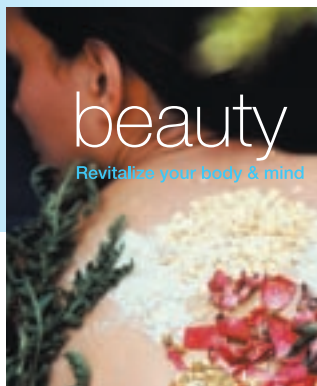




In common with almost all other Hong Kong businesses over the past year, the Group has operated in a context of significant market constraints that have severely tested its performance. Continuing economic recession in Hong Kong was exacerbated by the SARS crisis in mid-year, creating a conjunction of events that shook public confidence besides reducing the amount of time people were willing to spend in crowded shopping environments. The unemployment rate continued to rise and reached a high of 8.0% in September 2003, and with the increase in the number of jobless and continuing uncertainty about employment prospects, consumers reined in their spending on many products and services they considered as non-essentials. These developments had a general impact over a wide range of sectors. From 1st April 2003 to 21st May 2003, more than forty listed companies announced profit warnings to their shareholders. These companies varied in size and sector, but some 25% of them operated in the retail sector, where the effects of the negative economic conditions were most acute.

The Group was not immune to these exceptional conditions. It also issued a profit warning to shareholders on 9th May 2003, alerting them to the likely impact of events on end-of-year results. Its forecast was indeed to be reflected in results, with the negative effect most noticeable in its second half-year results when SARS was at its height.

Its two main investment focuses were both strategies of diversification: of the Group's markets on the one hand, and of its products on the other.



The special challenges of the 2002-2003 year should, however, be put into a context of what the Group has planned to achieve in the longer term. The Group had earmarked the 2001-2002 year as a "Year of Investment", a period during which it worked to lay the groundwork of financial commitment to and detailed planning for diversification and expansion. Its two main investment focuses were both strategies of diversification: of the Group's markets on the one hand, and of its products on the other. Specifically, the Group was looking to open up the PRC market by establishing a strong retail presence in major cities across a short period of time. In terms of product diversification, at that time the Group sowed the seeds of its new "Oasis Beauty" concept, designed to tap into the profitable beauty treatment market.