

31 January 2011

Sir David Tweedie, Chairman
International Accounting Standards Board (IASB)
IFRS Foundation/IASB
30 Cannon Street
London, EC4M 6XH
United Kingdom

(By fax 44 (0) 20 7246 6411 & by mail)

Dear Sir Tweedie,

On behalf of the Sa Sa International Holdings Limited, I write to reflect our concerns about the proposed changes to the leasing standards by the International Accounting Standard Board (IASB) issued in August 2010, and earnestly plead with your organization to duly re-consider the implementation of this practice scheduled initially in mid 2011.

I would like to take this opportunity to set out our concerns on the proposed change as follows:

1. Substantial but unjustified changes to Financial Reporting

The proposed change will impact tremendously on lessee financial reporting of the retail industry as it requires all leases to be reported on balance sheet. Subsequently assets and liabilities, and leverage ratios would increase, while capital ratios would decrease. At the same time, rent expenses would be replaced by depreciation and interest expense.

More importantly, as a result of these modifications, key business performance indicators including earnings before interest and tax (EBIT) and earnings before interest, tax, depreciation and amortization (EBITDA) would change

accordingly. Our Company anticipates the changing accounting paradigm triggered by the proposal would inevitably pose a lot of challenges to corporate management in regard to its strategic decisions and effective communications of corporate KPI ratios to investors.

2. Triggering of Arbitrary Judgments in Computation

The proposed change will require retailers to take on a lot more judgments and estimates simply for the sake of Financial Reporting. Such estimates and judgments do not have to be made under normal commercial circumstances at such early stages, and they are inevitably arbitrary. Management also have to re-examine such estimates from time to time, again not necessary for commercial purposes.

Retailers, for example, would be required to consider the "most likely lease term" when faced with optional renewals. Under normal circumstances, decisions on options to renew leases can be left to be made when the time to exercise the options comes up a few years down the road.

Similarly, contingent rental would have to be measured on the basis of "most likely rental payment". Such terms are very common and estimates of the "most likely rental payment" is time consuming, arbitrary and unhelpful, The methodology of depreciation and interest charges would also mean mismatch of costs against revenue. The former is front loaded while in business reality, the revenue only grows with time.

3. Create Additional Workload & Demands for Extra Resources

The proposed change will also call for a major reshuffle of the required business processes on the part of retailers that necessitate a corresponding overhaul in their accounting, I.T., as well as internal control systems. Retailers would have to enhance their respective systems so that they could be able to capture, analyze and accumulate the necessary data from a portfolio of outlets that may be substantial in number. In doing so, it will inevitably create additional and unnecessary workload to the management and relevant staff.



And it will also consume a significant amount of extra resources to support an overhaul of the entire business processes.

In view of the above elaborations, our company would sincerely request your Board to kindly re-examine its decision to implement the proposed changes on leasing accounting and take into prudent consideration of recommendations put forward by business entities in the international community.

You may have your office contact me at <u>guy_look@sasa.com</u> if you require any further information.

Yours sincerely,

Guy Look

Chief Financial Officer & Executive Director

About Sa Sa International Holdings Limited

Sa Sa is a leading cosmetics retailing group in Asia. Its over 190 stores and counters in Asia sell more than 400 brands of skin care, fragrance, make-up and hair care products including its own-brands and other exclusive international brands. Over 1,400 well-trained beauty consultants are employed to provide professional services to its customers.

Sa Sa runs the largest cosmetics specialty store chain in Asia Pacific region, as ranked by Retail Asia magazine, KPMG and Euromonitor in 2010. The Group is also the Best Mid-Cap company in Hong Kong ranked by FinanceAsia in 2010. As one of the major sole agents in cosmetics in Hong Kong, Sa Sa also represents more than 100 international beauty brands in Asia. Sa Sa prospers on its successful and proven "one-stop cosmetics specialty store" concept which aims to provide customers with the widest range of quality products. Its e-commerce arm, sasa.com, provides online shopping service to customers as well as a strong marketing tool for the Group. Sa Sa, established in 1978, was listed on The Stock Exchange of Hong Kong since June 1997.