or around 7 September 2012 (Friday) to those who are registered as shareholders as at 23 August 2012 (Thursday). Total annual dividend for the fiscal year is 17.5 HK cents per share.

MARKET CHALLENGES

Inevitably, there have been ongoing challenges in the market through which we continue to navigate. In the fourth quarter of the fiscal year, Hong Kong retail sales growth began to slow and GDP growth slackened to 0.4% year-on-year as compared to 3.0% in the preceding quarter. For the first quarter of 2012, retail sales growth in Mainland China decreased to 14.8% year-on-year, as compared to the 17.1% growth in 2011.

The relative resilience of the cosmetics market was witnessed amidst the changing market conditions in the past. Basing our belief on past experience, we will respond to forthcoming market challenges with flexibility and decisiveness, and expand according to a strategy that is both measured and dynamic.

It is true to say that Mainland short-haul tourists increasingly travel to Hong Kong on a frequent basis, shop within the same day and then return across the border. This has proven to be an opportunity for Sa Sa as we began to strategically extend our retail store network in appropriate locations beyond traditional shopping areas to meet such demand. While short-haul Mainland tourists have increased in number, their purchasing patterns have become more distinct and different to those of long-haul Mainland China tourists. Due to these evolving purchasing patterns, we have begun to research and adapt our products to cater for such changes, including offering more daily necessities and over the counter medicines.

Rental costs continued to increase during the fiscal year and are likely to continue rising in the future. This trend encompasses both risk and challenge. However, the risk is somewhat alleviated because of our innate flexibility. In response to rental pressures, we remain ready to relocate to alternative locations with more reasonable rents. Due to our established and extensive network, we can also rely on existing stores to capture some of the lost business of a closed store before a substitute store is opened. At the same time, we continue to manage the challenge with a disciplined store expansion strategy, such as that we implemented in the current fiscal year.

In Mainland China, we continue to build from a low base. We are confident that we will be able to build on this platform and reap the rewards of strong growth despite the softening of Mainland China's dynamic economy. During the fiscal year, we continued to work on refining frontline staff recruitment and training, strengthening our management resources and structure, and increasing market presence and competitiveness. We also began to steadily improve our product offerings and enhance scalability through automation and standardisation of processes and systems. As a result, we began to gain strong support from beauty brands and landlords as well as enjoying improved productivity.

In line with our increased market share and presence in Singapore, Malaysia and Taiwan, we began to attract brands that are eager to build a retail presence and to work closely with us. We will continue to build on this platform to strengthen

market presence, create a strong network and implement further market penetration. As the Group is well positioned to capture growth opportunities in these overseas markets, we aim to bring more brands into our stores and to boost the opportunities to represent other brands as their sole agent. In Taiwan, for example, we look forward to enjoying the benefits of the relaxation of the Free Independent Traveller programme, which will bring many more visitors from Mainland China to Taiwan.

For sasa.com, we aim to achieve more balanced growth in different markets. During the fiscal year, we successfully penetrated various markets around the globe and continued to expand our customer base with the aim of creating sustained sales growth. With a more diversified and balanced customer profile, we will continue to strengthen our efforts to localise specific business strategies for targeted major overseas markets. We will build new and enriched multimedia content to elevate user experience, customer loyalty and community engagement while capturing the latest online, mobile and social commercial practices. We believe that our competitiveness will increase in these markets as we gain more local knowledge and local recognition.

THE WAY AHEAD

Looking towards the future, the overall vision of the Sa Sa Group is to improve scalability. Leveraging on the sound track record and the solid foundation of our Hong Kong core market, the Group is committed to strengthening the operations of our overseas markets, achieving growth in sales and market share, and in turn, increasing the contribution of these markets to the Group. This means that we will allocate more resources to support sustained high growth. In terms of technology, we will invest in standardising, streamlining and automating our operations and business processes, using IT technology to increase efficiency and control throughout the Group. This will allow us to improve scalability to support continuous growth in the fast growing cosmetics market.

We will maintain our focus on building and managing a motivated team to support our commitment to offer the most enjoyable shopping experience in Asia with the highest quality products to our customers. As of 31 March 2012, we have expanded our purchasing force to over 140 staff across all business segments, representing an increase of approximately 16%. In recognition that our staff is the key to our success, we will further invest in human resources and our knowledge base to help us drive the growth of our business. This process will involve recruitment initiatives, incentives to retain and motivate the best talents, and training at all levels of the organisation and across all markets where we operate. We have made every effort to provide our staff with a safe, healthy and fulfilling working environment, making their work at Sa Sa a pleasurable experience.

We look forward to enhancing our role as a good corporate citizen with active awareness of corporate social responsibility. We aim to contribute further to the environment and the community in the coming year through deepening the engagement and participation of our staff, so that our social responsibility culture will take root and eventually spread to the wider community. Our infrastructure will be improved to better manage our positive environmental and social impact. We will also strengthen our collaboration with non-profit organisations, particularly those that create tangible social value that is in line with Sa Sa's vision. In this context, it was pleasing for us to become a constituent member of the Hang Seng Corporate Sustainability Benchmark Index during the year.

To upgrade our brand building strategies, we will boost marketing effectiveness with more targeted marketing campaigns and events such as the highly popular Fragrance Fairs held in Hong Kong, China, Malaysia and Taiwan. The Fairs were also well received by partnering brands. The Group will continue to foster close partnerships with suppliers and beauty brands, providing them with all-rounded brand management services and solutions from image building and marketing to sales and distribution.

Finally, although we enjoyed fruitful results from a successful review of our stock holding strategy last year, we will take a more disciplined and cautious approach in managing our inventory risks and cash flow this coming year given the current market conditions.

CONCLUSION

Thanks to the tireless efforts of our colleagues and our professional management team, the Group has been able to thrive continuously and achieve our goal of sustainable development in this highly competitive and ever-changing economy. I strongly believe that our strong financial platform, our resilience and flexibility, our expansion strategies and prudent cost controls will ensure that we can meet any challenges that the future may bring. The Sa Sa Group has a long track record of success in all economic circumstances. We remain committed to expanding our business, scouting quality and trend-setting products around the globe, providing excellent customer services, creating an extraordinary shopping experience for our customers, and maintaining our dominant position within the cosmetics retailing industry in Asia.

I would like to take this opportunity to thank all the teams at Sa Sa, both employees and management, for their unswerving loyalty and commitment to the goals and vision of the Group during the year. Thanks to their high level of devotion and creativity, Sa Sa has been able to uphold our promise to our shareholders to deliver sustainable value both now and in the years to come.

Dr Simon Kwok, *BBS, JP*
Chairman and Chief Executive Officer
Hong Kong, 15 June 2012


Elizabeth Arden
GUESS
SEDUCTIVE


Fragrance
Blumarine
INNAMORATA
EAU DE PARFUM