Management Discussion & Analysis

During the fiscal year, the Group's turnover rose 30.7% to HK$6,405.1 million as compared to HK$4,901.4 million in the previous fiscal year. The Group's performance benefited from the strong performance of our Hong Kong and Macau core markets. Sales in Hong Kong and Macau increased by 29.8% year-on-year to HK$5,092.7 million whereas those in Mainland China grew to HK$290.7 million, representing an increase of 99.8% year-on-year. The Group's retail network expanded from 205 to 249, a net increase of 44 stores.

The Group's profit for the year was HK$689.7 million, a rise of 35.4% over the HK$509.3 million achieved in the last fiscal year. Basic earnings per share was 24.6 HK cents, as compared to 18.2 HK cents in the previous year. The Group's gross profit margin for the fiscal year increased to 45.2% from 45.1% last year. The Group's net profit margin increased from 10.4% to 10.8%. Final and special dividends per share proposed is 11.5 HK cents.

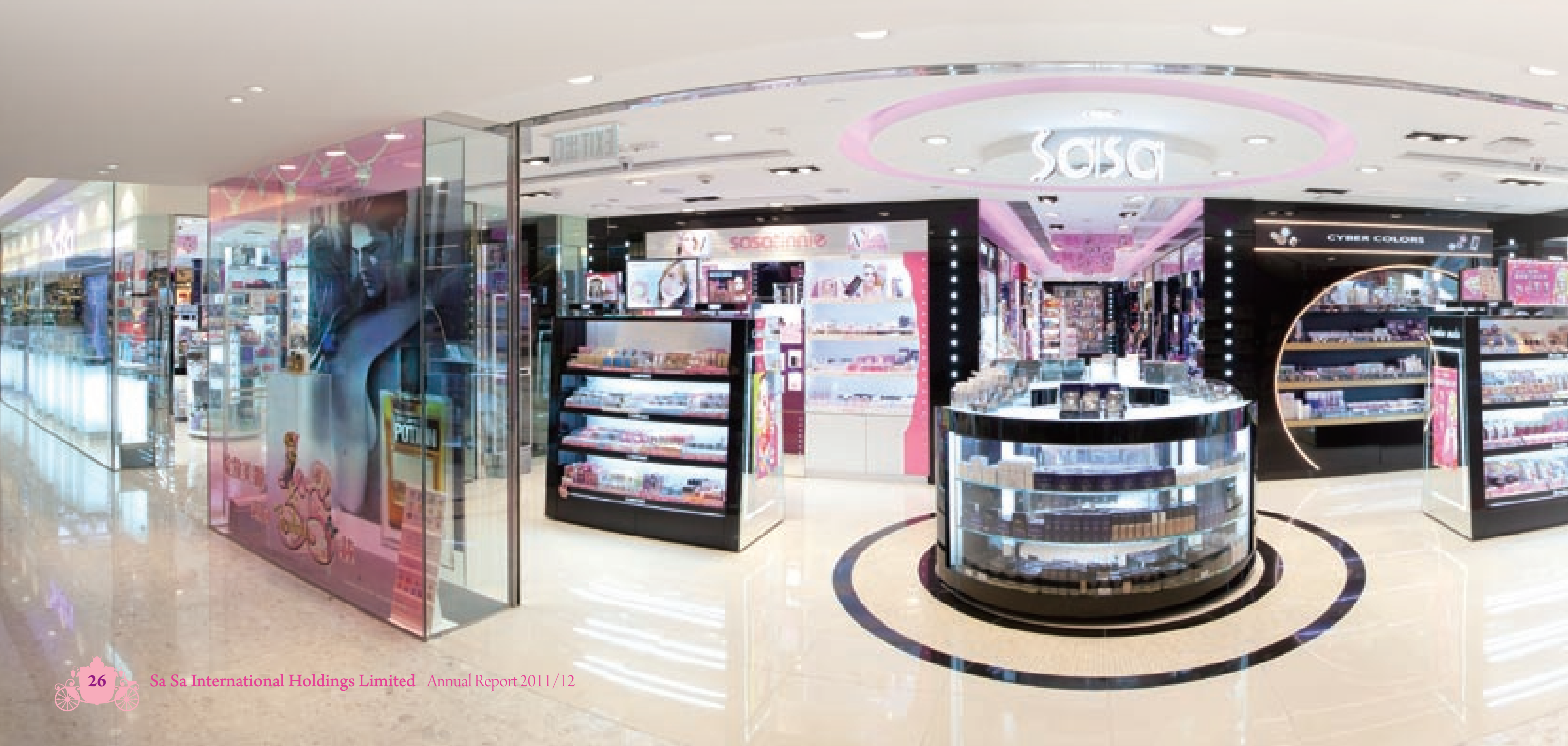
The year saw several notable achievements. In September 2011, the Group became a constituent member of Hang Seng Corporate Sustainability Benchmark Index. For the second consecutive year, the Group was named the "Medium-Cap Corporate of the Year, Hong Kong" by Asiamoney Magazine in its poll of Best Managed Companies 2011. Sa Sa was one of the companies awarded "Best Investor Relations Company (Hong Kong)" in the second Asian Excellence Recognition Awards 2012 organised by Corporate Governance Asia Magazine.

MARKET OVERVIEW

Economic conditions were relatively stable for most of 2011 in the Asian region. However, towards the end of 2011 and into the first quarter of 2012, a notable moderation in growth was observed. This was largely the result of the Eurozone sovereign debt crisis and faltering demand in the advanced economies, as well as liquidity controls in Mainland China. Mainland China pared down the nation's economic growth target from 8% in previous years to 7.5% for 2012, according to a state-of-the-nation speech that Premier Wen Jiabao delivered at the annual meeting of the National People's Congress. Mainland China continued to expand domestic demand and accelerate the transformation of the pattern of economic development to make it more sustainable and efficient.

Although Hong Kong was gradually affected by the global economic slowdown, the territory's economy remained relatively resilient. Overall in 2011, the economy grew at an average annual rate of approximately 5%. The retail sector performed especially well, with growth of 24.9% for 2011 and 15.8% in the first quarter of 2012. The retail market was supported by a stable labour environment, rising consumer confidence, the wealth effect of thriving property sales and robust inbound tourism.

However, the global financial volatility affected both Singapore and Malaysia while tourist sales were impacted by the strength of the Singapore dollar and Malaysian ringgit, which also caused local people to shop abroad. Similarly, the economy of Taiwan region was comparatively weaker in the second half of the fiscal year.



RETAIL AND WHOLESALE BUSINESS

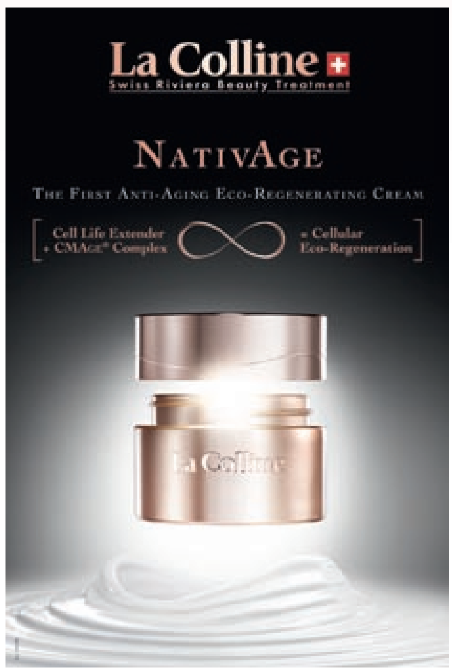
Hong Kong and Macau

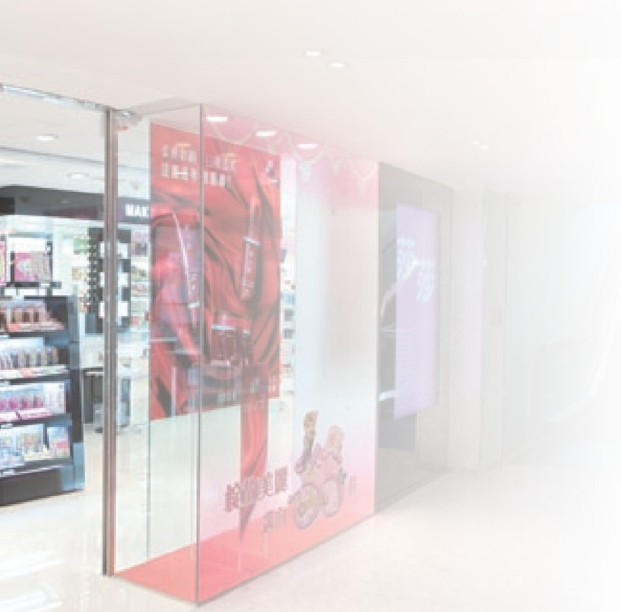
During the fiscal year, Sa Sa maintained its leading market position in Hong Kong and Macau, which remained the largest contributor to the Group's turnover and profits. Turnover increased by 29.8% year-on-year from HK$3,922.6 million to HK$5,092.7 million and same store sales rose 22.2%. Both the number of transactions and the average value per transaction increased.

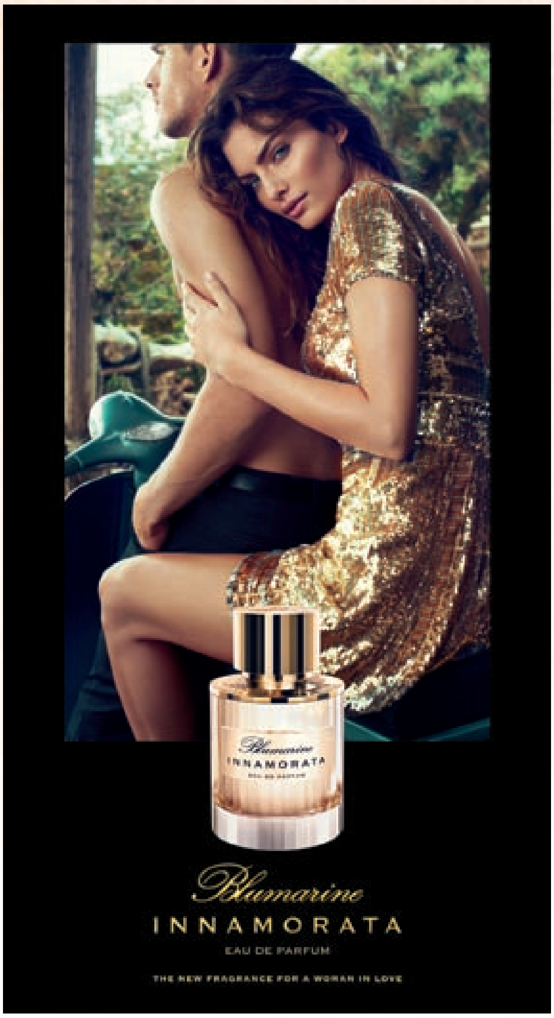
This performance was largely driven by Mainland tourists' spending as their arrivals saw almost a 24% increase in 2011 according to the Hong Kong Tourism Board ("HKTB"). The spending of overnight and same-day in-town Mainland visitors increased by 28.4% and 36.4% respectively as a result of high inflation in Mainland China and a strong renminbi. Sa Sa continued to benefit from the growing demand for cosmetics and beauty products and remained well placed to capture Mainland tourists spending on cosmetics goods. According to the HKTB Visitor Survey 2011, cosmetics and skin care products are still the top-ranking shopping targets for Mainland tourists.

The Group is pleased to record a more effective product strategy in Hong Kong and Macau, based on the improved accountability of the purchasing team. A review of product strategy led to increased new product offerings and an improvement in the variety of such offerings. As a result, the Group's inventory turnover days increased to 124 days as at 31 March 2012. The Group's customer base was broadened as a result of new sales, driving higher sales growth.

The fiscal year also witnessed the launch of the Bonus Point System for the VIP customers in May 2011. This scheme was well received and effectively attracted new VIPs, helping to build loyalty and enhancing the Group's sales to our VIPs. At the same time, the Group continued to develop a successful strategy to promote sales in residential areas to capture local consumption power.







Strong sales growth resulted in a robust operating leverage that in turn allowed the Group to significantly outgrow the market and reduce rental and staff costs as a percentage of sales. Rental costs as a percentage of sales, for example, decreased from 10.4% to 10.1% during the fiscal year. This enabled an increase in the net margin of Hong Kong and Macau market.

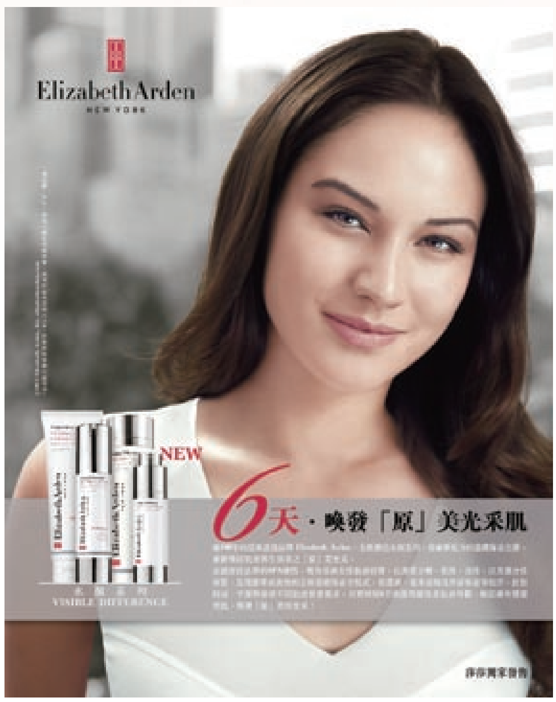
Despite rising rental prices, the Group kept its store opening schedule on track and continued building its retail network in a rational manner leveraging on its strong brand and popularity. This resulted in a net increase of nine "Sasa" stores in Hong Kong and Macau during the fiscal year. As at 31 March 2012, there were 87 "Sasa" stores in this core market (including seven in Macau), one Suisse Programme specialty store and one La Colline specialty store.

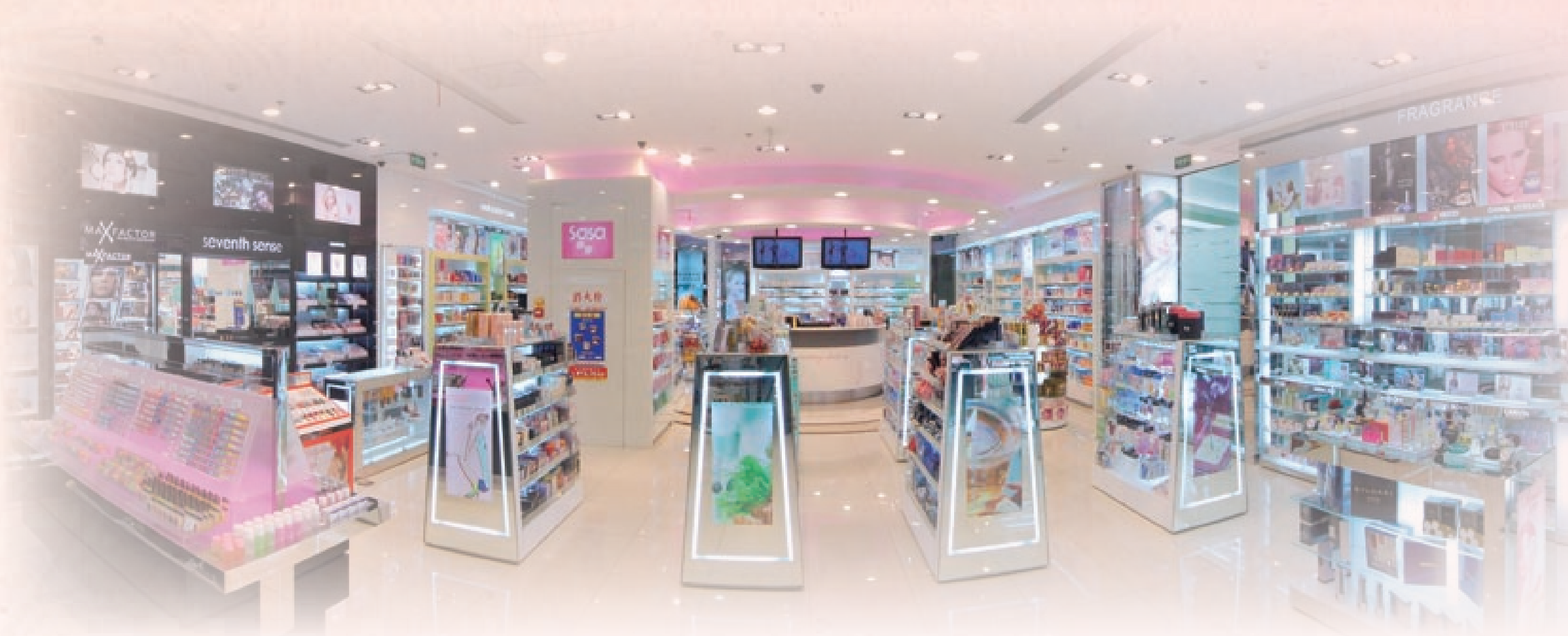
Mainland China

During the fiscal year, the Group's turnover in Mainland China increased by 99.8% (90.5% in local currency) to HK$290.7 million driven by rapid expansion.

It was a challenging year, with our operations in Mainland China evolving into a new stage of development characterised by faster expansion and more directed strategies, particularly in terms of supplier relationships, landlord relationships and store locations, with investment targeting scalability such as operational processes, systems and management resources. The Group strategically and aggressively collaborated with renowned developers to accelerate our expansion in Mainland China. As a consequence, our retail network in Mainland China developed rapidly with 28 new "Sasa" stores, more than doubling the store openings of the previous year, and six store closures.

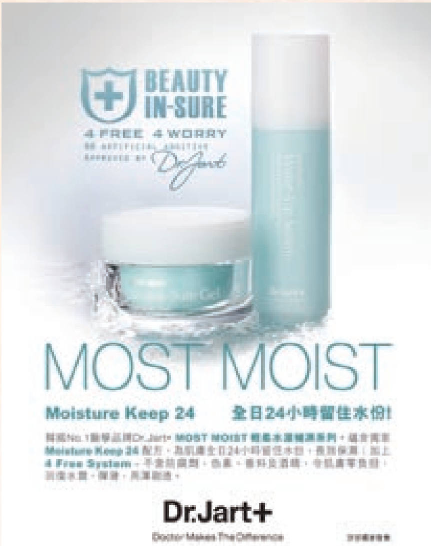
As at 31 March 2012, there were 48 "Sasa" stores and 20 Suisse Programme counters in 26 cities across 11 provinces in Mainland China, while the four regional clusters that we have been developing, namely Eastern China, Northern China, Central China and Southern China, continued to take shape. We are therefore well positioned to become a national cosmetics retailer and attract beauty brands.





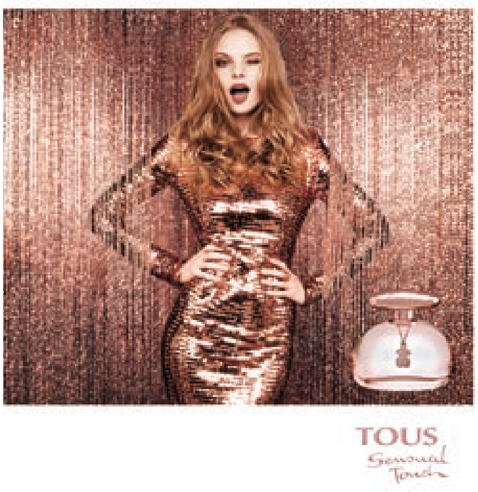
In the first half of the fiscal year, our operations in Mainland China recorded a loss of HK$19.7 million as the fast pace of expansion compromised our store productivity and our investment in scalability impacted our profits. This performance improved significantly in the second half of the fiscal year, and our losses in Mainland China has narrowed to HK$18.5 million. Same store sales of China's operations increased by 0.5% for the fiscal year as a whole, rising from a trough of minus 9.8% in the second quarter and turning positive to 10.5% in the fourth quarter, both in local currencies, due to our continuous endeavours to overcome the growing pains of major national expansion. In particular, the Group deployed more resources to support various operational functions such as training, human resources and logistics in Mainland China.

Overall, the Group achieved notable improvements in store productivity, operational efficiency and localisation of management in Mainland China. Our network expansion in Mainland China began to provide a sustainable business platform for further growth and we received increasing support from brands, thereby enhancing our product portfolio and our store appeal. Our China operations became an official retailer of such established beauty brands under L'Oreal Group, Shiseido Group, Kanebo Group, Kose Group, Procter & Gamble Group, Coty Group and Pias Group, among other groups. At the same time, we broadened the range of our fragrances by adding famous brands such as Mont Blanc and Cerruti.



Another important achievement was the growing support we received from property developers in Mainland China. This enabled our China operations to choose superior locations with better traffic conditions, thereby encouraging improved productivity and an enhanced sales performance. The Group continued to develop alliances with more renowned commercial shopping mall developers in Mainland China such as leading property developers from Hong Kong, Mainland China and Southeast Asia. This strategy ensures that we have priority in selecting store locations in new and existing malls.

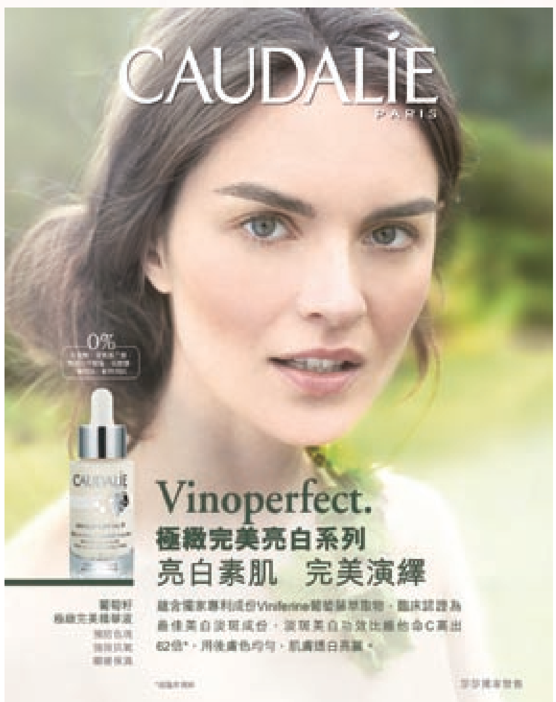
In October 2011, a flagship "Sasa" store of 6,000 sq. ft. was opened in a new mall in Shanghai by Henderson Land. This is the very mall that houses the largest Apple store in Mainland China. During the fiscal year, we also received "The Most Popular Store in China" award from Wanda Group, one of the most renowned and dependable national property developers in Mainland China.



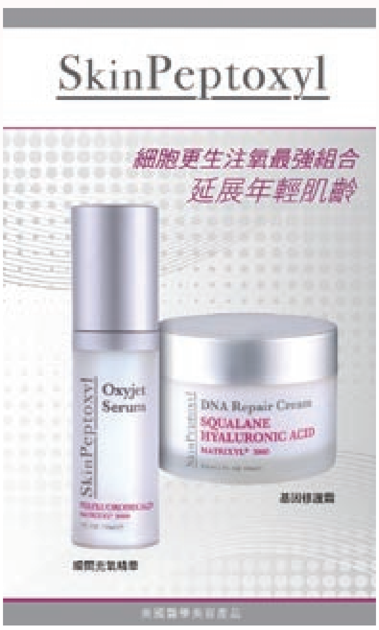
Singapore and Malaysia

During the fiscal year, turnover for the Singapore and Malaysia markets grew by 16.7% to HK$498.7 million. We broadened our product range and successfully launched a series of integrated marketing campaigns with various forms of media. These campaigns helped Sa Sa to gain customers despite a challenging economic environment. Our operations in Singapore became the official agent for a growing number of brands, including GoodSkin Labs and Neogence. Our operations in Malaysia also became the official agent of Dr. Wu, Dr. Jart+, BRTC, TOUS and Gianfranco Ferré.

Sa Sa's sales performance was better than that of the overall retail market in Singapore and Malaysia. This was due to the Group's enhancement of our retail brands to gain market share and sharpen competitiveness. We also developed a closer working relationship with local suppliers, successfully bringing more beauty brands to our stores to broaden our product offerings and to meet the latest market trends and customer needs. We also improved services to our customers and increased store size to appeal to both beauty brands and customers.

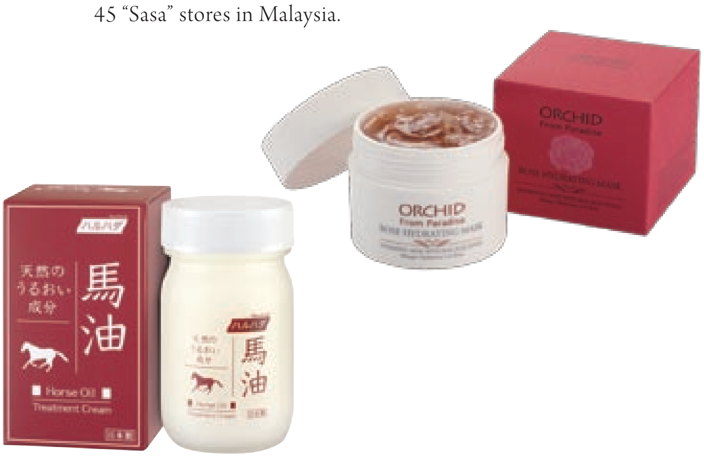


Turnover in our Singapore market rose 17.3% (10.9% in local currency) to HK$242.1 million while same store sales decreased by 1.5% in local currency. We opened two new stores and closed one store, bringing the number of "Sasa" stores in Singapore to 21 as at 31 March 2012.



Our Singapore operations successfully launched a customer relationship management programme, namely the "Pink Reward", to recruit new customers and build customer loyalty. We continued to enhance our merchandising mix and displays to enhance the utilisation of shop space and increase shop productivity. Roadshows were organised with support from brands to enhance brand awareness, and partnerships were forged with renowned social media platforms to promote famous brands, such as Facebook.

Turnover in our Malaysian market rose 16.1% (13.6% in local currency) to HK$256.6 million while same store sales grew 0.7% in local currency. We added nine new stores during the year and closed two stores. As at 31 March 2012, there were 45 "Sasa" stores in Malaysia.



Sa Sa's clear market leader status and strong consumer recognition helped build the brand of "Sa Sa" and its exclusive brands, and also strengthened marketing activities in Malaysia. Effective marketing initiatives were launched in various forms, including sponsorship of high profile public relations events, continuous investment in social media and TV programmes, as well as programmes to broaden the customer base and target new market segments.

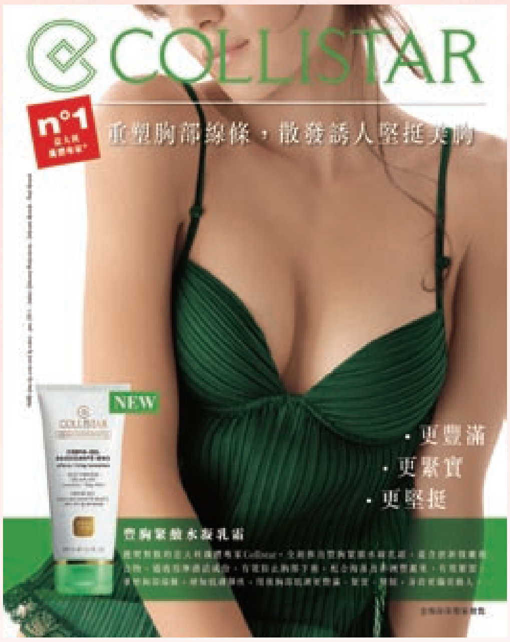
During the year, the Group launched more exclusive brands and became the sole agent of a number of renowned cosmeceutical brands. This significantly enhanced our penetration rate in the Malaysian market. To drive brand performance, we strengthened promotional efforts for our exclusive sole agent brands and successfully organised a Cosmeceutical Fair in October 2011.

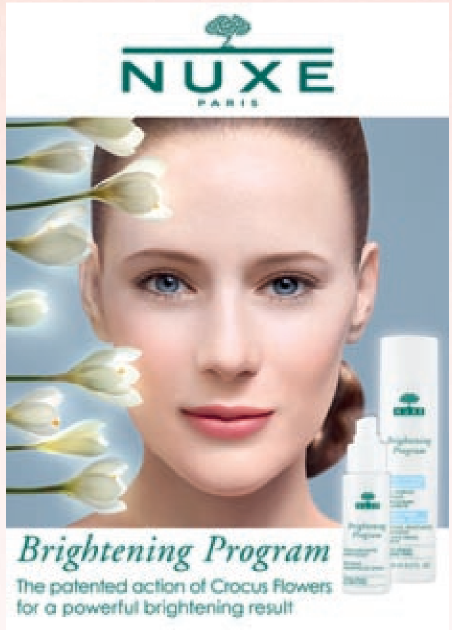
According to Euromonitor, a global market research company, the market share of our Malaysian operations in the local market has doubled in the last five years at a growth rate ahead of our peers. During the year, the Group was proactive in entering new markets and successfully opened two new stores in East Malaysia, both of which performed well, thereby significantly enhancing Sa Sa's brand awareness and exposure in Malaysia.

Taiwan

Turnover in the Taiwan market rose 30.3% (25.4% in local currency) during the fiscal year to HK$225.8 million while same store sales increased by 2.1% in local currency. We opened 10 new stores and closed three stores, achieving a total of 26 "Sasa" stores in Taiwan as at 31 March 2012.

The sales growth in Taiwan region was driven by more effective promotional and marketing campaigns. These included roadshows for skin care and make up brands in cooperation with manufacturers. Closer cooperation with local vendors to promote famous brand products also helped to increase traffic and secure repeat purchases. Our profitability was affected by the increase in pre-opening expenses and renovation costs. We strengthened our training programmes for beauty consultants during the year to enhance the sales of house brand products and we became the official agent of a number of brands including GoodSkin Labs. Overall, Sa Sa continued to be the leading retailer of fragrances in Taiwan.





E-commerce – sasa.com

Turnover for sasa.com amounted to HK$297.2 million, a rise of 27.8% over the previous fiscal year. Once again, it was a year of contrasting halves with year-on-year sales down 4.4% in the first half and robust growth of 73.7% year-on-year in the second half.

Strenuous efforts were made to drive sales from non-Mainland China markets to achieve a more balanced and diversified market mix. This strategy was implemented in light of amendments to the PRC customs regulations in the fourth quarter of 2010, which adversely affected our online sales to Mainland customers, especially in the first half of the fiscal year.

The operating margin, excluding the logistics costs, continued to improve and the Group launched a successful reactivation of our loyalty programme which was reflected in our sales growth and the increase in the number of repeat customers. We devoted considerable energy to understanding more about our customers' needs and preferences. We strengthened our efforts to build customer relationships to enhance customer loyalty and encourage repeat customers, particularly through the Group's customer relationship management and through more targeted marketing efforts.

Overall, sasa.com aims to broaden its reach and generate more effective promotional efforts by utilising more marketing channels, special emphasis being placed on social media as a major marketing channel in itself. A strong social media presence and participation in active online communities have helped the Sa Sa brand connect with loyal customers. During the year, we introduced a new iPhone application, which received the "Certificate of Merit – Retail" in the WTIA Marketing Smartphone Apps Industry Excellence Awards organised by the Hong Kong Wireless Technology Industry Association.

In our Mainland China online business, sales grew well in all markets. In November 2011, a successful promotional campaign was launched in conjunction with Taobao, the most popular online shopping site in Mainland China, which was designed to attract more customers while offering the best deals and bargains. sasa.com continues to work closely with local online and offline partners to localise our presence and enhance market penetration. These endeavours include partnerships with beauty brands to globalise their businesses, especially among the Chinese population all over the world, and with other businesses including payment partners.

BRAND MANAGEMENT

Sa Sa's brand management focuses on the management of own brands and international brands for which Sa Sa acts as sole agent or distributor in terms of brand building, marketing, sales and distribution.

During the year, the quantity sold of own-branded products rose 42.3%. We launched three own brands with different product concepts: young and trendy Japanese skin care (Haruhada), home spa products (Home Secrets), and organic and aromatic skin care products (Orchid From Paradise). The Group's sales of own-branded, sole agent and exclusively distributed products, collectively referred to as House Brands, increased by 29.9%, remaining at approximate 42% of the Group's total retail sales, which was more or less the same as last year.

We strengthened our partnership with major beauty groups while continuing to follow market trends closely and to focus on launching trendy and timely new products catering to different customers. We continued the diversification of our product categories with an emphasis on broadening the appeal to more market segments, such as young people. This strategy has begun to generate fruitful returns for the Group.

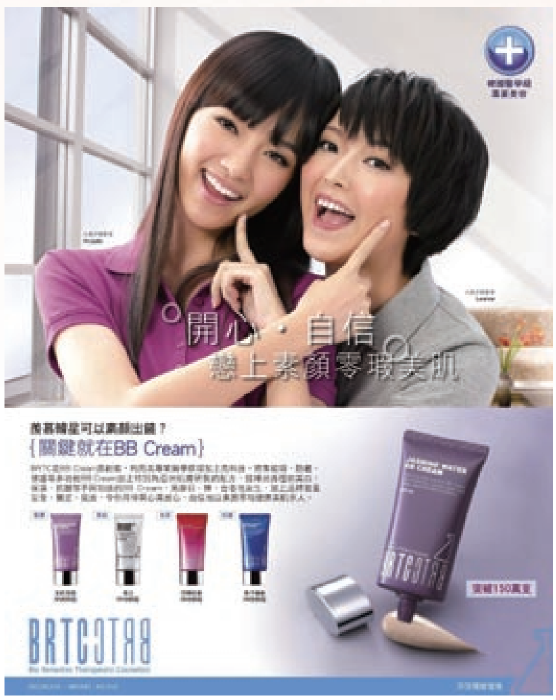
OUTLOOK AND STRATEGIES

The Group expects that the next fiscal year will be challenging and that the current market conditions may compromise our growth rate, which is expected to slow down as compared to the previous year. Nevertheless, we remain cautiously optimistic about the future and are confident that our sound and proven business model and strategy can sustain long-term growth.

In line with our long-term vision of being the leading cosmetics retailing group in Asia, the Group will maintain a sustained pace of network expansion. We will continue to look for opportunities to strengthen our brand and product portfolio through investing in our own product development team and long-term cooperation with beauty brand owners. At the same time, we will put a good eye on our inventory management, in order to strike a balance between the risk of over-stocking and the need to drive sales with an adequate level of inventory. As a constituent member of the Hang Seng Corporate Sustainability Benchmark Index, the Group will continuously strive to implement our strategies on sustainability, including incorporating "green" measures throughout our operations.

Hong Kong and Macau

We envision that growth in our core markets will be driven by further integration between China and Hong Kong, supported by large-scale infrastructure projects such as the High Speed Railway Network and the Hong Kong-Zhuhai-Macau Bridge. China's favourable policies towards Hong Kong tourism will continue to provide more ease and convenience for Mainland tourists shopping in Hong Kong, thereby cementing Hong Kong's position as the "most popular shopping paradise" in Asia.



Local consumption will stand strong as long as the employment rate remains stable and the wealth effect of prolonged development persists. We expect that the resilience of the skin care and cosmetics segment in all economic circumstances will help buoy sales for our core operations. Despite an environment of high rentals, our relatively strong brand name and popularity with Mainland tourists will enable us to secure retail space in tourist "hotspots", thereby gaining us further market share. Mainland tourist shopping areas have now spread to non-tourist areas. We will monitor the growth potential of these non-tourist areas with the aim of capturing new opportunities. We will also continue to penetrate residential areas to gain market share in the domestic market.

By having a series of attractive own-branded and exclusive products in the pipeline, we will maintain emphasis on improving our exclusive brand portfolio. Overall, the Group will continue to sharpen our competitive edge by enhancing our product portfolio, launching new products as frequently as possible and strengthening product variety and concepts.

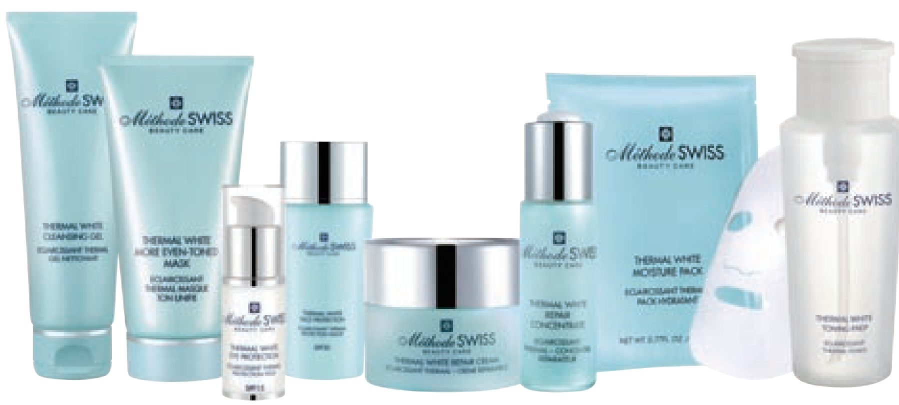
Mainland China

Sa Sa believes in the growth prospects of the rapidly expanding Mainland China cosmetics market. We will continue to invest in Mainland China to further strengthen our presence and make our operations more effective. Our store portfolio will continue to improve as we open new stores in prime locations and close some underperforming ones. Our key strategy is to build local area "clusters" to enable more effective management. The Group will focus more on those cities where there are already "Sasa" stores, thereby encouraging higher operational efficiency.

It is our goal to maintain efforts to improve scalability in this market. The Group aims to allocate more resources to build our management team and to strengthen the back end support team, focusing especially on human resources. Emphasis will be placed on strengthening recruitment and training. Measures will include setting up a regional training centre in each of the clusters and encouraging a better division of work, such as establishing separate teams for managing existing stores and for developing new stores. The ongoing automation of processes and systems that began in the second half of the fiscal year is beginning to deliver results, including more efficient, coordinated and systematic store openings. This will help to enhance the scalability of our operations in the future.

The Group aims to improve our product offerings. To drive for a more diversified brand portfolio, we will maintain close relationships with our local suppliers, as well as major global and regional beauty group suppliers and beauty brands to secure more renowned international beauty brands. We will add more own-branded products to build a more diversified brand portfolio. The benefits of a broader product range will take time to be reflected in both store traffic and financial performance. The roll-out will also take time, particularly in the older stores. Nevertheless, we are confident that our performance will strengthen through improved training, better displays and more cooperation on marketing and promotions.

In order to increase store sales productivity, the Group will enhance inventory and logistics management. We will strengthen our sales analysis to gain more knowledge of consumer behaviour and preferences, and will improve the incentive scheme for our sales staff.

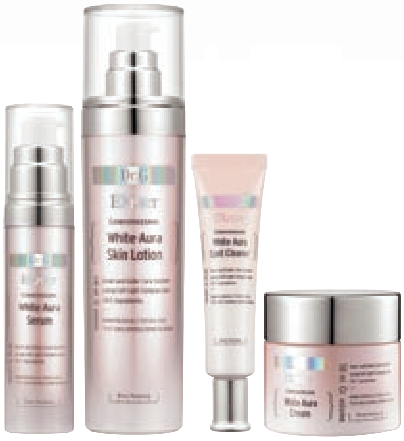


Other Markets: Singapore, Malaysia, Taiwan

Given the existing market situation in Singapore and Malaysia, Sa Sa aims to continue to outgrow the respective markets. To increase competitiveness, we will continue to build our local teams and retail network in order to stay close to market demands, we will also continue to build our retail brand as well as the product brands that we manage to stay close to the market demands.

In Malaysia, we will continue to identify high traffic locations for new stores and to expand into new regions. We will strengthen professional training for our staff and improve our cooperation with beauty brands to enhance our product portfolio by introducing new brands and products with strong potential and appeal.

In Taiwan, Sa Sa will continue to expand our retail network to facilitate sales growth and to tap into the opportunities arising from the increasing numbers of Mainland visitors. The benefits of the tourist flow from Mainland China are not at this stage apparent, but will be more intensively targeted, especially in regard to the increasing numbers of individual travellers. According to the Taiwan Tourism Bureau, the Free Independent Traveller programme, which initially applied to residents of Beijing, Shanghai and Xiamen, will be further extended to cover Tianjin, Chongqing, Nanjing, Guangzhou, Hangzhou and Chengdu, with effect from 28 April 2012. It is expected that travellers from Jinan, Xi'an, Fuzhou and Shenzhen will also be allowed to participate in the programme by the end of this year. In response to this opportunity, we will cooperate closely with property developers to grow our presence by opening new stores in shopping malls.

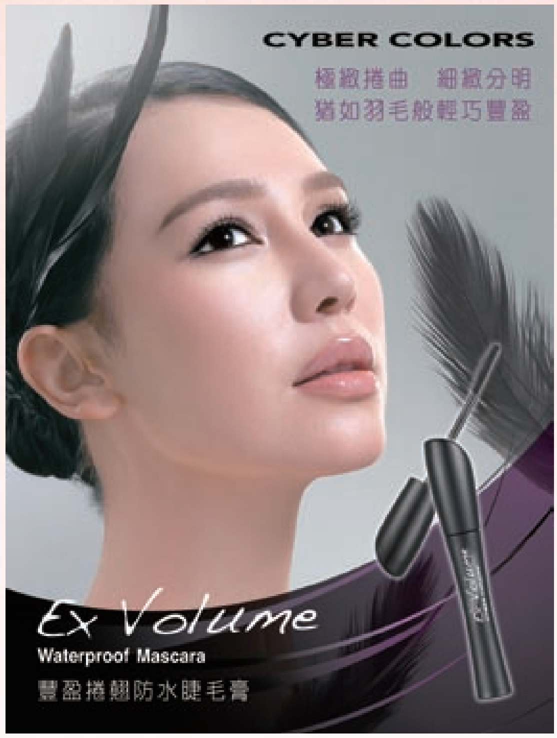


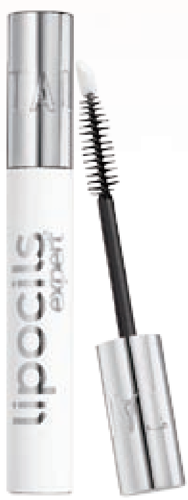
E-commerce – sasa.com

In the online business, we will establish an office in Mainland China to bolster efficiency and effectiveness. sasa.com will further develop our Mainland China online strategy and explore potential partnerships with top online shopping sites. We will increase our product offerings and strengthen our core competitiveness through measures such as further developing a loyalty programme and by intensifying our retention efforts. We will increase our social media presence and further integrate social media into our marketing campaigns. By segmenting customers by provinces and product categories, we will develop a targeted marketing strategy. We will also strengthen our working relationship with brands to our mutual benefit.

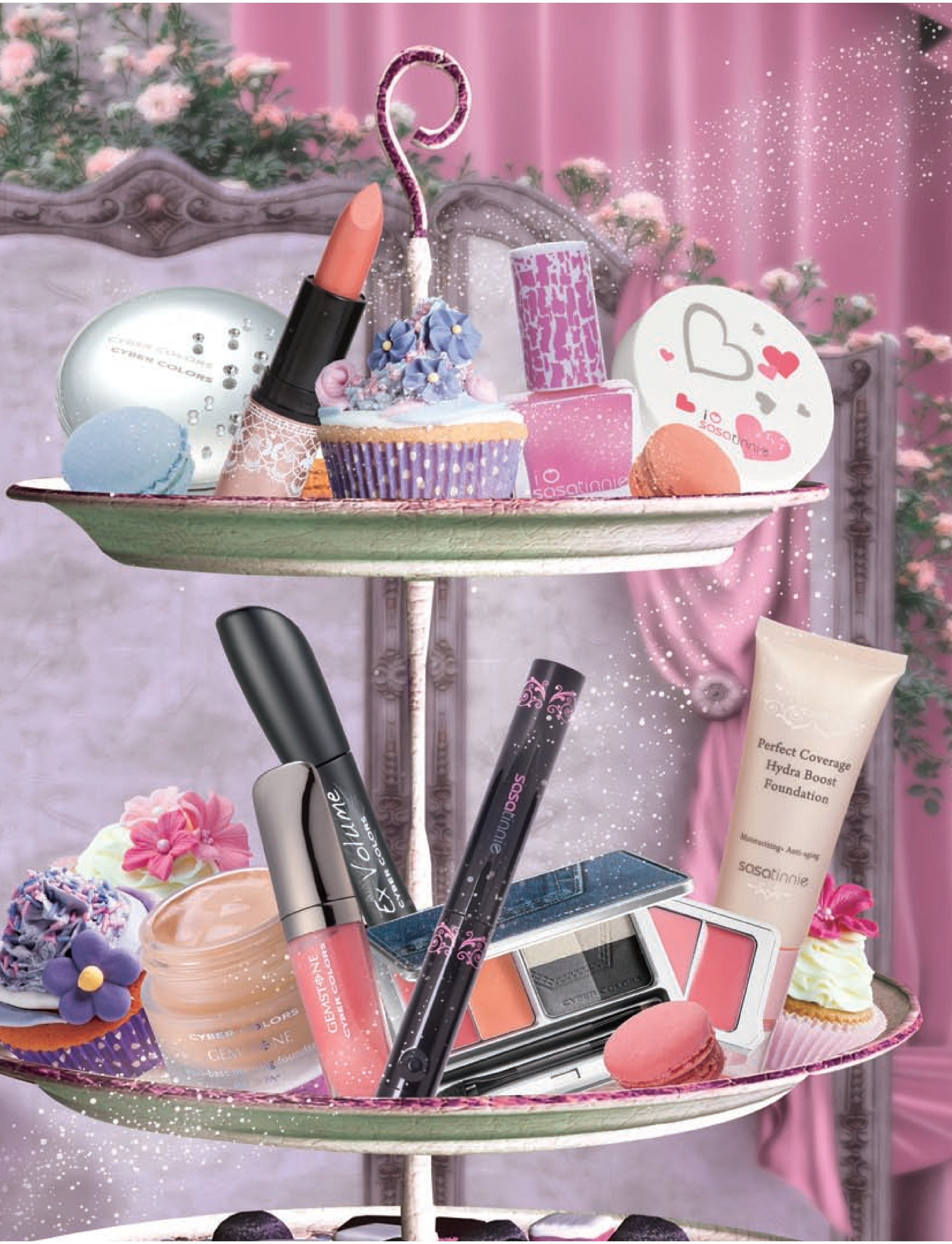
CONCLUSION

Sa Sa has long been able to maintain consistent growth through both positive and more challenging economic times. This proven track record reflects our long-term vision, the flexibility of our business model, the professionalism of our management, our innovative growth strategies and a sound financial platform based on prudence. With these core strengths and a constantly growing customer base, we are confident that we will continue to drive sustainable growth across the regions in Asia where we have established a presence.






Cosmetics



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Hydra Boost
Foundation
Moisturising- Anti-aging
sasatinnie
Ex Volume
CYBER COLORS
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GEMSTONE
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