





So bright! So light!

Management Discussion and Analysis

For the year ended 31st March 2007, the Group's consolidated turnover amounted to HK\$2,889.2 million, representing an increase of 10.3% from HK\$2,620.6 million last year. The consolidated profit attributable to equity holders of the Company was HK\$221.8 million, a rise of 19.8% over the HK\$185.2 million recorded last fiscal year. Basic earnings per share were 16.4 HK cents.

The satisfactory performance of the Group reflected a number of positive factors. There was an increase in turnover in all markets and business units, particularly the overseas markets. The Group achieved higher net margin in its retail business because of a significant improvement in the retail business' gross profit margin to 43.6%, which in turn was due to enhanced product mix. The higher gross profit margin helped offset increased rental and operational costs. In the Mainland China market, the number of stores increased from two in the previous fiscal year to five stores plus six beauty counters in the year under review. The expenses involved in the initial set up of these additional new stores in Mainland China contributed to increased losses in that market.

Retail & Wholesale Business

During the fiscal year 2006/07 the Group's retail and wholesale business saw growth in turnover of 10.4%, reaching HK\$2,676.8 million. The retail business' gross profit margin improved significantly to 43.6% from 40.7% the previous fiscal year due to enhanced product mix. The high turnover growth rate in all overseas markets continued. The Group's inventory turnover days reduced to 90 days as at 31st March 2007, after allowing a build up to 115 days on 30th September 2006 to make a buffer for stock issues during the implementation of SAP's ERP system. The year-

end stock turnover days of 90 days was similar to the 89 days recorded last fiscal year. Overall, as at 31st March 2007, the Group operated 104 retail outlets including stores and beauty counters in six markets in Asia, plus a portal offering a global online shopping service.

Hong Kong and Macau

Despite keen competition in Hong Kong, Sa Sa continues to maintain its leading market share. Spending by local consumers and tourists, mainly from Mainland China, contributed to turnover of HK\$2,297.0 million, an increase of 7.8% from HK\$2,131.3 million last year. Same store sales saw growth of 2.1%. While the number of transactions recorded a slight increase, there was a marked rise in the average value per transaction to HK\$265.0, an increase of 6.7% over the previous fiscal year.

The gross profit margin of our retail business in Hong Kong and Macau increased to 43.6% from 40.6% the previous fiscal year on the back of enhanced product mix, a factor that helped offset the impact of increased rental costs. The Group maintained a prudent cost control during the year. It also further strengthened Sa Sa's branding by participating in various marketing and corporate sponsorship activities including movie sponsorship, sponsorship of the Miss Hong Kong Pageant 2006 and the Ladies' Purse Day of the Hong Kong Jockey Club. The Group opened three new stores and closed one store during the year. As at 31st March 2007, there were 53 Sa Sa stores (including four in Macau), one La Colline specialty store and one Elizabeth Arden counter in Hong Kong and Macau.



Miss Hong Kong Pageant 2007
Official Cosmetics Specialty Store
Official Facial & Beauty Service Supplier



Q&A

What are Sa Sa's main strengths?

We have built a great brand that everyone knows, and we have an unmatched range of products for our huge, loyal and region-wide customer base. Our relationship with our vendors is excellent, our sales professionals give quality service, and we have a long-established network of more than 95 retail outlets in prime Asian locations, along with an on-line portal offering global on-line shopping service.

In addition, we have extensive industry experience and a clear business focus on beauty, supported by well thought-out corporate strategies, a robust balance sheet and a strong management team.

Mainland China

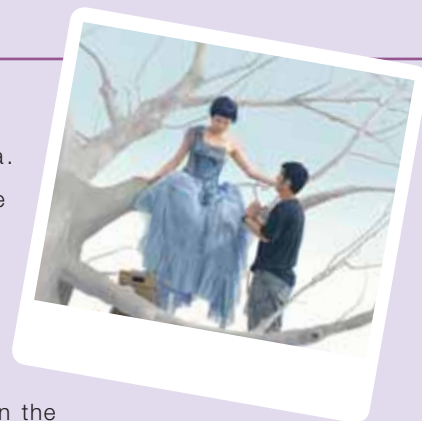
During the year under review, the Group's strategy for expansion in Mainland China continued apace. In April 2006, we added one beauty counter and in September opened the third store. In the second half of the fiscal year, we added two new stores and five beauty counters to our portfolio. As at 31st March 2007, the Group was operating five Sa Sa stores as well as six beauty counters under the Suisse Programme brand.

The Group's first two stores, both of which were located in Shanghai with a floor area of 4,000 sq. ft., served as flagship stores for the purpose of building the Sa Sa brand image

in Mainland China.

Leveraging on the knowledge gained of the local operating environment, the Group speeded up its store openings in the second half of the fiscal year by targeting store size in the range of 1,000 to 2,000 sq. ft.

The Group continued to build on its strategy of focusing on professional skin care brands to differentiate Sa Sa from the competition, and of setting up department store counters



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for brands under Sa Sa management to enhance their exposure in the market. The first beauty counter under our exclusive brand, Suisse Programme, was opened in Seibu department store in Chengdu in April 2006, followed by another five beauty counters located in various department stores in Shanghai, Beijing, Changsha and Wenzhou. Now our exclusive brands are sold through both beauty counters in department stores and Sa Sa stores.

New exclusive brands launched during the year included Méthode Swiss and Beauty Formula. In terms of product registration for our exclusive products, about 640 products were completed and 340 products are in progress.

Singapore and Malaysia

Turnover for the Singapore market rose 35.3% to reach HK\$122.3 million, while that of the Malaysian market rose 24.7% to reach HK\$63.3 million. Same store sales growth was up 1.3% in Singapore, and 8.7% in Malaysia. Three new stores were added to our portfolio in Singapore, with the total number of stores reaching

13 as at 31st March 2007. At the same time, four new stores were added in Malaysia to make a total of 14 stores.

The addition of these new stores and increased sales productivity resulted in higher turnover growth, which in turn increased the market share of the Group in these markets. Gross profit margin rose in both markets through improved product mix. Overall, there was an improvement in the contribution of Singapore and Malaysia to the Group's results.

Taiwan

Turnover in the Group's Taiwan business increased 35.0% during the fiscal year to HK\$120.1 million, with same store growth rising 0.4%. Same store growth became more positive in the second half of the year, rising 4.3%. Performance in this market was affected by the tightening of credit card controls by local banks from the beginning of 2006 onwards, and of the political demonstrations in the second half of the year. The Group added three new stores to its portfolio, bringing the total store number to 11 as at 31st March 2007.



Q&A

How does Sa Sa manage to sell quality products at such competitive prices?

Sa Sa applies its global sourcing and purchasing capabilities to obtaining the best value products, buying in bulk to increase its bargaining power. A further factor is our excellent long-term relationships with vendors. While we pride ourselves on our ability to offer generous discounts, we also take exceptional care to ensure that everything we sell is genuine and in tip-top condition.



E-commerce - Sasa.com

Turnover for Sasa.com amounted to HK\$56.7 million, an increase of 7.7% over the previous fiscal year. There was a further improvement in the gross profit margin and a small profit was recorded. Sales increased due to an expanded product range. The number of unique visitors reached 420,000 per month, a rise of 53.0% over the previous year. A complete upgrading of the web site is in progress in order to enhance Sasa.com's usability and sales productivity.

Brand Management

Brand management refers to the management of own-brands and international brands for which Sa Sa acts as sole agent / distributor in terms of brand building, marketing, sales and distribution.

Sales of own-label and exclusively distributed products increased by 24.5% and contributed to 34.8% of the Group's total retail and wholesale sales for the year ended 31st March 2007, a rise of 4.1% over the previous fiscal year. The Group strengthened its exclusive brands portfolio to build the foundation for future growth. We also expanded the product categories and product range to cater for various market segments. New product lines were added to existing exclusive brands, such as a skin care line to Cyber Colors and a make-up line to Suisse Programme.

New exclusive brands secured include Méthode Swiss from Switzerland, Natio from Australia, Somang from Korea, and the fragrances of Disney, Ferrari, Tous, Trussardi, Mauboussin and Leonard. As at 31st March 2007, Sa Sa represented over 100 international brands as sole agent / distributor.

During the year 2006/07, we continued to strengthen our marketing activities to promote brands under management. Large-scale marketing campaign including the appointment of image girl and a TV commercial was conducted for the new product launch of our exclusive brand. Further promotional support came in the form of MTR adverts, atrium road shows, billboards, magazine and newspaper adverts, celebrities' testimonials, skin care / make-up workshops, press releases, product sponsorship, and joint promotions with other business partners such as credit cards.

Beauty Services

Turnover for beauty services was HK\$212.4 million, representing an increase of 8.8% over the previous fiscal year. Beauty services provided contribution to the Group's results for the year under review. An improved sales mix helped enhance the performance. New treatments and courses introduced included Bipolar RF Skin Renewal Treatment, Triple Act Cellu-Free Therapy, and exercise classes such as Rock'n Roll Stretch and Gliding Tone.

Management Discussion and Analysis

Strengthening Operational Systems

In order to build up a common platform with the capability to manage, collaborate and exchange real-time sales and inventory information with all our business partners and to respond to ever-increasing customer demand and market competition, the Group has upgraded its IT infrastructure and adopted the SAP's R3 ERP system. The ERP system was implemented in July 2006. With this integrated system, we aim to increase our business process efficiency and managerial control through best business practices and management processes. Through integration with our Business Intelligence system and our customer relationship management system, the SAP system allows us to improve our business decisions on the basis of detailed, timely and reliable financial, sales and inventory information, as well as to improve our supply chain process and customer relationship management capabilities. Customisation and enhancement to support retail-specific features such as consignment item handling and replenishment flexibility are still underway.

These capabilities will give us more understanding of our customers' buying behaviour and purchase patterns, general market trends and potential. They will also help us to improve procurement, inventory management, sales promotion, productivity of sales staff and customer service.

Outlook

Regional Strategic Initiatives

In order to build on the platform provided by the success of the Hong Kong and Macau market, the Group is implementing a series of strategic initiatives across the region. Our initiative to strengthen brand management is making good progress.

We are continuing to enhance our product mix and portfolio, thereby not only providing a more solid foundation for Group's future expansion, but also helping to improve the long-term profitability of the Group. We are further developing our partnership with all suppliers, including suppliers on a non-exclusive basis, in order to boost brand awareness of their respective brands and to enhance the marketing of exclusive brands and the retail brand "Sa Sa" to support the development of the beauty brands.

In terms of operational efficiency, we will continue to upgrade various aspects of our infrastructure and systems, as well as to improve training in order to provide an even stronger base for future expansion and development. And we will further build the complementary role of beauty services to support our core retail business by providing a comprehensive "one-stop" beauty concept for the Group, such as treatment rooms in our stores.



Q&A

How can Sa Sa achieve such a high standard of customer service?

- **A Strong Training Team**

Our training team is specialised in different training programs. These include product knowledge (with different trainers specialised in skin care, fragrance, make-up products and beauty treatments); skin analysis; make-up training; Mandarin speaking; selling skills; supervisory skills; customer service skills; and general management skills.

- **Intensive Training**

A new beauty consultant receives more than 150 training hours before she becomes a qualified beauty consultant ("BC"). We also provide continuous training to existing BCs to update their skills and knowledge in all the above categories. Good training is vital for cosmetics retail because it improves sales and service, the corporate image, the professionalism of our staff, and the sense of belonging of our employees.

- **Knowledge of the Market and Customers**

The cosmetics retail industry changes very rapidly, always catching up with new trends and the evolving needs of customers. Therefore, our staff must be updated frequently. In addition, our sales staff act as personal consultants to customers for their beauty needs. They require an in-depth knowledge of both products and customer requirements in order to provide tailor-made beauty advice.

- **Building Loyalty**

We aim at providing a service to customers, not only at selling products. Our mission is to convert more and more buyers of our products and services into loyal customers. We therefore monitor our services very closely and strengthen our service-oriented culture through various internal programmes and through participation in external monitoring schemes such as mystery shoppers programmes.

- **Gaining Recognition**

Sa Sa stores and La Colline specialty store have repeatedly received accolades for their quality services and have been awarded the Quality Tourism Services certificate by the Hong Kong Tourism Board. This scheme honours tourism service providers that have achieved excellent quality in the areas of environment, products, processes, people and systems.



Management Discussion and Analysis



Hong Kong and Macau

In order to capture the opportunities arising from the improving local economy, Sa Sa will continue to expand its local retail network and strengthen its marketing initiatives towards local consumers in Hong Kong and Macau.

Figures supplied by the Hong Kong Tourism Board suggest that more Mainland tourists are visiting Hong Kong through the Individual Visit Scheme, rather than by joining a package tour. This trend is extending the visitors' shopping time in Hong Kong. In addition, a series of measures have been taken by the relevant authorities in Hong Kong and Mainland China to curb rogue retailers. As a result, Mainland tourists now prefer shopping at reputable chain stores. Because of the excellent reputation and trust that Sa Sa has enjoyed among PRC consumers over the years, and our well-known commitment to delivering quality products and services, Sa Sa is likely to benefit from this "flight to quality".

Against a background of continuing strength in the PRC economy, Mainland visitors' spending power is steadily increasing, which will also benefit Sa Sa as one of the prime shopping destinations for such tourists. Indeed, Sa Sa continues to be the favourite Hong Kong brand of visitors from the Mainland, as is evidenced in various national surveys of consumers that identify cosmetics as one of the key items on the top of PRC tourists' shopping lists.

On the operational front, the Group is bringing flexibility to the issue of lease renewal and to the negotiation of new leases in order to improve operational efficiency amid current market conditions in Hong Kong and Macau. The Group is also focusing on increasing same store growth.

Mainland China and Overseas Markets

In terms of overseas markets, the Group will continue to place emphasis on increasing market share across Asia. New store concepts will be introduced to capture the opportunities arising in local markets and we will focus on network expansion through opening of retail stores and setting up beauty counters under our exclusive brands in department stores.

We are laying the foundation for the Group's future growth in the region by concentrating on strengthening our product portfolio, building management resources, and improving operational management in both Mainland and overseas markets. The Group is optimistic about the growth of our retail business across Asia in the coming year and remains confident that our retail network expansion plan will be achieved by 2011, allowing the Group to reach a target of not less than 240 stores in the region.

Q&A



What is so special about Sa Sa's operation in Mainland China?

- Sa Sa's **one-stop cosmetics specialty stores** offer more than 200 professional and quality brands, both international and domestic, covering a broad price range targeted at a diversified customer base. The stores provide an alternative distribution channel for beauty products to the department stores.
- **Product selections tailored to Chinese**
 - > Sa Sa has more than 29 years of experience in cosmetics retail in Asia and today 95% of its customers are Chinese, of which 40% are from the Mainland.
 - > Sa Sa utilises its understanding of the skincare and beauty needs of Asians, in particular, Chinese, in the product selection for its stores in Mainland China.
- **Focus on professional and quality international brands**
 - > Asia's well-known Phillip Wain and Sasa Beauty+ beauty centres provide a solid foundation for Sa Sa in the field of professional skincare and beauty treatments.
 - > Sa Sa selects professional skincare and beauty products that are suitable to Asians, in particular Chinese, from around the world.
- **Value-added services offered at Sa Sa**
 - > Professionally trained beauty consultants provide personalised advice to customers and introduce relevant quality products across different brands.
 - > A wide variety of promotions
 - > Quality assurance for products
 - > Free make-up service and professional beauty treatments with dedicated treatment rooms in store
 - > Free skin analysis
 - > Free samples
- **A brand new shopping experience**
 - > Trendy and comfortable shopping environment and open shelves allow Mainland consumers to try and choose products of different brands at ease, offering them a brand new shopping experience.

