

CEO's Review of Operations

OVERVIEW

It goes without saying that Joyce, and in large part its competitors, have endured a very difficult year. Difficult but necessary financial and operating decisions were taken to ensure the long-term health of our business and our ability to resume growth. Our own focus going forward is on what we consider to be a most promising future — on rebuilding, diversifying and solidifying Joyce's portfolio. Joyce's international stature is undiminished and the Group remains a strong magnet for our industry's most innovative designers seeking to extend their appeal to the Asia region, in particular

Greater China, where we hold key competitive advantages.

STORE OPERATIONS

Joyce Hong Kong

Joyce's core Hong Kong retail operations, excluding the Ad Hoc division, Joyce Beauty and Joyce Café, reported a loss of HK\$34.2 million for the year. These results directly reflected the fall-off in earnings following the expiry in January 2001 of the Armani franchises.

With the Ad Hoc division continuing to report significant losses in the first half of the year, it was decided to cease operation of all Ad Hoc stores in Hong Kong and Taiwan as their leases expired. All stores will be closed by August 2002. The division posted a loss of HK\$20.7 million for the full fiscal year, which includes closure costs of HK\$4.4 million.

Joyce continued to support its valuable exclusive Hugo Boss retail franchise, following the successful redesign and expansion of the Kowloon Hugo Boss flagship in Ocean Terminal, and the opening of Hugo Boss corners at the Lane Crawford department stores in Central and Causeway Bay in the previous fiscal year.

Subsequent to the opening of the Hugo Boss corner at Lane Crawford in Causeway Bay, the 1,200 square-foot Hugo Boss boutique at Lee Gardens in Causeway Bay was closed in July 2001 on the expiry of its lease. A 1,300 square-foot Hugo boutique was opened on Paterson Street in Causeway Bay in September 2001. A 1,600 square-foot Boss Woman boutique, Hong Kong's first, opened at Ocean Terminal in Kowloon in October 2001.

Joyce has entered into a long-term agreement for the renewal of its exclusive Jil Sander retail franchise for Hong Kong. The prestigious brand is an increasingly important contributor to Group revenues and profitability.





Measures were taken to better serve customers and to increase turnover and profit, notably the expansion of Joyce at Pacific Place and the redesign and enhancement of areas of Joyce's flagship multi-label store at New World Tower. Joyce at Pacific Place was converted to a duplex boutique ahead of the 2001 Fall/Winter season, and doubled in size, from 4,000 square feet to 8,700 square feet, featuring an enlarged area for men's wear, a dedicated area for shoes, handbags and accessories and a Joyce Beauty corner occupying an additional 1,000 square feet.

In March 2002, the Group relocated its Nathan Road

businesses — the Joyce multi-label store, Issey Miyake and Joyce Beauty — to substantially more cost-effective and better located premises on Canton Road, anchoring the expanding Joyce retail presence at Harbour City.

Joyce Taiwan and Greater China

Joyce took advantage of alterations to the Taipei Metro shopping plaza to increase efficiency and retrofit Joyce Fashion, Joyce Living and Joyce Flowers in May 2001. The Pleats Please boutique at Sogo Taipei, subject to relocation to a less desirable space by the landlord, was closed on the expiry of its lease in August 2001 and the under-performing Ad Hoc store at Asiaworld was closed in September 2001.

Joyce has won the exclusive franchise rights in Taiwan for the influential Marc Jacobs and secondary Marc by Marc Jacobs lines, and intends to fully develop their potential in Taiwan. A freestanding Marc Jacobs boutique will be opened in Taipei's Formosa Hotel (Ex Regent Hotel) in July 2002, with plans to extend the franchise for both lines throughout Taipei and to other major cities.

Joyce has also been awarded the exclusive wholesale and distribution rights in Greater China — covering Hong Kong, Taiwan and mainland China — for the various Dolce & Gabbana accessory lines, comprising Dolce & Gabbana accessories, D&G accessories (including the "D&G Junior") and the youngest line "&". This agreement takes effect with the Spring/Summer 2003 collections.

Joyce has established a dedicated unit to manage and develop its Greater China distribution activities as this important area of the business grows in both the immediate and long terms.

Mainland China

Joyce has historically held a prudent view of mainland China's ability to sustain an imported high-fashion sector, and strict criteria for investment in the mainland market. Given the significant synergies afforded by its association with Wheelock and Company Limited, which has well-established retail, distribution and development operations on the mainland, Joyce today stands to benefit from Wheelock's China-market experience and is exceptionally well positioned to build a significant and relatively low-risk presence on the mainland. Joyce will enjoy a distinct competitive advantage in developing

retail and distribution opportunities in China for leading labels in its strong and growing European and Japanese brand portfolio.

Joyce Beauty

Joyce Beauty operates six branches in Hong Kong and Taiwan occupying 6,300 square feet. Joyce Beauty at Taipei Metro was opened in October 2001. New Joyce Beauty outlets were opened at Joyce at Pacific Place and at Festival Walk in Kowloon in September and November 2001 respectively. The 2,000 square-foot Joyce Beauty at Joyce at Nathan Road was relocated in March 2002 to a more suitable 1,500 square-foot setting within the new Joyce store at Canton Road.

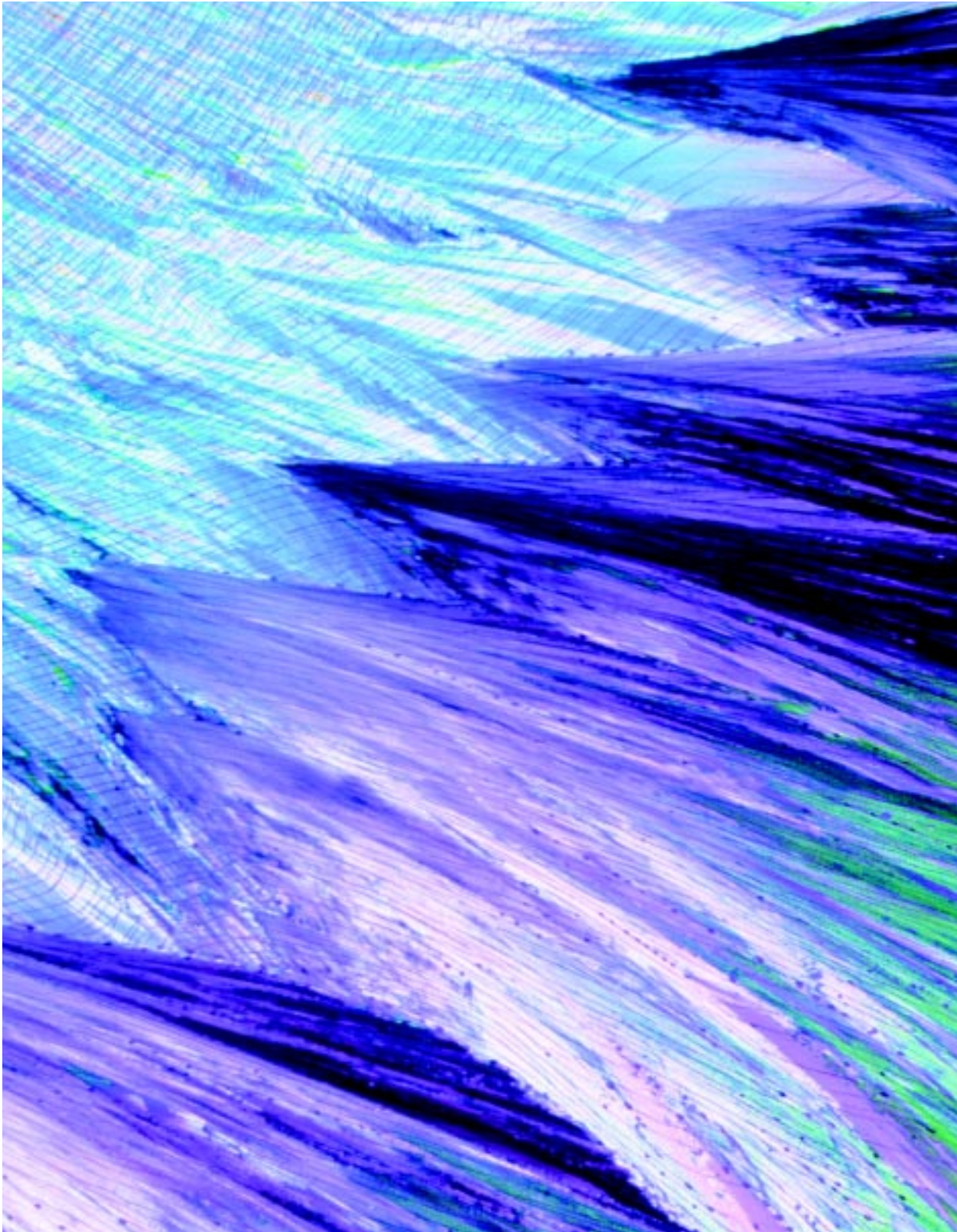
The Joyce Beauty division continues to represent a strategic high growth category. Its expanding range of color, treatment and fragrance products is for the most part exclusive to the Group. An in-house Joyce Beauty Card will be launched in the Fall/Winter 2002 season.

Joyce Café

Despite stringent cost controls and efforts to sustain its high gross margins, the Joyce Café division operated at a loss for the year, reflecting the downturn in Hong Kong's stock market and finance sector, which provides the core customer base for Joyce Café and Joyce Café Express at Exchange Square. The division's catering and party service, a significant contributor to revenues, was also adversely affected by external business conditions.

MARKETING

This past year was characterized by exceptionally proactive marketing activity focused on the introduction of the major seasonal collections and culminating in the successful gala



opening of the new Joyce Kowloon flagship store at Harbour City. Throughout the year, special events and promotional campaigns were conducted to increase patronage by Joyce's core customer base and to widen that base through cooperative programmes with marketing partners including credit card organizations. The Group intends to sustain the heightened level of marketing activity, in Hong Kong and Taiwan, going into the 2002/03 financial year.

In September 2001, the Group re-launched the in-house Joyce Card as a two-tier privilege card in Hong Kong and in February 2002 re-introduced the Joyce Card in Taiwan. The

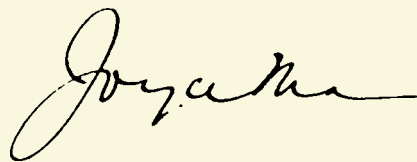
number of cardholders has grown rapidly and currently the total number of cardholders is approaching 30,000. The reinstatement of the Joyce Card as a self-administered card has better enabled the Group to compile valuable customer spending and behavioral segmentation data which is applicable to and will improve the cost effectiveness of merchandising and marketing activities.

OPERATING COSTS

Controls on spending were further tightened, with the staff costs and premises costs to sales ratios standing at 18% and 29% respectively.

Primarily as a result of the relocation of Joyce at Nathan Road to Canton Road and the rationalization of retail space at Taipei Metro rental costs will be improved. These improvements took effect in the last quarter of the year and the subsequent cost benefits will therefore be reflected in the interim and full-year results for 2002/03.

Advertising and promotion costs increased slightly due to heightened marketing activities promoting new seasonal collections.



Joyce Elena Ma
Chief Executive Officer