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# SA SA INTERNATIONAL HOLDINGS LIMITED
# 莎莎國際控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 178)**

## Annual Results for the year ended 31 March 2014
## Dividends and Closure of Books

### Highlights

- The Group's turnover increased by 14.2% from HK$7,669.8 million to HK$8,756.1 million
- Retail sales in HK and Macau increased by 17.8% from HK$5,965.9 million to HK$7,026.5 million
- The Group's retail network increased from 260 to 280, a net increase of 20 stores
- Gross profit margin slightly increased from 46.4% to 46.5%
- Profit for the year was HK$935.2 million, an increase of 13.3% from HK$825.6 million in last year
- Net profit margin slightly decreased from 10.8% to 10.7%
- Basic earnings per share were 33.0 HK cents as compared to 29.3 HK cents for the previous year
- Final and special dividends per share proposed are 14.5 HK cents (2013: 14.0 HK cents), making a total annual dividend of 23.5 HK cents per share (2013: 21.0 HK cents)
- The largest cosmetics retail chain in Asia and one of the top ten retail groups in Hong Kong, according to the "Retail Asia-Pacific Top 500" rankings of Retail Asia Magazine, KPMG and Euromonitor in 2013
- One of Forbes Asia's 200 Best Under a Billion Companies for the second consecutive year
- Constituent member of Hang Seng Corporate Sustainability Benchmark Index for the third consecutive year since 2011

The Board of Directors of Sa Sa International Holdings Limited has pleasure in presenting the consolidated results of the Company and its subsidiaries ("Group") for the year ended 31 March 2014 with comparative figures for the previous year as follows. The annual results have been reviewed by the audit committee of the Company.

# CONSOLIDATED INCOME STATEMENT
# FOR THE YEAR ENDED 31 MARCH 2014

| | Note | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|---|
| Turnover | 4 | **8,756,105** | 7,669,798 |
| Cost of sales | 6 | **(4,683,118)** | (4,111,454) |
| Gross profit | | **4,072,987** | 3,558,344 |
| Other income | | **102,936** | 57,792 |
| Selling and distribution costs | 6 | **(2,728,230)** | (2,360,620) |
| Administrative expenses | 6 | **(341,209)** | (271,659) |
| Other gains – net | 5 | **7,022** | 3,312 |
| Operating profit | | **1,113,506** | 987,169 |
| Finance income | 7 | **12,762** | 7,509 |
| Finance costs | 7 | **(305)** | - |
| Finance income – net | 7 | **12,457** | 7,509 |
| Profit before income tax | | **1,125,963** | 994,678 |
| Income tax expenses | 8 | **(190,728)** | (169,044) |
| Profit for the year | | **935,235** | 825,634 |
| Earnings per share for profit for the year (expressed in HK cents per share) | 9 | | |
| Basic | | **33.0** | 29.3 |
| Diluted | | **32.9** | 29.2 |
| Dividends | 10 | **667,971** | 594,009 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2014

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| **Profit for the year** | **935,235** | 825,634 |
| **Other comprehensive (loss)/income** | | |
| Item that will not be reclassified subsequently to profit or loss | | |
| Actuarial losses on retirement benefit obligation | **(886)** | - |
| Items that may be reclassified to profit or loss | | |
| Cash flow hedges, net of tax | **593** | (591) |
| Currency translation differences of foreign subsidiaries recorded in exchange reserve | **(8,770)** | 720 |
| **Other comprehensive (loss)/income for the year, net of tax** | **(9,063)** | 129 |
| **Total comprehensive income for the year** | **926,172** | 825,763 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2014

| | Note | **2014** | 2013 |
|---|---|---|---|
| **ASSETS** | | **HK$'000** | HK$'000 |
| **Non-current assets** | | | |
| Property, plant and equipment | | **405,436** | 343,195 |
| Rental deposits, prepayments and other assets | | **214,652** | 214,731 |
| Deferred tax assets | | **4,406** | 5,233 |
| | | **624,494** | 563,159 |
| **Current assets** | | | |
| Inventories | | **1,373,213** | 1,234,976 |
| Trade receivables | 11 | **52,118** | 92,968 |
| Other receivables, deposits and prepayments | | **198,262** | 154,083 |
| Time deposits | | **570,560** | 209,092 |
| Cash and cash equivalents | | **418,780** | 542,963 |
| | | **2,612,933** | 2,234,082 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payables | 12 | **391,574** | 411,231 |
| Other payables and accruals | | **301,816** | 317,255 |
| Income tax payable | | **83,889** | 63,279 |
| Borrowings | 13 | **80,000** | - |
| | | **857,279** | 791,765 |
| **Net current assets** | | **1,755,654** | 1,442,317 |
| **Total assets less current liabilities** | | **2,380,148** | 2,005,476 |
| **Non-current liabilities** | | | |
| Retirement benefit obligations | | **5,725** | 3,849 |
| Deferred tax liabilities | | **293** | 1,501 |
| Other payables | | **49,001** | 24,652 |
| | | **55,019** | 30,002 |
| **Net assets** | | **2,325,129** | 1,975,474 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | | **284,306** | 282,691 |
| Reserves | | **2,040,823** | 1,692,783 |
| **Total equity** | | **2,325,129** | 1,975,474 |

**Notes:**

## 1. Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

## 2. Changes in accounting policies and disclosures

(i) New, amended and revised standards and new interpretations adopted by the Group effective for the financial year beginning 1 April 2013

- HKFRS 7 (Amendment), "Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2013). The amendments require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The amendment results only in additional disclosures.

- HKFRS 13, "Fair Value Measurements" (effective for annual periods beginning on or after 1 January 2013). It improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The new standard results only in additional disclosures.

- HKAS 1 (Amendment), "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 July 2012). The main change resulting from these amendments is a requirement for entities to group items presented in "Other Comprehensive Income" (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The change in accounting policy results only in additional disclosures.

- HKAS 19 (Amendment), "Employee Benefits" (effective for annual periods beginning on or after 1 January 2013). The amendment posted significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The revised standard had no material impact on the Group's consolidated financial statements.

2. **Changes in accounting policies and disclosures (continued)**

(i) New, amended and revised standards and new interpretations adopted by the Group effective for the financial year beginning 1 April 2013 (continued)

The following new, amended and revised standards and new interpretation are effective for financial year beginning on or after 1 April 2013 but are not relevant to the Group.

- HKFRS 1 (Amendment), "First Time Adoption on Government Loans" (effective for annual periods beginning on or after 1 January 2013)

- HKFRS 10, "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013)

- HKFRS 11, "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013)

- HKFRS 12, "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2013)

- HKFRSs 10, 11 and 12 (Amendment), "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance" (effective for annual periods beginning on or after 1 January 2013)

- HKAS 27 (Revised 2011), "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013)

- HKAS 28 (Revised 2011), "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013)

- (HK)IFRIC – Int 20, "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2013)

- Annual improvement 2011, Amendments to several HKFRSs, (effective for annual periods beginning on or after 1 January 2013)

- Annual improvement 2012, Amendment to HKFRS 13, "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013)

- Annual improvement 2013, Amendment to HKFRS 1, "First Time Adoption" (effective for annual periods beginning on or after 1 January 2013)

(ii) Early adoption of new, amended standards and new interpretation where early adoption is permitted

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (Revised 2011) "Investment Entities" (effective for annual periods beginning on or after 1 January 2014). The amendments provide an exception to the consolidation requirements in HKFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The early adoption of amendments to HKFRS 10, HKFRS 12 and HKAS 27 does not have any material impact to the Group as the Group does not have investment entities.

## 2. Changes in accounting policies and disclosures (continued)

(ii) Early adoption of new, amended standards and new interpretation where early adoption is permitted (continued)

- Amendment to HKFRS 14, "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016), describes regulatory deferral account balances as amounts of expense or income that would not be recognised as assets or liabilities in accordance with other standards, but that qualify to be deferred in accordance with HKFRS14 because the amount is included, or is expected to be included, by the rate regulator in establishing the price that an entity can charge to customers for rate-regulated goods or services. The early adoption of amendment to HKFRS 14 does not have any material impact to the Group as the Group is not first-time adopter of HKFRS and does not have any regulatory deferral accounts.

- Amendment to HKAS 19 regarding defined benefit plans (effective for annual periods beginning on or after 1 July 2014). This narrow scope amendment applies to contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The early adoption of amendment to HKAS 19 does not have any material impact to the Group as there is no contribution made by employees or third parties to defined benefit plans of the Group.

- HKAS 32 (Amendment) "Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014). The amendments clarify the requirements for offsetting financial instruments on the statement of financial position:
  (i) the meaning of "currently has a legally enforceable right of set-off"; and
  (ii) that some gross settlement systems may be considered equivalents to net settlement.

  The early adoption of HKAS 32 (Amendment) does not have any material impact to the Group as the Group has already followed this requirement for offsetting.

- Amendments to HKAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" (effective for annual periods beginning on or after 1 January 2014). The amendments remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) when it contains goodwill or intangible assets with indefinite useful lives when there has been no impairment. The amendments also expand the disclosure requirements for an individual asset (including goodwill) and a CGU for which an impairment loss has been recognised or reversed during the reporting period. The early adoption of amendments to HKAS 36 results in additional disclosure requirement related to impairment of non-financial assets.

## 2. Changes in accounting policies and disclosures (continued)

(ii) Early adoption of new, amended standards and new interpretation where early adoption is permitted (continued)

- HKAS 39 (Amendment) "Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting" (effective for annual periods beginning on or after 1 January 2014). The HKAS 39 (Amendment) provides relief from discontinuing hedge accounting when novation of the derivative contract which is designated as a hedging instrument to a central counterparty meets specified criteria. The early adoption of HKAS 39 (Amendment) does not have any material impact to the Group as the Group does not enter into any hedging instruments that subject to clearing by central counterparties.

- HK (IFRIC) Int 21 "Levies" (effective for annual periods beginning on or after 1 January 2014). It sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The early adoption of HK (IFRIC) Int 21 does not have any material impact to the Group as the Group is not currently subjected to significant levies.

- Annual improvement to HKFRSs, 2010–2012 cycle (effective for annual periods beginning on or after 1 July 2014). It clarifies some definitions and disclosure requirement on some standards. The early adoption of Annual improvement to HKFRSs, 2010–2012 cycle does not have any material impact to the Group as the Group has already followed these clarifications.

- Annual improvement to HKFRSs, 2011–2013 cycle (effective for annual periods beginning on or after 1 July 2014). It clarifies some definitions and disclosure requirement on some standards. The early adoption of Annual improvement to Annual improvement to HKFRSs, 2011–2013 cycle does not have any material impact to the Group as the Group has already followed these clarifications.

(iii) The following amended standards have been issued but are not effective for the financial year beginning 1 April 2013 and have not been early adopted

- HKFRS 9, "Financial Instruments" (hedge accounting and amendments to HKFRS9, HKFRS 7 and HKAS 39) (effective date not yet determined)

## 3. Estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

## 4. Segment information

Executive directors of the Group review the internal reporting of the Group in order to assess performance and allocate resources. Executive directors consider the business principally from a geographic perspective and assess the performance of the geographic segments based on a measure of segments results. Business reportable segments identified are Hong Kong & Macau, Mainland China and All other segments. All other segments refer to segments results from markets in Singapore, Malaysia, Taiwan and e-commerce.

The Group is principally engaged in the retailing and wholesaling of cosmetic products. Turnover represents the invoiced sales value of goods supplied to customers.

Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash and exclude tax. Capital expenditure comprises additions to property, plant and equipment.

| | For the year ended 31 March 2014 | | | |
|---|---|---|---|---|
| | **Hong Kong & Macau HK$'000** | **Mainland China HK$'000** | **All other segments HK$'000** | **Total HK$'000** |
| **Turnover** | **7,122,090** | **365,820** | **1,268,195** | **8,756,105** |
| **Segment results** | **982,802** | **(67,761)** | **20,194** | **935,235** |
| **Other information** | | | | |
| Capital expenditure | **210,110** | **18,387** | **39,329** | **267,826** |
| Finance income | **9,584** | **363** | **2,815** | **12,762** |
| Finance costs | **305** | **-** | **-** | **305** |
| Income tax expenses | **174,767** | **-** | **15,961** | **190,728** |
| Depreciation | **112,431** | **36,494** | **39,055** | **187,980** |

## 4. Segment information (continued)

| | For the year ended 31 March 2013 | | | |
|---|---|---|---|---|
| | Hong Kong & Macau HK$'000 | Mainland China HK$'000 | All other segments HK$'000 | Total HK$'000 |
| Turnover | 6,101,415 | 356,305 | 1,212,078 | 7,669,798 |
| Segment results | 817,922 | (37,005) | 44,717 | 825,634 |
| Other information | | | | |
| Capital expenditure | 124,794 | 22,805 | 44,158 | 191,757 |
| Finance income | 4,837 | 45 | 2,627 | 7,509 |
| Income tax expenses | 155,237 | - | 13,807 | 169,044 |
| Depreciation | 101,136 | 35,381 | 36,121 | 172,638 |

| | **Hong Kong & Macau HK$'000** | **Mainland China HK$'000** | **All other segments HK$'000** | **Total HK$'000** |
|---|---|---|---|---|
| **At 31 March 2014** | | | | |
| Non-current assets | **487,070** | **32,212** | **100,806** | **620,088** |
| Current assets | **1,966,361** | **204,958** | **441,614** | **2,612,933** |
| Deferred tax assets | | | | **4,406** |
| | | | | **3,237,427** |
| At 31 March 2013 | | | | |
| Non-current assets | 387,282 | 65,115 | 105,529 | 557,926 |
| Current assets | 1,602,207 | 227,496 | 404,379 | 2,234,082 |
| Deferred tax assets | | | | 5,233 |
| | | | | 2,797,241 |

## 5. Other gains - net

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| Net exchange gains | **7,022** | 3,312 |

## 6. Expenses by nature

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Cost of inventories sold | **4,634,892** | 4,081,225 |
| Employee benefit expenses (including directors' emoluments) | **1,111,445** | 1,014,461 |
| Operating lease rentals in respect of land and buildings | | |
| - minimum lease payments | **886,113** | 711,146 |
| - contingent rent | **67,939** | 65,852 |
| Depreciation of property, plant and equipment | **187,980** | 172,638 |
| Advertising and promotion expenses | **180,548** | 140,423 |
| Building management fees, government rent and rate | **79,999** | 70,929 |
| Utilities and telecom | **66,070** | 60,133 |
| Provision for slow moving inventories and stock shrinkage | **48,226** | 30,229 |
| Repair and maintenance | **35,198** | 33,691 |
| Sub-lease expenses | **46,676** | - |
| Impairment and write-off of property, plant and equipment | **14,668** | 6,413 |
| Donations | **5,967** | 4,228 |
| Auditors' remuneration | | |
| - audit services | **3,480** | 3,323 |
| - non-audit services | **870** | 1,052 |
| Others | **382,486** | 347,990 |
| | **7,752,557** | 6,743,733 |
| Representing: | | |
| Cost of sales | **4,683,118** | 4,111,454 |
| Selling and distribution costs | **2,728,230** | 2,360,620 |
| Administrative expenses | **341,209** | 271,659 |
| | **7,752,557** | 6,743,733 |

## 7. Finance income and costs

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Finance income on: | | |
| Interest income on bank deposits | **10,182** | 5,513 |
| Others | **2,580** | 1,996 |
| | **12,762** | 7,509 |
| Finance costs on bank borrowings wholly repayable within one year | **(305)** | - |
| Finance income - net | **12,457** | 7,509 |

## 8. Income tax expenses

Hong Kong profits tax has been provided for at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Hong Kong profits tax | | |
| Current | **156,275** | 145,908 |
| Over-provision in previous years | **(280)** | (63) |
| Overseas taxation | | |
| Current | **34,593** | 26,498 |
| Under /(over)-provision in previous years | **672** | (103) |
| Deferred tax relating to origination and reversal of temporary differences | **(532)** | (3,196) |
| | **190,728** | 169,044 |

## 9. Earnings per share

(a) Basic earnings per share is calculated by dividing the profit attributable to owners of the company by the weighted average number of ordinary shares in issue during the year.

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Profit attributable to owners of the Company | **935,235** | 825,634 |
| Weighted average number of ordinary shares in issue during the year (thousands) | **2,834,224** | 2,821,311 |

## 9. Earnings per share (continued)

(b) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit attributable to owners of the Company | **935,235** | 825,634 |
| Weighted average number of ordinary shares in issue during the year (thousands) | **2,834,224** | 2,821,311 |
| Adjustment for share options (thousands) | **12,453** | 9,219 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | **2,846,677** | 2,830,530 |

## 10. Dividends

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interim, paid – 4.5 HK cents (2013: 2.5 HK cents) per share | **127,852** | 70,673 |
| Special, paid – 4.5 HK cents (2013: 4.5 HK cents) per share | **127,852** | 127,211 |
| Final, proposed and declared – 9.0 HK cents (2013: 5.0 HK cents) per share | **255,890** | 141,473 |
| Special, proposed and declared – 5.5 HK cents (2013:9.0 HK cents) per share | **156,377** | 254,652 |
| | **667,971** | 594,009 |

At a meeting held on 26 June 2014, the directors proposed and declared a final dividend of 9.0 HK cents and a special dividend of 5.5 HK cents per share. These proposed and declared dividends have not been reflected as dividend payables in these consolidated financial statements, but will be reflected as an appropriation of distributable reserve for the year ending 31 March 2015 if approved by the shareholders.

## 11. Trade receivables

The Group's turnover comprises mainly cash sales and credit card sales. Certain wholesale customers are granted credit terms ranging from 7 to 90 days. The ageing analysis of trade receivables is as follows:

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within 1 month | **49,507** | 83,242 |
| 1 to 3 months | **2,485** | 9,214 |
| Over 3 months | **126** | 512 |
| | **52,118** | 92,968 |

The carrying amounts of trade receivables approximate their fair values.

## 12. Trade payables

The ageing analysis of trade payables is as follows:

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within 1 month | **278,721** | 261,673 |
| 1 to 3 months | **88,361** | 118,078 |
| Over 3 months | **24,492** | 31,480 |
| | **391,574** | 411,231 |

The carrying amounts of trade payables approximate their fair values.

## 13. Borrowings

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Bank borrowings repayable within 1 year | **80,000** | - |

The carrying amounts of the bank borrowings are denominated in Hong Kong Dollars and approximated their fair values.

The weighted average interest rate of bank borrowings is 1.0% per annum (2013: Nil).

As at 31 March 2014, short term bank borrowings are secured by a corporate guarantee given by the Company.

# MANAGEMENT DISCUSSION & ANALYSIS

During the fiscal year, the Group's turnover rose 14.2% to HK$8,756.1 million from HK$7,669.8 million in the previous year. The Group's performance benefited from the strong performance of our Hong Kong and Macau core markets. Retail sales in Hong Kong and Macau increased by 17.8% year-on-year from HK$5,965.9 million to HK$7,026.5 million. The Group's retail network expanded from 260 to 280, a net increase of 20 stores.

The Group's profit for the year was HK$935.2 million, an increase of 13.3% over the HK$825.6 million achieved in the last fiscal year. Basic earnings per share were 33.0 HK cents, as compared to 29.3 HK cents in the previous year. The Group's gross profit margin for the fiscal year slightly increased from 46.4% last year to 46.5% this year. The Group's net profit margin slightly decreased to 10.7% from 10.8%. Final and special dividends per share proposed are 14.5 HK cents.

The year witnessed an ongoing series of achievements for excellence. According to the "Retail Asia-Pacific Top 500" rankings of Retail Asia Magazine, KPMG and Euromonitor in 2013, Sa Sa was the largest cosmetics retail chain in Asia and one of the top ten retail groups in Hong Kong. In September 2013, the Group was included as a constituent member of the Hang Seng Corporate Sustainability Benchmark Index for the third consecutive year, and is also currently a constituent member of the Hang Seng Composite MidCap Index. The Group was also named by Forbes Asia as one of "Asia's 200 Best Under a Billion Companies" for the second consecutive year.

## Market Overview

**Hong Kong**

In 2013, Hong Kong's GDP expanded by 2.9%. Mainland tourist arrivals to Hong Kong increased by 16.7%, compared to 24.2% growth last year. The growth of 16.7% shows strong resilience given the introduction of measures in early 2013 limiting milk powder entry into China and a slowdown in arrivals growth in the fourth quarter of 2013 due to the banning of zero fee tour groups, same day tourist arrival still managed a growth of 19.5% for 2013 while overnight tourist numbers rose by 13.1%. Growth of Medicines and Cosmetics remained solid and rose by 11.9% in 2013, outperforming the 11.0% growth of the overall retail market.

**Mainland China**

GDP growth in Mainland China slowed to 7.7% in 2013, while the full-year target for 2014 set by the PRC government is 7.5%. The "slackening" in growth was mainly caused by the government's macroeconomic controls and by its commitment to rebalance the economy away from over-dependence on exports and manufacturing towards more household consumption and calibrated services. Total retail sales grew encouragingly by 13.1%, with retail cosmetic sales increasing by 13.3%.

**Singapore**

In 2013, Singapore's GDP growth rate rose from 1.9% in the previous year to 4.1%. Total retail sales declined by 5.1%, while retail cosmetic sales outperformed and recorded a growth of 3.8%.

**Malaysia**

Despite a challenging external environment, Malaysia's economy recorded a solid growth rate of 4.7% in 2013, driven by stronger stimulus from domestic demand. This outweighed the negative impact of a relatively weak external environment. The retail trade registered a growth of 8.9% in 2013, supported by private sector spending.

**Taiwan**

In 2013, Taiwan's economy expanded by 2.1% on the back of improvements in domestic exports and in consumer sentiment. In 2013, retail sales of Pharmaceutical and Medical Goods and Cosmetics posted growth of 1.5%, while overall retail sales growth recorded 2.0% for the 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 primary contributor to the Group's turnover and profits. Turnover in Hong Kong and Macau increased by 16.7% year-on-year from HK$6,101.4 million to HK$7,122.1 million and same store sales rose 12.8%. Both the number of transactions and the average value per transaction increased.

To place these figures in context, the number of transactions of Mainland China tourists increased by 26.9% while average sales value per ticket decreased by 2.8%. The number of transactions by local consumers slightly edged up by 2.7 % with an average spending increase of 2.5%.

Our overall performance was largely due to the resilience of cosmetics sales, which outperformed total Hong Kong retail sales and the Group's relative competitiveness, allowing us to gain market share at the same time. Our retail sales maintained a relatively consistent upward trajectory as the Group continued to benefit from the steady increase in sales to both local residents and Mainland tourists.

Mainland tourist arrivals rose by a relatively healthy 16.7% for 2013. But mainland arrivals were weakened in the second half of the fiscal year (and particularly in the fourth quarter), reflecting the slowdown of outbound Chinese tourist growth during that period. Same-day visitor arrivals were still the primary growth engine with an increase of 19.5%, boosting sales in our non-tourist areas, particularly in the New Territories near the border with the rest of China.

Overnight Mainland visitors increased 13.1% from last year, which also drove our sales, but we believe that the overnight tourists originating from lower tier Mainland cities with less spending power constituted an increasingly higher percentage of that total. This in turn resulted in a 2.8% drop in the average ticket size of Mainland customers.

It has been our strategy to introduce more lower-priced items to cater to the needs of the tourist and local consumer market. As we engaged in more aggressive promotions to enhance price competitiveness in the second half with a particular focus on low to mid-priced products, we have been able to drive a 14.3% growth rate in transactions during this period, and ended the year with a healthy growth rate of 13.1% of the same. Meanwhile, this successfully boosted sales from more price sensitive local consumers with year-on-year growth of 8.3% in the second half of the fiscal year. There was acceleration in the decline of average ticket size in the second half of 2014 as a result but we were able to continue to grow our customer base despite a more difficult operating environment. The combined effect is that overall retail sales growth slowed down in the second half to 16.2% from the first half growth of 19.9%

We continued to broaden our house brand product range. This resulted in increasing sales of house brand products, which rose by 22.1% due to the success of our product development and marketing strategies and initiatives.

Overall, we pursued network expansion in a strategic and disciplined manner, taking into account the market needs to satisfy our increasing customer base as well as cost considerations, in order to increase market share and capture potential from the moderating yet still buoyant growth of Mainland tourist arrivals. There was a net increase of nine “Sasa” stores during the year. As at 31 March 2014, there were 106 “Sasa” stores (including seven in Macau), one Suisse Programme specialty store and two La Colline specialty stores.

**Mainland China**

During the year, we focused on openings new stores in our boutique size format and continuously improved our in store and frontline staff productivity. However, fiscal 2014 witnessed various personnel changes in the purchasing department and a new logistics contractor to counter inefficient inventory management, which in turn has led to depletion of stock and loss of sales. As a result, the Group’s turnover in Mainland China was HK$365.8 million, a barely flat growth and same store growth in local currency terms decreased by 3.7%.

At the beginning of fiscal 2014, the Group conceived a strategy to increase the profitability and contribution of our stores, namely the adaptation of a smaller “boutique store format” to lower cash outlay and operating costs with little compromise to productivity. During the year, 15 new boutique stores were opened with remarkable improvement in profitability and with the average payback period being less than a year.

In addition, we opened more stores in our Southern China cluster where we have stronger brand awareness and better support from landlords. Our store performance here outperformed the Group’s other clusters. We established a new representative office in Guangzhou to support our training and marketing functions, as well as to improve the growth and supervision of own label sales in the Mainland. The aim of these initiatives is to enhance our operational efficiency in the Southern regions.

Leveraging this enhanced business model and placing our geographical strategy on the right track will give the Group more confidence to energize the expansion in the coming months and years.

Overall in Mainland China, Sa Sa adopted a strategy with more focus on House Brand products. This strategy has proven successful in Hong Kong, but the execution in Mainland China was hampered by the relative inexperience of new staff, weaker execution abilities and sudden changes in management – hence loss of sales.

As at 31 March 2014, we had a presence in 31 cities and across 15 provinces in Mainland China with 61 “Sasa” stores in five regional clusters, 17 “Sasa” store new openings and nine closures, and a total of six Suisse Programme counters.

**Singapore**

During the fiscal year, turnover for the Singapore market grew by 2.2% in local currency to HK$256.7 million. Same store sales dropped by 1.8% in local currency. The slower sales growth was mainly due to the challenge of filling vacancies for frontline staff and manpower constraints resulting from tightened foreign worker quotas, which adversely affected our store productivity. Moreover, there were fewer atrium sales as compared to last fiscal year because of a lack of vacancies in the schedule. The “Sasa” store network increased by one store to 22 as at 31 March 2014.

**Malaysia**

Turnover in our Malaysia market rose 9.8% in local currency to HK$335.2 million. Same store sales grew 4.6% in local currency.

Our retail sales growth exceeded that of our peers as well as the overall retail market due to the Group's expansion drive and positive same store sales contributions.

An enhanced Incentive Scheme improved House Brand sales and increased basket size for Private Label brands, with the result that the House Brand mix increased from 46.4% to 46.6%. As at 31 March 2014, there were 53 "Sasa" stores in Malaysia.

**Taiwan**
Turnover in the Taiwan market during the year was HK$282.3 million, a rise of 12.8% in local currency. Same store sales grew by 5.1% in local currency.

Despite the weak local consumption sentiment, we enlarged our network in the past year to capture the growth potential from the market. We also enhanced our product portfolio and increased our lower priced products offerings with the objective of increasing traffic and driving sales through cross-selling. We added one store during the period. As at 31 March 2014, there were 29 "Sasa" stores in Taiwan.

**E-commerce – sasa.com**
Turnover for sasa.com amounted to HK$394.0 million, a rise of 2.6% over the previous fiscal year. Last fiscal year the Group successfully opened up new markets, and this fiscal year we continued to penetrate into these diversified markets through localized marketing strategies.

The flat turnover was mainly due to a much weaker Australian market, which offset gains in other markets. The decline in sales to Australia was due to department stores in Australia slashing prices to realign with international prices. This automatically made shopping online overseas less attractive, a situation exacerbated by a significantly weaker Australian Dollar.

In order to increase competitiveness in overseas markets, the Group invested more in processes such as the acceptance of local currency payment and local payment gateways, enhancing marketing capability and improved website content management.

In 2013, sasa.com was awarded the "Google Hong Kong Partners Awards - Annual Partner Award" and "Google Export Award", and also received the Weibo Star 2013 – "Top 10 Most Influential HK Corporations" award for the very first time.

## 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 Group's sales of owned brand, sole agent and exclusively distributed products, collectively referred to as House Brands, increased steadily by 19.5%, contributing 44.2% of the Group's total retail sales as compared to 42.5% for last year.

Our strategy of allocating more sales and marketing resources to house brands with the greatest growth potential, and also to our hero products, successfully drove strong sales growth of our own-branded and exclusively distributed products.

Due to the rising popularity of the Korean skincare and cosmetic products in recent years, the Group brought in a number of well-known Korean exclusive brands such as banila co., BEYOND, CREMORLAB, BRTC and reskin. Korean product sales in Hong Kong and Macau saw robust growth with an increase of 57% of sales. We will continue to closely follow market trends by launching trendy and timely new products catering to different customer segments. We will also seek to cooperate more closely with Korean principals to better realize the potential of their brands.

The increase in our mid to low-priced and trendy product offerings helped to serve the consumer trend of buying lower price products. We will continue to implement our diversification strategy in the product categories as well as to broaden our appeal to segments such as the young people segment and home DIY sector. New Suisse Programme ambassadors have been appointed and showcased with a series of product promotion campaigns.

## Outlook and Strategies

The Group expects the coming fiscal year to be challenging. A slow global economy is likely to be vulnerable to political turmoil and general weak consumption. The almost exponential growth of Mainland visitors to Hong Kong and Macau has slowed and the previously upward moving growth pattern has become more volatile, while Mainland tourists' spending power has also weakened. As a result, our FY2014/15 quarter-to-date (i.e. period up to 21 June 2014) sales growth in Hong Kong and Macau has been slowed to 5.4% year-on-year (FY12/13 1st Quarter : 28.1%) while same store sales rose by 1.5% year-on-year (FY12/13 1st Quarter : 18.6%)

In addition, a trend of increasing competition and pricing pressure on traditional cosmetic retailers has taken hold due to the intensive penetration of e-commerce in Mainland China. The growing anti-Mainland tourist sentiment in Hong Kong is likely to be reflected in new legislative measures to make such flows more sustainable - and hence in the long run more profitable.

Historically, the cosmetic industry has been resilient to changing economic circumstances as has been demonstrated by the recent out-performance of the sector. Continued growth momentum is therefore likely due to the evolving integration of Hong Kong SAR into the Mainland and the strength of the demand for cosmetics from Mainland visitors.

The Group's scale outside Hong Kong is modest, but this low starting point implies huge potential to grow in all our existing markets. We will therefore devote more resources to drive both the turnover and profit contribution from all existing markets outside our home base.

We will make further efforts to strengthen our own labels and our brands with storyline and marketing investments. The Group will enhance the strength of our product offerings, target product gaps in our product offering, identify consumers' preferences for new products as well as their ever-changing requirements on product functions, and offer appropriate products to satisfy these demands. Furthermore, we will increase our House Brands coverage to boost the sales mix of our Owned Brands, which will enable us to increase the Group's gross profit margin and offset rising cost pressures. We will also make use of effective O2O coordination for the purposes of building our Own Brands and create greater awareness and recognition, thus enhancing sales momentum.

Overall, the Group will continue to expand our network in the region with discipline, taking into account market circumstances and to strengthen our retail brand and product portfolio through closer cooperation with beauty brand owners in order to strengthen our brand position as being the leading cosmetics retailing group in Asia. We are developing a system to improve the accuracy and reliability of ordering Own Brand products. The system development will facilitate our reduction in manpower dependence and increase our scalability.

The Group aspires to continue to act responsibly both socially and environmentally. We will therefore further develop strategies and act on sustainability issues, including incorporating environmentally conscious measures throughout our operations. This is very much in line with the spirit of being a constituent stock of the Hang Seng Corporate Sustainability Benchmark Index.

## Conclusion

The Group has shown that we are able to expand and grow in both Hong Kong and overseas markets in all economic climates and facing all kinds of market challenges. We have faith that our flexible and well-scaled business model, with its readiness to adapt and target new brands to new markets and segments, will stand us in good stead whatever the market circumstances.

In this sense, the recent issues concerning possible control of Mainland tourist arrivals in Hong Kong is part of a story familiar to all successful business. We will continue to adapt and grow, basing our forward confidence on a very strong track record, the satisfying attainment of the Number One position in the Asia Pacific for providing beauty products, and our determination to maintain that position through the commitment, expertise, resilience and courage of our loyal staff and our outstanding management team. In this spirit, we at "Sa Sa" look forward to many more years of sustained, world-class growth.

# HUMAN RESOURCES

As at 31 March 2014, the Group had a total of over 5,000 employees. The Group's staff costs for the year under review were HK$1,111.4 million.

Human capital is our important asset. The Group thus provides quality human resources services to attract, develop, motivate and retain an engaged workforce within a supportive work environment. In order to foster a work environment that attracts and inspires excellence in our people, remuneration packages and staff benefits are reviewed on a regular basis. Various combinations of performance-based remuneration components, such as annual merit bonus, discretionary performance bonus and share options are always in place for consideration so as to motivate and reward our employees.

The Group takes talents seriously through orientation, coaching, comprehensive training and development programmes, on-the-job training, and structured performance management approach to assure that the potential of our employees are fully realized. Furthermore, the Group also aims at developing potential future leaders and offers exciting opportunity for high calibre university graduates to join our Management Trainee Programme every year. Furthermore, the provision of financial subsidies for our employees to further studies in their related fields of career is also available.

# FINANCIAL REVIEW

## Capital Resources and Liquidity

As at 31 March 2014, the Group's total equity funds amounted to HK$2,325.1 million including reserves of HK$2,040.8 million. The Group continued to maintain a strong financial position with net cash and bank balances of HK$909.3 million. (after netting off a HK$80 million loan). The Group's working capital was HK$1,755.7 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, Renminbi, Malaysian Ringit, Singapore dollar, Taiwan dollar, Euro and US dollar and deposited in reputable financial institutions with maturity dates falling within a year. And the borrowings were denominated in Hong Kong dollar 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 2014 were HK$2,325.1 million, which represented a 17.7% year-on-year increase.

The gearing ratio, defined as the ratio of total borrowings to total equity, was 3.4% as at 31 March 2014 (31 March 2013: Nil).

## 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 significant 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 currency contracts with reputable financial institutions to hedge against foreign exchange exposure arising from non-Hong Kong dollar or US dollar denominated purchases. The Group also hedges any excess Renminbi in Hong Kong to manage the overall currency risk profile. These hedging policies are regularly reviewed by the Group.

## Charge on Group Assets

As at 31 March 2014, no Group asset was under charge to any financial institutions.

## Contingent Liabilities

The Group had no significant contingent liability as at 31 March 2014.

## Capital Commitments

As at 31 March 2014, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$179.2 million.

# FINAL DIVIDEND AND SPECIAL DIVIDEND

The Board recommends a final dividend of 9.0 HK cents (2013: 5.0 HK cents) per share and a special dividend of 5.5 HK cents (2013: 9.0 HK cents) per share for the year ended 31 March 2014, such dividends will be proposed for approval at the annual general meeting ("AGM") of the Company on Thursday, 21 August 2014, and, if approved, are payable to shareholders whose names appear on the Register of Members of the Company on Thursday, 28 August 2014.

Subject to approval by the Company's shareholders at the AGM, the final dividend and special dividend will be paid on or around Friday, 5 September 2014.

## REVIEW OF ANNUAL RESULTS

The audit committee has reviewed the accounting principles and practices adopted by the Group and the annual results for the year ended 31 March 2014. The figures in respect of the preliminary announcement of the Group's results for the year ended 31 March 2014 have been agreed by the Group's auditor, PricewaterhouseCoopers Hong Kong, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers Hong Kong on this preliminary announcement.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 March 2014, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

## CORPORATE GOVERNANCE

Reflecting our belief in the importance of inner beauty, the Group strives for the highest corporate governance standards. Making Life Beautiful is a culture that is rooted in all aspects of our strategies and operations. The Group believes that our business can only be successful, sustainable and beautiful in the broadest sense of the term when governed by a strong corporate governance culture. This culture ensures that we are responsible, accountable and transparent. This belief accords with an increasingly stringent regulatory environment and rising public expectations.

Corporate governance is the foundation of how our Group balances and aligns the interests of all our stakeholders, determining both strategic directions and methods of execution. It allows us to manage the balance between achieving our objectives and risks, and it involves performance as well as compliance. As such, it can only be effective if it is built into our corporate culture as well as our control systems.

Under the supervision and guidance of the Chairman, the Board takes a leading and prominent role in establishing a clear corporate governance framework, ensuring its full application and internalizing it so that it becomes a corporate structure for all our members: both management and all employees.

**Compliance with the Corporate Governance Code**

Throughout the year ended 31 March 2014 and up to the latest practicable date prior to the publication of this announcement, the Company has applied the principles of the Corporate Governance Code ("CG Code") and in some instances complied with the recommended best practices, and complied with all the Code Provisions except Code Provision A.2.1 as discussed below.

*Chairman and Chief Executive Officer*
The Company has deviated from Code Provision A.2.1 in that Dr KWOK Siu Ming Simon is both the Chairman and Chief Executive Officer of the Company. The respective responsibilities of the Chairman and Chief Executive Officer, however, are clearly set out in the Terms of Reference for the Chairman and the Chief Executive Officer, which are available on the Company's website. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and Chief Executive Officer in the same person facilitates the execution of the Group's business strategies and maximizes the effectiveness of its operations. The Board will nevertheless review this structure from time to time and will consider the segregation of the two roles at the appropriate time.

Details of the Company's compliance with the CG Code are set out in the Corporate Governance Report of the Annual Report of the Company for the year ended 31 March 2014, which will be published on the respective websites of Hong Kong Exchanges and Clearing Limited and the Company, and be dispatched to shareholders on or around 18 July 2014.

### Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")

The Company has adopted a policy regarding securities transactions by directors of the Company on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all directors, all of them have confirmed their compliance with such a policy throughout the reporting period.

The annual report of the Company for the year ended 31 March 2014 containing more information on its corporate governance practices will be dispatched to the shareholders on or around Friday, 18 July 2014, and be published on the respective websites of Hong Kong Exchanges and Clearing Limited and the Company in due course.

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' eligibility to attend and vote at the AGM and entitlement to the final and special dividends (if payable), the Register of Members of the Company will be closed in accordance with the following timetable:

(i) For determining shareholders' eligibility to attend and vote at the AGM:

| | |
|---|---|
| ● Latest time to lodge transfer documents for registration | 4:30 p.m. on Tuesday, 19 August 2014 |
| ● Closure of Register of Members | Wednesday, 20 August 2014 to Thursday, 21 August 2014<br>(both dates inclusive) |
| ● Record date | Thursday, 21 August 2014 |

(ii) For determining entitlement to the final and special dividends (if payable):

| | |
|---|---|
| ● Latest time to lodge transfer documents for registration | 4:30 p.m. on Tuesday, 26 August 2014 |
| ● Closure of Register of Members | Wednesday, 27 August 2014 to Thursday, 28 August 2014<br>(both dates inclusive) |
| ● Record date | Thursday, 28 August 2014 |

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the AGM, and to qualify for the final and special dividends, all valid documents for the transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than the time set out above.

On behalf of the Board, I would like to extend my thanks and appreciation to all our staff for their hard work and commitment and to all of our customers, suppliers and shareholders for their continued support.

By Order of the Board
**KWOK Siu Ming Simon**
*Chairman and chief executive officer*

Hong Kong, 26 June 2014

As at the date of this announcement, the directors of the Company are:-

***Executive Directors***
Dr KWOK Siu Ming Simon, *BBS, JP* (Chairman and chief executive officer)
Dr KWOK LAW Kwai Chun Eleanor, *BBS* (Vice-chairman)
Dr LOOK Guy (Chief financial officer)

***Non-Executive Director***
Ms LEE Yun Chun Marie-christine

***Independent Non-executive Directors***
Professor CHAN Yuk Shee, *PhD, SBS, JP*
Dr LEUNG Kwok Fai Thomas, *PhD, BBS, JP*
Ms TAM Wai Chu Maria, *GBM, JP*
Ms KI Man Fung Leonie, *SBS, JP*
Mr TAN Wee Seng