



The Group's operations and positive achievements over the past year need to be set in the context of two very different sets of external market conditions. Hong Kong, currently the Group's core market, experienced continued deflation, and its retail sector generally was faced with further falls in the retail index and increased levels of unemployment. In addition to this generally challenging economic environment, the year saw increased competition within the cosmetics and beauty treatment markets. At the same time, however, the retail environment in the Group's other major markets, the PRC and Taiwan, has been one of growth and increased spending. Demand for foreign cosmetics and other beauty products has been soaring, and opportunities for catering to this demand have grown significantly, particularly in the PRC.

In the light of the contrasting economic environments within which the Group has operated over the past year and the general performance of competitors, Management believes that the Group's business development and financial results have been sound and its response to market conditions positive and effective. In particular, the Group's strategies of product diversification and aggressive PRC expansion have had a near immediate impact, and although these developments have yet to register fully on the Group's bottom line, their potential for the future robust financial health and growth of the Group is already making itself felt.

