MANAGEMENT DISCUSSION & ANALYSIS

Turnover (Continuing Operations)	Sales of Retail & Wholesale In HK & Macau	The Group's Profit
▲6.2%	▲7.9%	▲34.7%
HK$ **8,017.6** million	HK$ **6,761.6** million	HK$ **440.1** million

Consolidated Income Statement for the Year Ended 31 March 2018

	Full year		First half		Second half	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		Restated	**Restated**	Restated		Restated
Continuing Operations						
Turnover	**8,017,613**	7,551,074	**3,566,983**	3,503,817	**4,450,630**	4,047,257
Cost of sales	**(4,643,747)**	(4,410,565)	**(2,052,572)**	(2,041,278)	**(2,591,175)**	(2,369,287)
Gross profit	**3,373,866**	3,140,509	**1,514,411**	1,462,539	**1,859,455**	1,677,970
Other income	**93,211**	105,141	**48,072**	54,292	**45,139**	50,849
Selling and distribution costs	**(2,608,162)**	(2,525,908)	**(1,268,081)**	(1,225,025)	**(1,340,081)**	(1,300,883)
Administrative expenses	**(315,474)**	(307,067)	**(150,165)**	(156,839)	**(165,309)**	(150,228)
Other gains/(losses) – net	**5,392**	(1,453)	**1,753**	(171)	**3,639**	(1,282)
Operating profit	**548,833**	411,222	**145,990**	134,796	**402,843**	276,426
Finance income	**11,778**	9,980	**4,978**	5,211	**6,800**	4,769
Profit before income tax	**560,611**	421,202	**150,968**	140,007	**409,643**	281,195
Income tax expense	**(95,368)**	(78,693)	**(27,988)**	(32,288)	**(67,380)**	(46,405)
Profit for the year from continuing operations	**465,243**	342,509	**122,980**	107,719	**342,263**	234,790
Loss for the year from discontinued operation	**(25,123)**	(15,804)	**(13,043)**	(11,735)	**(12,080)**	(4,069)
Profit for the year attributable to owners of the Company	**440,120**	326,705	**109,937**	95,984	**330,183**	230,721

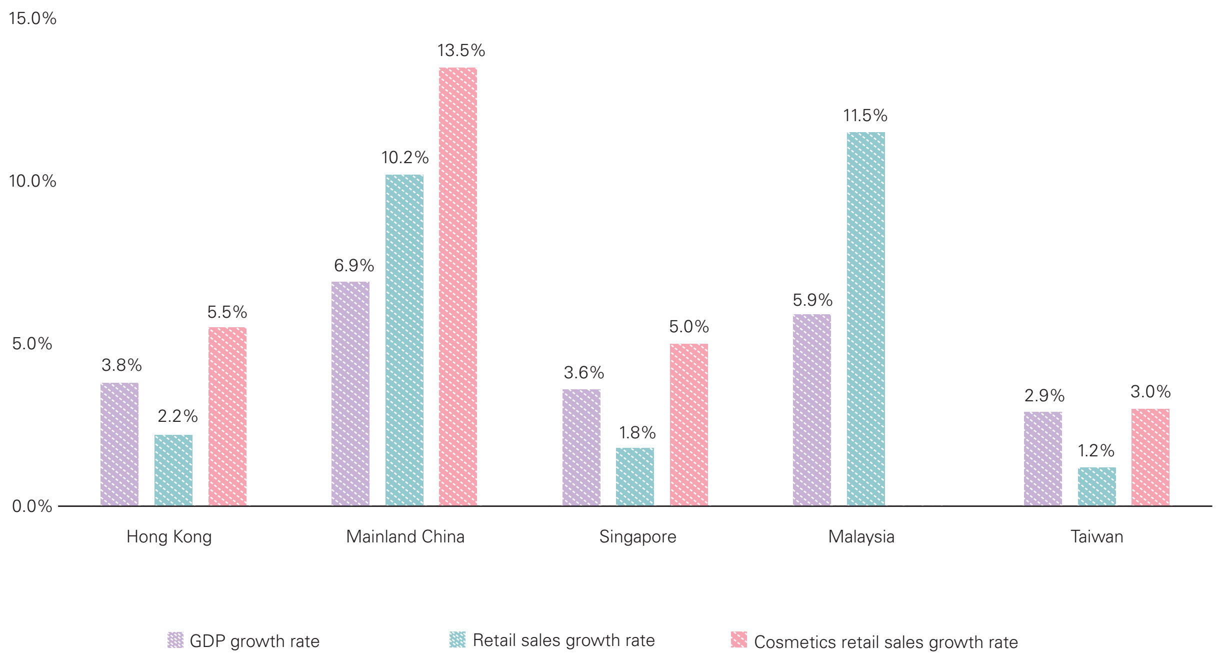
During the financial year, the Group's turnover increased by 6.2% from HK$7,551.1 million to HK$8,017.6 million for the continuing operations. Sales of retail and wholesale in Hong Kong and Macau increased by 7.9% from HK$6,266.5 million in the previous year to HK$6,761.6 million. The Group's retail outlets for the continuing operations increased from 263 last year to 265 as of 31 March 2018, a net increase of three "Sasa" stores and a net decrease of one store for single-brand counter.

Taking into account of the net loss of HK$25.1 million from discontinued operation in Taiwan, the Group's profit for the year was HK$440.1 million, an increase of 34.7% over the HK$326.7 million achieved in the last financial year. Basic earnings per share were 14.6 HK cents as compared to 11.2 HK cents in the previous year. The Board of Directors proposed a final dividend of 11.0 HK cents (2017: 8.0 HK cents) per share, together with a special dividend of 3.0 HK cents per share (2017: Nil) to commemorate the 40th anniversary of the Group, payable in cash with a scrip dividend alternative. Total annual dividend amounted to 17.5 HK cents (2017: 17.0 HK cents) per share.

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

Market Overview

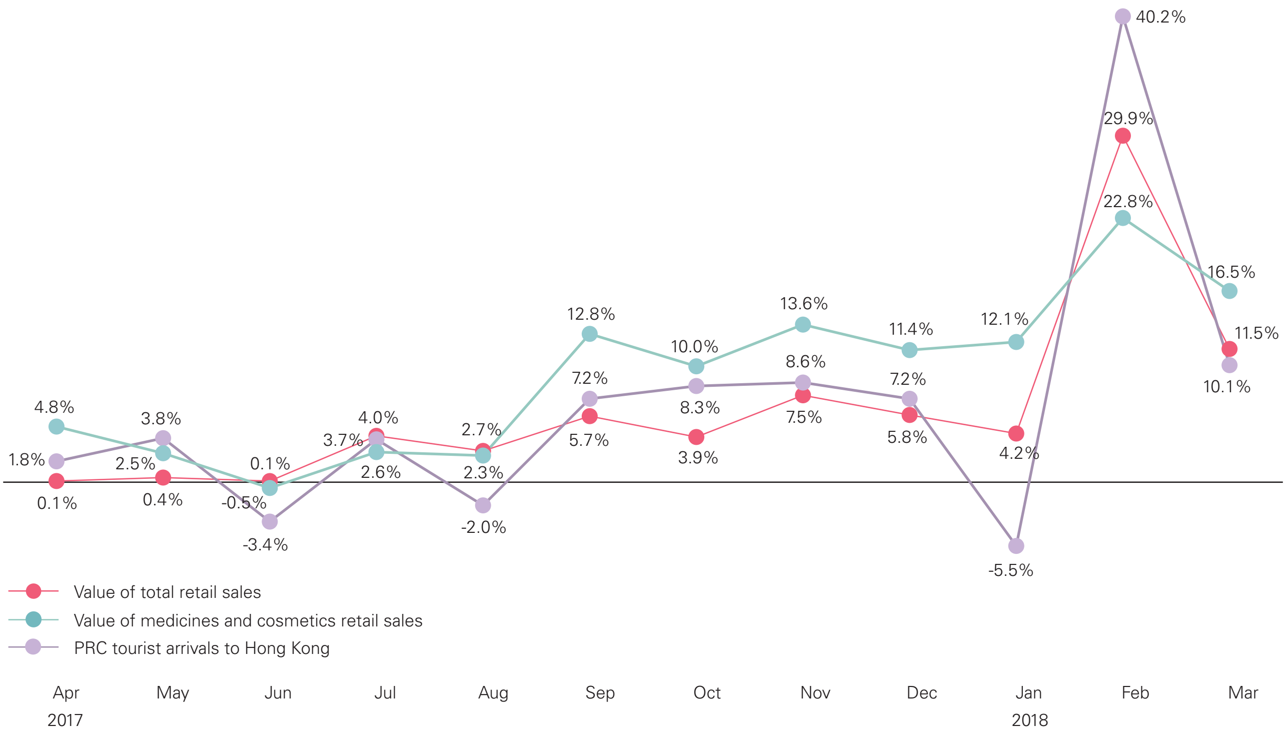
GDP/Retail Sales/Cosmetics Retail Sales Growth in 2017



Notes:

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

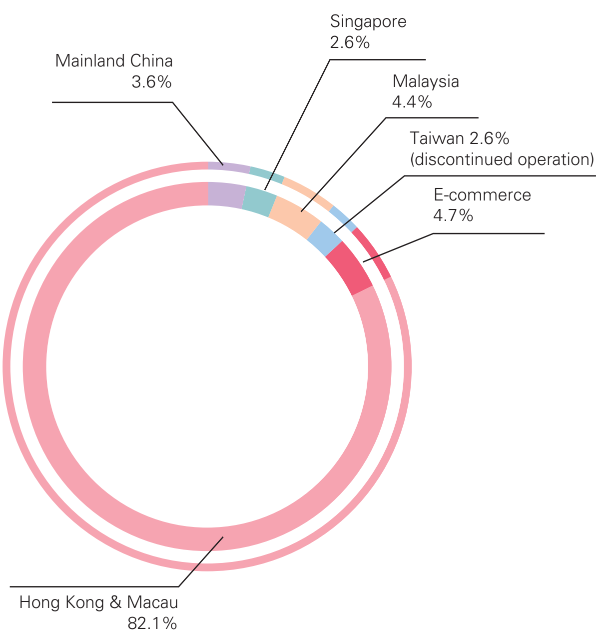
Year-on-Year Change of Retail Sales Performance in Hong Kong and PRC Tourist Arrivals in Hong Kong



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

Retail & Wholesale Business

FY17/18 Turnover Mix by Market



Store Network by Market

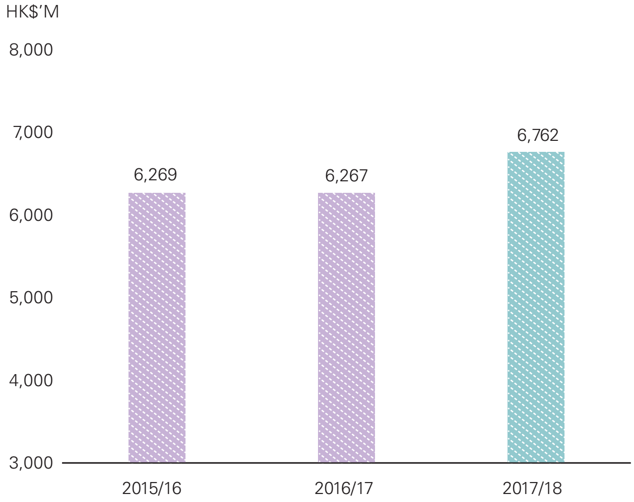
Market (Continuing operations)	As of 31 Mar 2017	Opened	Closed	As of 31 Mar 2018
Hong Kong & Macau	116	13	11	**118**
Mainland China	56	10	11	**55**
Singapore	20	1	1	**20**
Malaysia	71	6	5	**72**
Total	263	30	28	**265**

Note:

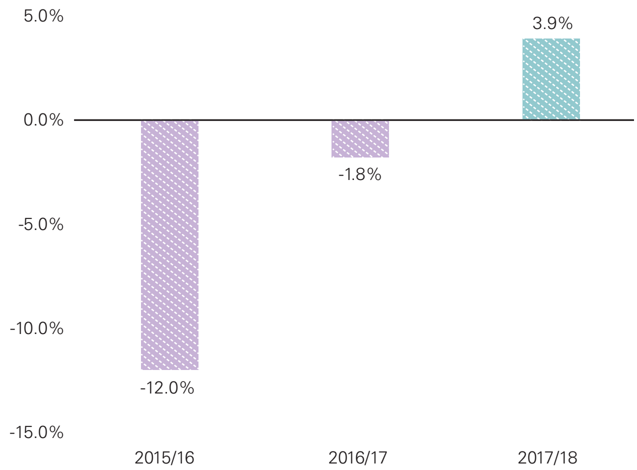
- As at 31 March 2018, the Group operated a total of 265 retail outlets for its continuing operations, including one single-brand store/counter in Hong Kong & Macau (LY: one single-brand store/counter in Hong Kong & Macau and one in Malaysia) and 264 "Sasa" multi-brand stores (LY: 261 "Sasa" multi-brand stores).
- 25 retail shops were in operation in Taiwan as of 31 March 2017. All retail shops have been closed.

Hong Kong & Macau

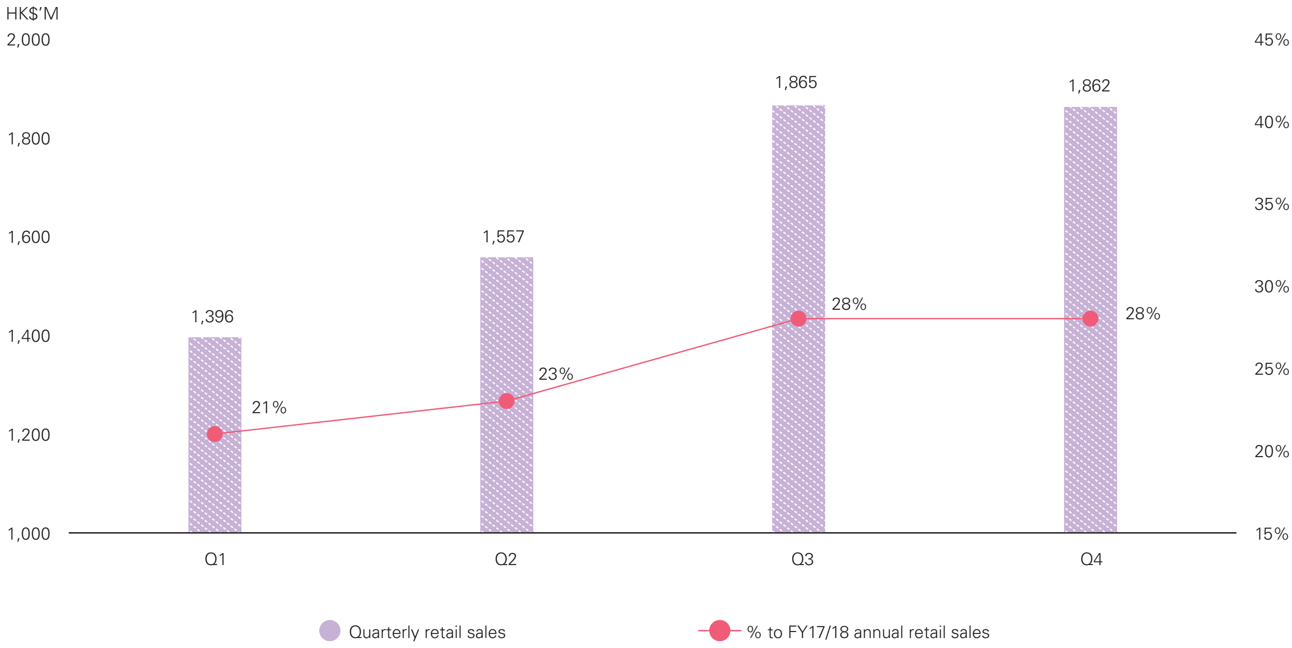
Turnover (Retail & Wholesale)



Same Store Growth



FY17/18 Retail Sales by Quarter



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

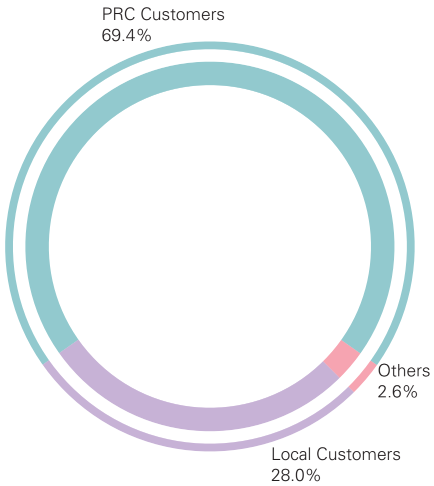
During the year, the Group's turnover in Hong Kong and Macau recorded a growth rate of 7.9%, while same store growth was 3.9%. The Group's performance in the captioned markets showed clear signs of improvement and the momentum gathered pace with retail sales growing by 2.2% in the first half of the financial year, followed by a dynamic increase of 13.0% in the second half, which included the highest growth rate for the year of 18.6% in the fourth quarter.

Several factors contributed to this strong performance in Hong Kong and Macau. In Mainland China, the demand for middle and high-end cosmetic products is soaring on the back of strong retail growth driven by the improved purchasing power of Mainland residents living in the third and fourth-tier cities. This, in combination with a weak US Dollar and the strengthening of the Renminbi, is encouraging outbound travel and greater consumption by Mainland tourists. According to Hong Kong Tourism Board statistics, the number of Mainland China tourists visiting Hong Kong stabilised in 2017 with a year-on-year 3.9% overall growth rate and a higher growth rate of 6.7% for overnight visitors. In September 2017, a 7.2% growth rate for Mainland China tourist arrivals was recorded compared with the same period last year. Since then, the growth rate has been trending higher, with a notable 14.5% increase over Chinese New Year.

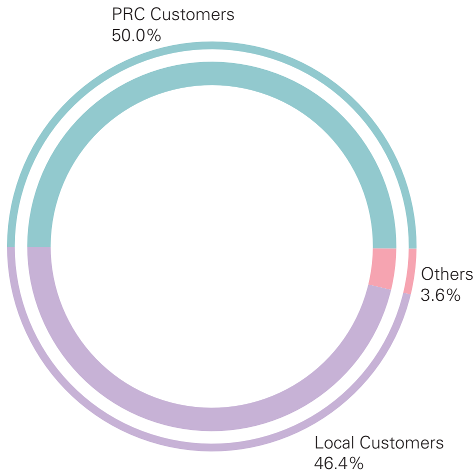
Local consumption grew apace. According to a survey conducted by Mastercard on local consumer confidence in Hong Kong in the second half of 2017, the relevant index increased by 15.2 to 62.1, as compared to 47.0 in the first half of 2017. This performance was the strongest increment in terms of consumer confidence in the APAC region, stimulating the momentum of local consumption. The buoyant local and regional economy together with a satisfactory employment situation benefited property and investment markets, as well as supporting the retail industry overall and boosting the Group's sales growth.

Customer Mix (for FY17/18 Retail Sales in Hong Kong & Macau)

By Sales Value



By No. of Transactions



Number of Transactions and Spending Per Transaction

During the year, the growth rate of the total number of transactions was 3.8%, while the number of transactions by local consumers and Mainland China tourists increased by 3.3% and 4.6% respectively. This performance was achieved on the back of a fall of 1.1% in the first half of the financial year and a resolute climb of 8.5% in the second half. It is also notable that the sales increase in the second half of the financial year mainly resulted from the increased total number of transactions.

The positive growth of 4.1% in spending per transaction in Hong Kong and Macau markets for the full year was based on 3.4% and 4.2% growth for the first and second half, respectively. The improvement was particularly marked in the fourth quarter, with 5.8% growth recorded, based on growth of 5.1% for local consumers and 3.6% for Mainland China tourists, which reflected overall gains in personal purchasing power.

Product Portfolio and Gross Profit

The Group's sales mix of house brand products strengthened in the first half of the financial year, which drove up gross profit margin and allowed us to partly offset cost pressures. The Group's continuing efforts to optimise our product offerings and balance sales growth against gross profit margin led to a marked increase in sales growth in the second half while compromising gross profit margin within an acceptable level. Although the gross profit margin in Hong Kong and Macau recorded a slight drop from 41.6% to 41.2% in the second half year, the gross profit improved satisfactorily by 11.8% on a year to HK$1,558 million.

In terms of product portfolio, the Group successfully expedited new product launches through a flexible and effective sourcing procedure together with a comprehensive product strategy. The Group introduced a wide range of trendy products at different price levels and proactively sourced products from around the globe to enrich the broad spectrum of product mix catering to the market. In particular, the adoption of trendy products and those that have good value and functionality resulted in enhanced product competitiveness. Store displays and product placements are being upgraded to attract customers and improve the shopping experience.

Operations and Cost Controls

The Group relocated its warehouse in the middle of the financial year. Logistical planning and arrangements in relation to the relocation compromised the Group's inventory levels and its response to the strengthening market. However, operational effectiveness and cost management consistently improved thereafter according to plan.

The Group rented four separate warehouses before the relocation, including one backup warehouse to cater for overflow. The Group's entire warehousing operation was relocated from September to October 2017 to a single base: the ATL Logistics Centre. The significant improvement in space utilisation and process management enabled the Group to improve logistical efficiency and manage operating costs. More operational and cost benefits will be gradually realised in the future. One-off operational costs incurred due to the relocation amounted to HK$36.3 million and have been reflected in the full financial year results.

A series of new facilities were integrated into the warehouse, including a very narrow aisle racking system, a conveyor and an independent cargo inspection room. By consolidating the resources of the Group's current warehousing and by strengthening automation, these facilities enable the Group to sort products automatically, speed up the picking process, and improve the efficiency of the entire logistics operation for product distribution.

In line with the Group's effective store strategy, the Group relocated to some new stores at premium locations in tourist districts and away from second line locations. This strategy is aimed at adjusting rents and enhancing brand exposure and sales growth. Overlapping rentals for the full year amounted to HK$41.3 million. However, due to the closure of low-productivity stores, rental reductions gradually took effect, alongside faster sales growth in the second half of the year. The Group's rental-to-sales ratio dropped at a quicker pace from –0.1% in the first half year to –1.6% in the second half year, resulting in an overall –1.0% for the full year.

Information Technology

The Group strengthened the information technology system to enhance overall operational efficiency. Measures taken included improving the Point of Sale ("POS") system to increase process automation, simplifying the workflow and standardising promotions in order to optimise the checkout process. This resulted in reduced checkout times and offered customers an enhanced shopping experience.

The in-store IT infrastructure was upgraded, with initiatives such as enhancing in-store cable and wireless connectivity, in order to streamline operations and offer a better customer experience. The Group also improved in-store stock availability by optimising inventory management with smarter use of sales and inventory data. The Group has re-assessed in-store safety stock levels to enable higher efficiency of auto-replenishment, reducing out-of-stock shortfalls.

Mainland China

During the year, total turnover for the Group's Mainland China operations in local currency increased by 5.0% to HK$298.7 million, while same store sales in local currency terms increased by 5.1%. Thanks to better cost control and increased store contributions, the Group's loss for this market reduced to HK$10.2 million.

The Group's sales in Mainland China improved significantly in the second half of the year. An increase in retail sales growth was recorded: from 3.9% in the first half of the financial year, to 6.0% in the second half. Sales for the full year grew by 5.0%.

Such revenue growth was attributable to the stablisation of the local management team, which enhanced operational effectiveness and functionality. The Group closed non-performing stores in isolated locations, while opening new stores in key city clusters within close proximity. The Group also improved the product portfolio in Mainland China and enhanced the marketing strategy, aiming to attract more customers to drive sales growth.

By focusing on optimising logistics and warehouse operations and adopting new operating measures, the lead time for importation from Hong Kong to PRC was shortened year-on-year by almost 50%. This in turn has allowed us to reduce inventory, improve warehouse operations, and enhance operational efficiency. A year-on-year decrease of 35% in terms of logistics costs was recorded.

E-commerce

Turnover for the Group's e-commerce business amounted to HK$383.3 million (LY: HK$475.2 million).

The Group strategically raised the minimum spend for free shipping from 1 April 2017 onwards. This led to a calculated and temporary decline in sales as compared to the previous period. Meanwhile, the Group has focused on improving warehouse operations, coordination and distribution channels. Through the successful introduction of the cross-border e-commerce B2C direct mailing services, the Group improved shipment lead times from Hong Kong to Mainland China and reduced overall logistics costs as compared to the previous financial year. The Group commenced working with a new third party warehouse service provider in January 2018, which has significantly improved order processing lead times and handling costs. Due to the improved order fulfilment time, customer satisfaction has strengthened along with the Group's market competitiveness.

From Chinese New Year onwards, the Group began to merge the online team of the Category Management and Product Development function with that of the main team running Hong Kong and Macau physical stores. This initiative is aimed at lowering the Group's costs, enhancing communication and strengthening overall effectiveness.

In late 2017, the Group launched a brand new mobile app. Through optimising its stability and functions, online ordering was enhanced. These improvements also benefitted internal functions such as operations, and sales and marketing, while enhancing the overall customer shopping experience.

During the year, the Group continued to collaborate with renowned e-commerce platforms in Mainland China and to explore new potential channels and partners, thereby expanding the customer base, promoting the Group's brand name and driving sales. In the second quarter, the Group opened an online flagship store on Tmall Global to gain more exposure, which marked a significant milestone in the Group's digital strategy. The Group also partnered with Jingdong Group to launch a large-scale online shopping festival "JingShaJie" (京莎節) in the fourth quarter. This allowed the Group to further build a robust platform in Mainland China through cross border e-commerce.

Singapore

Turnover for the Singapore market during the financial year was HK$211.5 million, an increase of 1.9% in local currency terms, while same store sales grew by 8.7% in local currency terms.

Sales growth was negative in the first quarter because of three store closures near the end of the previous financial year. However, stronger growth in same store sales finally turned total sales growth positive in the second quarter, an improvement that continued into the second half, delivering overall sales growth for the full year.

The Group's Singapore management team stabilised, improving operational strategy and execution, which in turn enhanced sales. The closure of underperforming stores and the consolidation of the existing store network helped improve store contribution. Cost control efforts contributed to an overall reduction in losses.

During the year, the Group offered a diversified product portfolio and implemented an effective marketing strategy. The enhancement of staff's selling skills helped attract more customers to support sales growth.

Malaysia

The Group's turnover in Malaysia was HK$362.5 million, an increase of 6.1% in local currency terms, while same store sales decreased 1.2% in local currency.

The more traditional brick and motor retail industry in Malaysia has been affected by the rapid development of digital media and e-commerce. In addition, many new shopping malls have opened, diluting the traffic to the Group's existing stores, especially in the capital Kuala Lumpur, and indirectly affecting stores' turnover. The Group's turnover growth declined from 9.2% in the first half to 3.4% in the second half. The Group's same store sales performance was weak and recorded an overall 1.2% decline for the year.

Nevertheless, supported by a robust retail network and effective marketing campaigns, the Group's sales performance in Malaysia remained steady, with sales growth for the full year reaching 6.1%. In light of market changes and keen competition in the industry, the Group focused on continuous improvement with a readiness to capitalise on market trends and opportunities.

Taiwan

Turnover in the Group's Taiwan business during the financial year increased to HK$213.2 million, representing growth of 1.7% in local currency terms, while same store sales increased by 14.3% in local currency.

The Group's performance in Taiwan has recorded losses for six consecutive years and has been persistently weak. Over the period, the Group has taken measures to reorganise the management team to enhance operational efficiency and reduce costs, with the aim of narrowing losses. However, the results have remained unsatisfactory. In February 2018, after careful consideration, the Group announced the closure of all shops in Taiwan, believing this measure will help improve the Group's overall business performance and resource utilisation. The Group aims to rationalise resources to gear up for significant opportunities in the remaining markets. This decision underlines the Group's determination to strive for better returns for shareholders.

The closure of all shops in Taiwan resulted in a one-off closure loss of HK$16.9 million for the year.

Brand Management

During the year, the Group's sale mix of own-label and exclusively distributed products, collectively referred to as House Brands, increased from 38.0% to 39.2%.

The Group strategically promoted own brand products and repositioned some of the other brands' products to meet market demand. Product gaps were filled according to function and price points and new product launches were accelerated. Product life cycle management was improved and low productivity SKUs were eliminated. These efforts will allow the Group to better cater to customers' preferences and to capitalise on the strong purchasing power of the current consumer market.

In Hong Kong, the Group made ongoing efforts to optimise product offerings by introducing high volume trendy products to draw traffic while also launching House Brand products to enhance gross profit margin. In the first half of the year, the Group launched more House Brand products and recorded a satisfactory year-on-year increment in gross profit margin. Towards the end of the second half, the Group launched various high volume trendy products to successfully drive growth. The balancing of sales growth against gross profit margin has led to an increase in sales while compromising gross profit margin within an acceptable level. Gross profit dollar improved satisfactorily.

Outlook and Strategies

Hong Kong and Macau

The Hong Kong and Macau markets are the Group's major source of sales income and profits. It is therefore gratifying that the Hong Kong and Macau retail market is showing such clear signs of recovery. The reasons for this recovery are various. The satisfactory economic environment, high employment rate, stable property and stock market, and bullish local consumer sentiment are all driving robust growth.

In addition, the improvement in the consumer sentiment of the third and fourth-tier cities of China and the appreciation of the Renminbi are driving outbound travel and consumption, resulting in a higher number of Mainland tourist arrivals in both Hong Kong and Macau.

According to the Statistical Communique on the National Economic and Social Development of the People's Republic of China 2017 published by the National Bureau of Statistics of the People's Republic of China, the number of China's outbound visitors totalled 142.7 million in 2017, a rise of 5.6 percent, of which 46.7% travelled to Hong Kong and Macau.

The Hong Kong Tourism Board reports that total visitor arrivals in Hong Kong reached 58.5 million in 2017, representing approximately 3.2% growth as compared to the previous year. According to the Macau Government Tourism Office, total visitor arrivals in Macau reached 32.6 million, representing 5.4% growth on a year-on-year basis. Arrivals attributable to Mainland visitors in Hong Kong and Macau were 44.4 million and 22.2 million, representing growth of 3.9% and 8.5% respectively. Research gathered by WeChat's National Day Holiday Data Report reveals that Hong Kong ranks first among the most popular travel destinations for Mainland travellers.

Development Projects and Policies

In recent years, the Chinese government has launched a number of projects and policies for promoting economic development and facilitating traffic in the Hong Kong, Macau and Pearl River Delta in Mainland China ("GPRD"). These measures are steadily unleashing the potential of the three regions and expanding the scale of the retail market.

As part of the overall GPRD scheme, the Hong Kong-Zhuhai-Macau Bridge and Guangzhou-Shenzhen-Hong Kong Express Rail Link are scheduled to complete in the second and third quarter of 2018 respectively. These upgraded transport links will further enhance the global competitiveness of Hong Kong and Macau in terms of economic and urban development.

The Greater Bay Area economic zone encompasses the major airports and ports in the GPRD, which is one of the most economically dynamic and densely populated conurbations in China. According to a forecast by the China Center for International Economic Exchanges, the gross domestic production (GDP) of the Greater Bay Area will surpass that of the Tokyo Bay Area by 2020. By 2030, the GDP of the Greater Bay Area is forecast to reach 4,620 billion US dollars. This means the GPRD will exceed the Tokyo Bay Area and the New York Bay Area to become the Bay Area with the highest GDP in the world. As the international financial centre of the Greater Bay Area, Hong Kong with its optimised transport links will benefit the most from the greater flow of people to and from the Mainland, supporting both the city's economic development and the local retail market.

The Group is optimistic about the opportunities offered by the above projects in the Hong Kong and Macau tourism and retail market, particularly since the measures are being rolled out in different stages to capitalise on new opportunities as they unfold. The Group's strategy focuses on providing personalised services and convenience to a broad range of customers to increase customer loyalty and consumption.

The Group will continue to optimise the store network and retail space, by establishing more strategic locations to improve brand exposure and stimulate sales. It will increase the number of shops in residential areas and transport hubs to expand the store network, thereby offering greater accessibility to customers and growing local market share. The Group will also locate more shops near the Mainland China border to capture incoming tourist business.

A larger store size allows us to handle greater traffic, and potentially, more transactions. To cope with the expected growth in store traffic, the Group will increase the size of some stores to handle more volume, and to improve customer service and the customer experience. At the same time, the Group aims to upgrade its backend system and POS with more automation to reduce human error and costs, thereby shortening the transaction process and reducing queuing times at checkout. Store operational efficiency will also be enhanced by increasing stores' capability to handle more transactions at any one time and by providing timely operational data for better store management. These measures will allow the Group to optimise the customer experience and avoid the potential loss of sales.

Further ground-breaking innovations include a more comfortable in-store shopping environment, the launch of enticing new products, enhanced product displays, and a proposed in-store Internet Of Things (IOT) – an interactive customer experience to deepen enjoyment of product browsing and the product trial process. It is believed that these measures will enhance the overall shopping experience and generate a greater desire to purchase.

Digital Innovation and Automation

The Group will continue to improve the mobile app and integrate VIP databases to help better understand customer needs, as well as to provide a seamless online to offline shopping experience. This integration will greatly strengthen the Group's customer relationship management. By conducting big data analysis on customer behaviour, the Group can provide customised product recommendations and targeted promotions.

The Group will improve the mobile app to attract more downloading and usage, while also focusing on targeted marketing and more interactions with customers to increase customer loyalty, purchasing rate and consumption. In addition, the Group aims to enrich the customer database, increase interaction, and gain better understanding of customers to support Sa Sa's evolution towards the "New Retail" world of the future.

Other new initiatives include the launch of new products with high growth potential to meet customer demand and preferences. The Group will launch more House Brands in accordance with the latest market trends and drive House Brand sales, which will support gross margin.

As part of the Group's drive to continuously improve inventory management, the development of the new warehouse will continue in the financial year 2018/19. Enhancements include greater storage, more parking spaces and increased daily goods' handling capacity.

Mainland China

According to the National Bureau of Statistics of the People's Republic of China, the upturn in domestic demand is driven by a gradual increase in residents' income, higher employment status, improving consumer sentiment, and the increasing popularity of online shopping. Although the rapidly growing online retail market has brought pressure to bear on physical retail stores, it is also offering considerable opportunities. The emergence of the "New Retail" concept enhances the online exposure of merchants, boosting both online and offline consumption, accelerates domestic demand, and assists the recovery of brick-and-mortar retail business. The domestic consumer goods market in China is therefore expected to enjoy sustained rapid growth. In addition, a wider choice of store locations with lower rents offers favourable conditions for the Group's expanding store network. The Group will seize this opportunity not only to expand the store network but also to leverage the advantages of physical stores' presence by adding new elements of technology to capitalise on their potential.

The Group will continue to expand cautiously in regions with high operational effectiveness in order to build critical mass in existing operational clusters in well-managed provincial capitals. At the same time, the Group will close underperforming stores in remote cities. This will enable the Group to devote resources to increase scale in selected cities, improve operational efficiency and profitability at store level, and raise the profitability of each city cluster.

The Guangdong-Hong Kong-Macau Greater Bay Area is one of the Group's key development regions. Amongst the nine mainland cities in the Bay Area, the Group operated a total of 13 shops in seven cities including Dongguan, Foshan and Guangzhou as at 31 March 2018. In the next financial year, the Group plans to open approximately four new stores in the cities within the Greater Bay Area, that have been initially confirmed in Dongguan, Zhuhai and Jiangmen, striving to seize the opportunities in the Greater Bay Area.

The Group will roll out a new store image by introducing new-style display walls and by providing free electronic skin tests to customers. Not only will this provide a better shopping experience, but it will also attract more traffic to the stores, especially younger customers. The Group will closely monitor market trends and adjust the product portfolio accordingly.

In order to increase the efficiency of warehouse operations, the Group will shorten the delivery lead time from domestic warehouses to shops, accelerating new product arrivals and stock replenishment at stores. These measures will reduce inventory levels and overall logistics costs.

E-commerce

The Group will launch a new "e-commerce system" to provide a strong and flexible foundation to support current and future development. The new system will improve internal daily operations and overall efficiency, optimise logistics flow, reduce operating costs, and speed up product launches.

The Group will continue to make concerted efforts to adopt the latest available technology. In order to further understand customers and to coordinate data-driven precision marketing strategies, the Group will implement a new "Customer Relationship Management Project" to integrate online and offline customers' big data via the Salesforce SaaS Solution. The Group will adopt the "Big Data BI/AI Data Analysis System" to strengthen data analytic ability, and to gain a clearer understanding of customers with appropriate targeting. The Group will also continue to optimise the backend infrastructure of the mobile app, strengthening interaction with customers and improving the customer experience.

The Group will further explore opportunities for collaboration with other well-known third-party e-commerce platforms. The overall aim is to tap these platforms' customer pool, and to launch a wide range of promotion activities to acquire new customers and increase exposure for the Group at an acceptable cost.

The Group will further optimise the operation of the Free Trade Zone Warehouse in the Mainland China to reduce logistics costs, enhance profitability and improve inventory management. The Group will upgrade the operations of the Hong Kong warehouse to increase the output efficiency and fulfilment of goods via Cross-Border e-commerce B2C direct mailing services. The Group will also streamline the inventory flow to reduce inventory and logistics costs, reduce the number of SKUs, particularly those that are underperforming, and reduce stock turnover days. In addition, a brand new OMS system will be gradually introduced in the financial year 2018/19 to enhance efficiency and the transparency of inventory flow, thereby affording greater flexibility in the shipping process.

New Retail Concept Strategies

The development of New Retail has become a major new trend and is set to create growing business opportunities. In line with this, the Group aims to understand customers better and to interact more closely with them to improve service and sales.

By integrating the customer data of Hong Kong, Macau and Mainland China physical stores with Sasa.com, the Group's vision is to develop a deeper understanding of customers' shopping patterns and to utilise both online and offline resources to promote corresponding cross-platform promotions. The Group will leverage the outstanding reputation of physical stores to promote online business. It will also fully utilise social media and online payment platforms to develop business by improving brand influence, increasing exposure and widening the customer base.

The big data gathered by the Group will be employed in analysis and customer service. This will enable the Group to attract new customers and to retain existing customers to promote and boost sales growth. The Group will encourage customers to shop anytime and anywhere at multiple touch points – online and offline – without geographical and time constraints. It will then analyse customer preferences and needs in order to recommend corresponding products and to provide personalised services.

The Group will enhance customer interaction through understanding of customer offline and online purchasing behaviour. This will enable the Group to service Mainland customers who have visited Sa Sa's physical stores in Hong Kong and Macau after they have returned home – either via online services or via a nearby physical store. This after-sales service will reinforce the relationship between the Group and customers while improving overall sales effectiveness.

Singapore

The Ministry of Trade and Industry Singapore expects GDP growth for 2018 to come in slightly above the middle of the forecast range of 2.5% to 3.5%. The Group will continue to localise management teams and implement more incentives to improve staff morale, management effectiveness and the quality of work. As more brands become available in suburban shopping centres, more residents are choosing to shop in the area where they live. To match this trend, the Group will cautiously open stores in suburban centres to expand business.

The Group will also expedite new product launches to meet market trends and optimise the product portfolio, thereby broadening the customer base towards the younger age group. The Group will sharpen visual merchandising, especially in the makeup zone, and optimise store display. This will free up more space for enhancing the shopping experience. The Group is planning to launch a new mobile app, which will allow customers to access product information anywhere and at anytime, enhancing customers' shopping experience and strengthening the local competitiveness of the Group.

Malaysia

In Malaysia, the political climate was uncertain before May's General Election. Subsequent to the election, the new government has rolled out major reform initiatives, including the cancellation of the Goods and Service Tax (GST) on 1 June, as well as the introduction of a new form of consumption tax in the coming months. The above policy changes have aggravated the burden on retailers, with the consumer sentiment of the general public steadily weakening. The Malaysia Retailers Association indicates that the prospects for the retail industry will remain challenging due to disruption by e-commerce. Nevertheless, in expectation of an eventual improvement in consumer sentiment, the Group will establish online elements in Malaysia in order to create synergies with the Group's offline business.

Sa Sa is the biggest beauty specialty store in Malaysia in terms of store numbers and coverage, with sales mainly deriving from domestic Chinese customers. To strengthen this leading position, the Group will continue to develop and penetrate the Malay as well as the Chinese segment of the market. The Group will also adjust the product portfolio and services to meet market conditions and accelerate penetration into different customer groups.

Taiwan

The Group decided on 21 February 2018 to rationalise business by closing all retail shops in Taiwan. The Group will now concentrate resources on Mainland China, Hong Kong, Macau, Singapore and Malaysia markets as well as e-commerce business and own brand development.

Considering the substantial support for own brand products in Taiwan, the Group intends to partner with local retailers to sell House Brand products.

Brand Management

By means of big data analysis, the Group aims to provide personalised products and services to customers through multiple touch points to better fulfil their needs. The Group will therefore strategically adjust the product portfolio on a timely basis, accelerate new product launches, improve management of the product life cycle, and eliminate low productivity SKUs.

The Group will dedicate shelf space to new products and existing products with high productivity. This will help increase overall productivity, reduce product management and storage costs, and free up cash resources, while also reducing the risk of product obsolescence and expiry.

The Group will also fill product opportunity gaps according to function, sales and price point analysis, and upgrade makeup product portfolio and display. Digital media promotion will be strengthened and the reputation of exclusive brands enhanced in Hong Kong and the Mainland. Overall, the Group will continue to build closer partnerships with suppliers, thereby optimising the image and promotion of product offerings.

Human Resources

As at 31 March 2018, the Group had close to 4,800 employees. The Group's staff costs for the year under review were HK$1,183.6 million. Details on our human resources programs, training and development will be set out in the environment, social and governance report and the enterprise risk management report sections of the annual report for the year ended 31 March 2018.

Financial Review

Capital Resources and Liquidity

As at 31 March 2018, the Group's total equity funds amounted to HK$2,482.8 million including reserves of HK$2,179.0 million. The Group continued to maintain a strong financial position with cash and bank balances of HK$1,365.4 million. The Group's working capital amounted to HK$2,042.9 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 year, 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 31 March 2018 were HK$2,482.8 million, representing a 11.9% increase over the funds employed of HK$2,219.2 million as at 31 March 2017.

The gearing ratio, defined as the ratio of total borrowings to total equity, was zero as at 31 March 2018 and 31 March 2017.

Treasury Policies

It is the Group's treasury management policy not to engage in any highly leveraged or speculative derivative products. In this respect, the Group continued to adopt a conservative approach to financial risk management with no borrowings during the year. Most of the assets, receipts and payments of the Group are denominated either in Hong Kong dollar, US dollar, Euro or Renminbi. Based on purchase orders placed, the Group enters into forward foreign exchange contracts with reputable financial institutions to hedge against foreign exchange exposure arising from non-Hong Kong dollar or non-US dollar denominated purchases. These hedging policies are regularly reviewed by the Group.

Charge on Group Assets
As at 31 March 2018, no asset of the Group was under charge to any financial institution.

Contingent Liabilities
The Group had no significant contingent liability as at 31 March 2018.

Capital Commitments
As at 31 March 2018, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$179.4 million.

Conclusion
As Sa Sa's long track record shows, the Group is adept at converting challenges into opportunities and thriving in all economic circumstances. Moving forward into the new digital era, the Group will continue to adapt the overall vision and strategies to the changing patterns in consumer behaviour, preferences and expectations. The Group's core markets of Hong Kong and Macau are improving. Riding on the buoyant development of the Greater Bay Area, the Group is also making progress in Mainland China while strengthening e-commerce competitiveness. It is a hallmark of Sa Sa to make difficult decisions at an appropriate time. In February, the Group decided to close all retail shops in Taiwan in order to refocus energies on other dynamic core markets. This refocusing will enable the Group to catch the wave of the future in new products, new fulfilment channels, and in online and offline big data analytics. Detailed strategy and forward thinking will continue to support the Group's position as a leading provider of beauty products in the Asia-Pacific region. The resourcefulness and flexibility of the Group's loyal staff and the long-term vision of dedicated management team will ensure that Sa Sa continues to deliver sustained growth for many years to come.