

CEO'S STATEMENT

+ Solid turnaround with strong growth momentum

SOLID TURNAROUND

After a period in 2003 when the Group was affected by a strongly negative market brought on by SARS and exacerbated by ailing regional economies, the past year has represented a solid turnaround situation. At the end of it we are able once again to report robust growth in some areas of the Group's operations, and solid achievements in others. Besides the general improvement of the economy in the Group's traditional markets of Hong Kong and Taiwan, we have benefited from our early commitment to entering the China market, a commitment to which we stood fast even when conditions were at their most unfavourable. Now, with the China economy booming and consumers there more affluent and sophisticated in their tastes than ever, our expansion strategy looks to have been the right one. On top of this, we have benefited from our implementation of cost-control measures and an ongoing awareness of cost-effective and economical operational strategies. For the future, we expect China's economic growth and Hong Kong's resurgent economy to continue, providing us with ideal conditions for further boosting our bottom line.

CHINA AS MAJOR GROWTH DRIVER

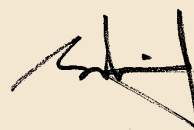
In the fiscal 2003/2004, the Group's booming new China market presents a picture of significant growth potential and opportunity. Not surprisingly, the Group has been very active in expanding its presence in China, through the ongoing opening of self-owned and franchised stores, and we are currently exploring other ventures that can help us further penetrate into the consciousness of China consumers. The Group's strategy in China has always involved prudence however, and will continue to do so. Our retail locations are chosen with care, and start-up costs are kept low, with the aim of making each new China outlet self-financing in the shortest possible time. As a result, despite the relatively short time that the Group has been operating in China and the large number of outlets opened there, the Group has quickly achieved a break-even cash-flow figure that places us on an extremely strong footing for future growth. As the number of outlets increases, large-scale advertising is becoming more cost-effective and this will be an important aspect of our China growth strategy in 2005. I expect to see significant achievements from our China operations in

the medium term, including the more intangible benefit arising from being an early player in the market and establishing "first mover" brand recognition.

HIGH RESPONSIVENESS IN EXISTING MARKETS

By contrast, the Group's older and more established market base of Hong Kong and Taiwan has required a different set of strategies to keep sales strong, and this has been achieved in part by paying special attention to the best presentation and positioning of retail outlets. In Hong Kong, for example, we have tapped into the massive new retail magnet of Mongkok's Langham Place by opening a store nearby. In our flagship Causeway Bay store, we have experimented with fresh new design, décor and colour schemes, offering our customers a range of value-added services as part of their shopping experience at ~H₂O+ outlets. Now that the Group has achieved wide market coverage and a strong, stable and loyal customer base, this kind of responsiveness and readiness to adapt will be important in the drive for expanding sales and keeping the Group's brand profile high. I believe we have shown our ability to compete successfully in these markets under many different conditions, and are in a good position to achieve highly in the coming year.

The old and the new: these may move at very different paces but fundamentally the Group's strategy remains consistent across the board. Through a combination of innovation and prudence, we are committed to taking hold of the best opportunities available to us and managing them in a way that both protects and maximises investors' interests. Our rapid return to profitability after the tough 2002/2003 year shows that this strategy is an effective one. I expect to see it reap further fruits in the year to come.



YU Lai Si

Executive Director and Chief Executive Officer

19th January 2005