MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results

For the six months ended 30th September 2001, Sa Sa's performance was affected by an extremely adverse retail environment throughout the region. The Group's total turnover amounted to HK$719.9 million, including three months of sales from Shenzhen Sa Sa Ebeca Enterprise Limited ("Sa Sa Ebeca"), our new joint-venture with an extensive retail network in China, and a full six months' revenue from Phillip Wain. The Group's pre-tax profit for the period was HK$17.7 million.

During the period under review, our profit shortfall is mainly attributed to poor consumer sentiment, resulting from the region's difficult economic conditions, and a drop in Sa Sa retail's gross profit margin is a direct result from our efforts to improve inventory management. A substantial cut in bank deposit interest rates has further reduced our total interest income when compared with the same period last year.

Highlights of our interim results for the six months ended 30th September 2001:

- Group sales turnover amounted to HK$719.9 million, including six-month revenue of HK$77.9 million from Phillip Wain and three-month sales of HK$11.9 million from Sa Sa Ebeca.
- The Group's net cash and bank balances were HK$603.9 million.
- Through setting up clearance outlets, inventory turnover has reduced from 140 days to 118 days. Such sales affected the gross profit margin, which dropped from 40.3% to 37.3%. However, the reduction in inventory level should have a positive impact on the Group's long-term development.
- Phillip Wain increased the number of its beauty and health clubs from seven to nine.
- Sales counters and beauty salons under Sa Sa Ebeca increased to 149 and four respectively.
- The Group's retail network also expanded, opening two new stores in the region during the six-month period. The total number of Sa Sa retail outlets numbers 58 as at 30th September 2001.
- The Korean language site of Sasa.com was launched with success in July 2001 and has stimulated an increase in sales.

In addition, as part of the Group's strategy to develop exclusive brands, three La Colline specialty stores in Hong Kong have successfully created synergies with Sa Sa's own retail business and significantly boosted the brand, as well as the Group's image and market standing.

Our first exclusive health supplement product, the Yuerong Beauty Preserver, has been well recognised by the market since its launch in March 2001.

For the six months under review, both our private-label products and exclusive-distribution products accounted for approximately 27% of the Group's retail sales.

Retail Business

The Group's turnover for retail business during the period was HK$627 million, down by 4.2% when compared with the corresponding period last year.

With global and local economic hardships, turnover in the Group's largest market, Hong Kong and Macau, has only slightly increased by 1.1% to HK$534.5 million. One new store was opened during the period under review, bringing the total number of outlets in Hong Kong and Macau to 33.

In Taiwan, the six months under review was a period full of volatile political, economic and climatic events, resulting in an understandably poor consumer sentiment. The closure of five underperforming Sa Sa stores in the last fiscal year further contributed to the substantial decrease in this market's turnover. Sa Sa believes the poor economic environment will continue, therefore, the Group will pursue a business strategy to achieve a turnaround within the next few months.

Overall sales in Malaysia increased by 3.9% while turnover in Singapore has decreased by 9.9%, and both markets remained profitable during the period under review. The total number of stores in Singapore remains at nine. With a new store opened in Malaysia during the period, the total number of shops in Malaysia has increased to eight. As there has been no improvement in the retailing environment in these two countries, we have no plan to open new stores in either of these markets in the near future.

By pushing sales in clearance outlets, the Group's inventory turnover reduced from 140 days to 118 days. However, this has also caused a drop in the Group's gross profit margin to 37.3%. The Group will continue its efforts to reduce the inventory.

Sa Sa Ebeca

The Group reached a joint venture agreement with Shenzhen Ebeca Enterprise Company Limited on 1st July 2001, and formed a new joint-venture company, Shenzhen Sa Sa Ebeca Enterprise Limited. During the period under review, the Group's turnover included Sa Sa Ebeca's three-month revenue from July to September 2001, which was HK$11.9 million.

During this period, Sa Sa Ebeca has opened one new beauty salon in Chengdu and is currently working on new salons in Shanghai, Shenzhen and Dalian, while nine new sales counters have also commenced business. As at 30th September 2001, Sa Sa Ebeca has 149 retail counters and four beauty salons.

Sa Sa Ebeca is Sa Sa's first step into the vast PRC market. Since the establishment of the joint venture, Sa Sa has adopted various measures to reposition and streamline the business of Sa Sa Ebeca for further development in the PRC market and we remain confident of the long-term value of Sa Sa Ebeca to the Group. Leveraging the joint-venture company's extensive PRC sales and distribution network, Sa Sa will introduce its own house-brand products to the PRC market and create a standalone Sa Sa retail network.

Beauty Services

Phillip Wain's turnover during the period under review is HK$77.9 million.

In August and September 2001, two new Phillip Wain clubs were opened, one in Malaysia and Singapore respectively, bringing the total number of clubs to nine. However, the unexpected events of September 11 have since led to a sudden downturn in the economies of these two markets. The luxury-goods market suffered the most severely under these new economic conditions. As a premier health club, Phillip Wain has been noticeably impacted.

On 29th November 2001, the Group's subsidiary, Lisbeth Enterprises Limited, served statutory demands on Mr Edwin J. Phillips and Mr Barry R. Wain for their outstanding loan amounting to approximately HK$24 million in total.

On 3rd December 2001, Mr Phillips issued a writ against Sa Sa claiming damages of HK$31.2 million alleging a breach of contract in respect of a call option agreement. Based on the Group's legal advice, the Group considers Mr Phillip's claim against Sa Sa to be misconceived and lacking in merit. The Group has been advised it has a good prospect of success in its defence and intends to pursue its defence vigorously. Therefore, the Group concluded that no provision is required in its financial statement.

With its strong financial backing, the Group firmly believes that the legal action brought by Mr Phillips will not materially impact its operation or financial position, nor that of Phillip Wain. The Group is confident that, under new management, Phillp Wain continues to be committed to providing high-quality services to its members.

E-business

Turnover of sasa.com has increased since its launch of a Korean-language site in July 2001. As overseas orders currently contribute to over 90% of our total online sales, the related operating expenses have increased correspondingly. For the month of September 2001, the hit rate and page view of sasa.com were over 22 million and 3 million respectively and the number of unique visitors is over 70,000. This trend continues to increase. With its Chinese, English and Korean versions, sasa.com has boosted the Group's image, overseas awareness, and strengthened its external communication and product promotion. Therefore, the Group will prudently assess benefits to the Group against operating costs when reviewing the prospects and profitability of our e-business strategy.

Employees

As at 30th September 2001, the Group had a total of 1,820 employees. Remuneration packages continue to be reviewed on a regular basis. Share options, as part of basic remuneration packages, have also been offered to key employees to strengthen loyalty to the Group.

Liquidity and Capital Resources

In the fiscal year to date, the Group continues to maintain a strong financial position and is confident that it has sufficient funds to meet its daily business operation requirements, as well as to finance future expansion. As at 30th September 2001, net cash and bank balances were HK$603.9 million and working capital was HK$768.8 million. The current ratio is 4.4.

The Group's general banking facilities total approximately HK$102.4 million. Trade facilities amounting to HK$18.9 million have been utilised. The total debt to equity ratio is 0.3.

The assets of certain Group subsidiaries have been pledged to secure part of these general banking facilities, of which HK$2.7 million is utilised. As at 30th September, 2001, property of a subsidiary with a net book value of HK$3.1 million has been pledged against an installment loan. On the same date, the Group's contingent liabilities totalled HK$13.3 million, comprising letters of credit and bank guarantees issued in lieu of deposits.

The Group has little exposure to foreign exchange fluctuations as most of its receipts and payments are in Hong Kong or US dollar.

Prospects

In view of the current severe market conditions in Asian retail business and possible challenges in the coming months, it is important that we carefully review the Group's operations and exercise painstaking cost control to maintain the Group's competitiveness.

Looking to the future, Sa Sa will conduct a thorough review of its business, including the overall operation and cost structure and inventory management. We will adopt all necessary measures to improve the profitability of the Group.

It will be some time before we see a clear robustness in the region's retail industry, especially across all the Group's international markets. Sa Sa will strive to weather these troubled times and bring long-term value to its shareholders.