Management Discussion and Analysis

For the year ended 31 March 2010, the Group's turnover amounted to HK$4,111.3 million, representing an increase of 13.9% over the HK$3,609.0 million recorded last year. Sales in markets outside of Hong Kong and Macau increased by 31.1%. Both turnover and profitability in all markets and business units continued to improve. The Group's profit for the year was HK$381.1 million, a rise of 20.6% over the HK$316.0 million recorded last fiscal year. Basic earnings per share were 27.5 HK cents, as compared to 22.9 HK cents in the previous fiscal year.

The overall gross profit margin of the Group for the full fiscal year increased to 44.1% from 43.7% last year. The net margin increased by 0.5% to 9.3%. Our inventory turnover days were 90 days as of 31 March 2010.

Market Overview

The fiscal year 2009/10 was a year of two contrasting halves. In the first half, the outbreak of H1N1 swine flu pandemic had a significant impact on tourism and local consumption, particularly from May to July. In the second half of the year, the stock and property markets led a gradual economic recovery. As the threat of H1N1 swine flu receded, the growth in tourist arrivals resumed in August, in particular tourist arrivals from Mainland China. Further relaxation of the Individual Visit Scheme encouraged more frequent visits from Shenzhen residents, a trend that became increasingly clear from Chinese New Year 2010 onwards. Since April 2009, Shenzhen permanent residents have been able to apply for multi-entry visas to visit Hong Kong while non-permanent residents of Shenzhen have been able to apply in Shenzhen for a single-entry visa. These more relaxed criteria now apply to more than two million Shenzhen residents.

The economic stimulus programmes of the Central Government not only contributed to a GDP growth rate of 8.7% in Mainland China in 2009, but they also helped boost domestic consumption. Although the Hong Kong economy contracted severely in the first quarter of 2009 amid the worldwide export slump, Hong Kong's economy quickly rebounded in the second quarter and continued to improve during the rest of the year, along with other Asian economies, particularly that of Mainland China which took the lead in the global recovery process. The net result of this rebound was that the local economy recovered in healthy stages and consumer sentiment continued to improve.

In statistical terms, Hong Kong's GDP returned to positive growth of 2.5% in the final quarter of 2009 following the previous consecutive quarters of negative growth. Overall, GDP growth for 2009 was -2.8%. In terms of the retail sector, for 2009 as a whole, retail sales volume recorded only a small decrease from 2008. For the full fiscal year 2009/10, Hong Kong's total retail sales value increased by 6.4%, while that of cosmetics and medicines rose 12.1%. This bullish performance shows clearly that the appetite for cosmetics has become unquenchable for both local residents and visitors alike.

Due to a combination of broad variety in product offering, "freshness to market" and competitive pricing, cosmetics are ranked among the top items in the shopping list of Mainland tourists in Hong Kong and Macau. Such tourists have already become a key customer sector for the cosmetics industry in Hong Kong and Macau.

Retail and Wholesale Business

Hong Kong and Macau

Sa Sa continued to maintain its market leading position in Hong Kong and Macau. Turnover increased by 10.3% from HK$ 2,981.2 million to HK$3,288.1 million and same store growth increased by 7.1%. Such a buoyant performance was driven by increased revenue from both local residents and Mainland tourists.

Different product and distribution strategies have been deployed to target different market sectors and adapt Sa Sa to the changing market environment. To respond to the weak market demand in the first half, for example, clearance outlets were used to reduce stock level and to benefit from "trade-down" behaviour. As consumer sentiment gradually improved in the second half of the year, Sa Sa opened an image store under the Suisse Programme brand to target discerning customers. Additional targeted initiatives are currently being studied.

Turnover growth was mostly driven by the increase in transactions in the first half of the year, representing an increase in customers and the broadening of our customer base. Average value of transaction improved in the second half along with a steady increase in the number of transactions, which in turn reflected a marked improvement in consumer sentiment. As mentioned above, the H1N1 swine flu alert from May to July 2009 impacted tourist arrivals from Mainland China and in turn our business. When the growth of Mainland tourist arrivals resumed in August, our sales growth also returned to double digit figures. Among several initiatives to maintain growth, effective cost control measures were implemented and inventory management was improved.

Management Discussion and Analysis

Following the success of the Fragrance Fairs held in Taiwan and Malaysia in previous years, a Fragrance Fair was held in Hong Kong during the year to reinforce Sa Sa's retail branding and to encourage new users for fragrance products. Eight new "Sasa" stores were added and four stores were relocated in Hong Kong and Macau. A Suisse Programme specialty store was opened during the year. As of 31 March 2010, there were 70 "Sasa" stores (including eight in Macau), one Suisse Programme specialty store, one La Colline specialty store and one Elizabeth Arden counter.

Mainland China

In fiscal year 2009/10, the Group's turnover in Mainland China increased by 61.3% to HK$97.0 million, and same store growth increased by 13.0%. The loss narrowed to HK$18.6 million, a reduction of HK$8.7 million from the previous year. We opened seven new "Sasa" stores, including one in Beijing, three in Shanghai, one in Suzhou and two in Wuhan.

In order to align with our strategy of forming "clusters" of sales points, we opened four new Suisse Programme beauty counters and closed nine counters to improve overall network performance. This strategy is beginning to reap rewards since we achieved turnover growth as well as comparable store growth for our counter network, even though the total number of counters diminished as compared to last fiscal year. The loss incurred from the counter network gradually narrowed towards the end of the fiscal year and the counter network achieved breakeven point at the operating level in the month of March 2010.

Overall, our performance in Mainland China has improved. This was mainly due to changes in the management team, broadened marketing reach, effective cost control measures, an enhanced product offering and extended product range. As of 31 March 2010, there were 17 "Sasa" stores and 18 beauty counters under Suisse Programme in the Mainland market.

Singapore and Malaysia

During the year, turnover for the Singapore market grew by 15.6% to HK$162.2 million while same store sales growth declined by 1.5%. Performance improved and a small profit was recorded. Sales in both Singapore and Malaysia were affected by the H1N1 swine flu outbreak. In the Singapore market, our initial focus was devoted to improving the stores' operational efficiency and we invested more resources in sales staff training. As the economy in Singapore began to recover in early 2010, these initiatives gave rise to higher sales productivity in the fourth quarter of our fiscal year. Five new "Sasa" stores were added and one was closed during the year. As of 31 March 2010, there were 18 "Sasa" stores in Singapore.

Malaysia achieved a good performance during the year, with turnover rising 24.1% to HK$176.0 million and same store sales increasing 9.5%. This satisfactory performance came on the back of strengthened relationships with suppliers and the broadening of our product offering to maximise our appeal to more customer segments. Our enhanced marketing efforts were exemplified by the holding of the second Sa Sa Fragrance Fair in Malaysia. The famous actress Dynas Mokhtar served as the campaign's ambassador and a series of charity auctions of winning perfumes, roadshows, workshops, talks, sampling and online contests were rolled out. Four new stores were added, bringing the total number of stores in Malaysia to 30 as of 31 March 2010.

Taiwan

Turnover of the Group's Taiwan business increased by 11.7% during the fiscal year to HK$147.1 million. Same store sales rose 8.6% and the loss narrowed to a marginal one. Our performance improved due to more effective marketing promotions, increased brand awareness, broadened product offerings and cautious cost control. The use of spokespersons with a higher public profile as well as a series of integrated marketing campaigns resulted in improved sales of exclusive products. Our Taiwan business pioneered our series of Fragrance Festivals. Once more, in fiscal year 2009/10, a highly successful Fair was held together with promoters from brands such as Anna Sui, Hugo Boss, Gucci, Marc Jacobs and Givenchy. The Fragrance Fair reinforced Sa Sa's status as the category leader in fragrance in Taiwan and strengthened the high-profile retail image of Sa Sa.

Management Discussion and Analysis

Two “Sasa” stores and two Suisse Programme counters were opened during the year. As of 31 March 2010, there were 15 “Sasa” stores and two Suisse Programme counters in Taiwan.

E-commerce - sasa.com

Turnover for sasa.com amounted to HK$240.9 million, an increase of 56.7% over the previous fiscal year. Performance and profitability continued to improve. This robust performance was largely due to enhanced product offerings, a broadened marketing reach, the inclusion of a variety of more user-friendly functions and an upgraded online shopping experience.

Overall, more cost-effective and targeted marketing activities helped increase new customers by 29% and repeat customers by 20%. The gross profit margin rose due to our improved sales mix. More than 200,000 customers have now shopped with Sa Sa and nearly half of them have remained active.

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/distributor in terms of brand building, marketing, sales and distribution.

During the year, the Group’s sales of own-label and exclusively distributed products increased by 12.8%, contributing 38.1% of the Group’s total retail sales. Following the shift in focus to mid-to low-end exclusive and own-branded products in the second half of last fiscal year (reflecting market circumstances), the exclusive products launched by Sa Sa during the year were more competitive in the market. Our emphasis on the trendiness and time-to-market of new exclusive products also helped increase the competitiveness of our product offering. Strengthened product development, including more focus on the young peoples’ market sector, led to a broader variety of effective new products based on effective word-of-mouth recommendations. The new mascara in the “sasatinnie” own-brand range received the category award from only-lady.com, a leading beauty site in Mainland China.

IT Development

Continuous investment in information technology was made to support the long term business growth and strategic development of the Group. A data centre with increased capacity to cater for future business growth was built. A project to roll out a new real-time retail operational system to improve operational efficiency for markets outside of Hong Kong and Macau commenced during the year. Various systems were deployed and processes were streamlined to improve supply chain management and store operations.

Outlook

We remain cautiously optimistic about the outlook for the coming year. Overall, government austerity and stimulus measures worldwide have improved prospects for global economic stability. Labour market conditions in Hong Kong, along with a gathering economic recovery, have reinforced consumer confidence in our most sophisticated market, including the retail sector. The steady increase in inbound tourist arrivals to Hong Kong and Macau also gives us reason to be confident. Going forward, consumer sentiment should remain firm, with the economy gathering further momentum.

The Hong Kong Government forecasts GDP growth of 4% to 5% in real terms in 2010. Much of this recovery is being driven by a gathering wave of Mainland tourists as a result of the further relaxation of the Individual Visit Scheme. Further integration of Hong Kong and Macau with southern China along with a growing number of infrastructure projects linking Hong Kong, Macau and Mainland China, will further help boost the prospects for tourism. The positive outlook for the Chinese economy, supported by elevated asset prices, should help support confidence.

Nevertheless, there are certain cross winds that may derail the economy, such as an unexpected negative shock to the global economy and financial markets. Such risks may arise from the European debt situation or a worse-than-expected correction in the Chinese property market. Recently, global stock markets have also shown a tendency towards strong volatility and the European Union governments have enacted a series of tough regulatory and fiscal austerity measures, which in turn may lead to a renewed cycle of poor consumer sentiment. On balance, however, we remain optimistic that the Asian recovery will continue and that Hong Kong's GDP will achieve government forecasts of between 4% and 5% growth.

Strategic Initiatives

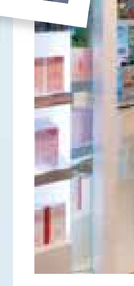
We will continue our diversification strategies in various aspects: namely, markets, product portfolio, distribution and customers. We believe a stronger presence in the region, more attractive and dynamic product offerings, and increasingly targeted exposure to various customer segments through different store formats, will facilitate our long-term growth in the region. This strategy will be supported by more effective resource allocation and reinforcement of our brand building efforts throughout the region.

Management Discussion and Analysis

As one of the major efforts to support the brand building of "Sa Sa" and our fragrance brands, we will continue to reinforce our leading status in the sales of fragrances in each of our markets. The first Fragrance Fair, a pioneering marketing initiative in the region, was held in Taiwan in 2007, followed by fairs in Malaysia and Hong Kong in 2008 and 2009. We will continue to host such fairs in order to broaden our customer base and recruit new users for fragrances. This initiative includes such educational and marketing features as the promotion of different fragrances for different occasions and at different times of the day. We will strengthen our relationship with fragrance brands, thereby further driving their sales growth in partnership with Sa Sa.

We are persistent in striving for better management, and operational efficiency to enhance our competitiveness. These initiatives include the continuous upgrading of our supply chain management, customer relations management, IT infrastructure, business intelligence system, risk management, and various performance monitoring systems and measures.

To equip us for fast growth in the coming years, we will enhance our organisational structure and develop more talents through an extended management trainee programme. We will continue to strengthen our key functions such as product development, category management, marketing and training to complement our growth.



Hong Kong and Macau

Sa Sa aims to create a more balanced store network in Hong Kong and Macau by opening more stores in residential areas. We will continue to open stores in tourist areas, and plan to add at least 12 stores in total in this market. We will increase gross profit by enhancing our product mix to alleviate the rental pressure and to enhance our net margin.

Mainland China

In Mainland China, our recently opened multi-brand "Sasa" stores, as well as our single-brand counter network, have begun to perform well. We therefore intend to accelerate the expansion of our network. We are targeting a portfolio of at least 67 outlets across the country by March 2011. This dynamic growth story will be supported by such measures as enhanced training and human resources policies that discover and promote excellent management. Our commitment to this market will be evidenced by deployment of more resources to speed up the network expansion.

Other Markets: Singapore, Malaysia, Taiwan

Outside Hong Kong, Macau and Mainland China, we will continue to expand our retail network to increase our market share. At the same time, we will enhance our competitiveness by strengthening the brand building of the Sa Sa brand, and we will broaden our customer base by bolstering marketing efforts, improving our product mix, and working more closely with our suppliers.

E-commerce – sasa.com

In regard to our rapidly growing online business, sasa.com, we will continue to increase penetration of sasa.com in core markets while working closely with various beauty brands and online partners.

Conclusion

Sa Sa has a proven ability to achieve consistent growth amidst the most challenging circumstances. Our strength and resilience reflect the Group's high management flexibility, prudent financial management, sound financial platform and innovative growth strategies.

With our clear vision, core strengths, broad customer base and solid business foundation, we will continue to devote our energies to driving sustainable growth, both now and in the future.


Blumarine
BELLISSIMA
PARFUM INTENSE
Fleur de LYS
blugirl


PAL ZILERI
BLU DI PROVENZA
Gianfranco FERRÉ
In the mood for love
PURE
LA PERLA
J'AIME LES FLEURS