

The year 2001/2002 has been an important period of transition and growth for the Group, as it has diversified both its markets and its products in response to changing conditions within the region. After a series of strong years within the Hong Kong market, the prolonged economic downturn has inevitably impacted on the Group's profits, as a result of lower retail spending and consumer uncertainty within a deflationary environment. The Group has approached this development as a positive challenge, believing that by identifying areas of future growth and strategically investing in them, it can sow the seeds for exciting and profitable future expansion.

While we have approached the year under review as a year of investment and an important brand-building exercise, particularly in the People's Republic of China (the "PRC"), it has been extremely gratifying to see positive initial returns even

at the very earliest stages. The set up costs associated with our new PRC outlets, for example, together with the costs of initial promotional and advertising campaigns for ~H<sub>2</sub>O~ products in this new market, has justified themselves fully given the rapid move into profitability of our PRC operations, a development bodes very well for the coming years. The enthusiasm with which PRC consumers have embraced ~H<sub>2</sub>O~ products has exceeded our expectations to the extent that our initial plan for establishing 10 PRC outlets during the entire 2002/ 2003 year has been revised upwards, with 23 now having been opened in just nine months and more planned for early 2003. Just as we have had to revise our expansion rate, so it seems likely that we shall have to revise in our favour our initial expectations of the growth of profitability for our PRC outlets.

**Our year of investment will, I believe, prove to have been a necessary and valuable transition period as the Group moves forward to the next stage of its growth.**

Some repositioning in the Hong Kong market is also proving to be an astute move. The investment currently being made in expanding our spa businesses into mass sector markets look set to consolidate the Group's reputation as a major player with a wide portfolio and considerable expertise in the beauty and skin-care sector. Again, customer response to our new Oasis Beauty line suggests that it is only a matter of time before the Group's investments impact significantly on our bottom line.

The Group has certainly not been exempt from the woes afflicting the Hong Kong retail sector generally over the past year. Neither

have we been idle, however, in anticipating economic changes and responding carefully and pragmatically to them. Although profits have fallen for the year under review, the Group has been actively laying substantial foundations for new

business growth in markets both old and new. Our year of investment will, I believe, prove to have been a necessary and valuable transition period as the Group moves forward to the next stage of its growth.



YU Lai Si  
Executive Director and Chief Executive Officer

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