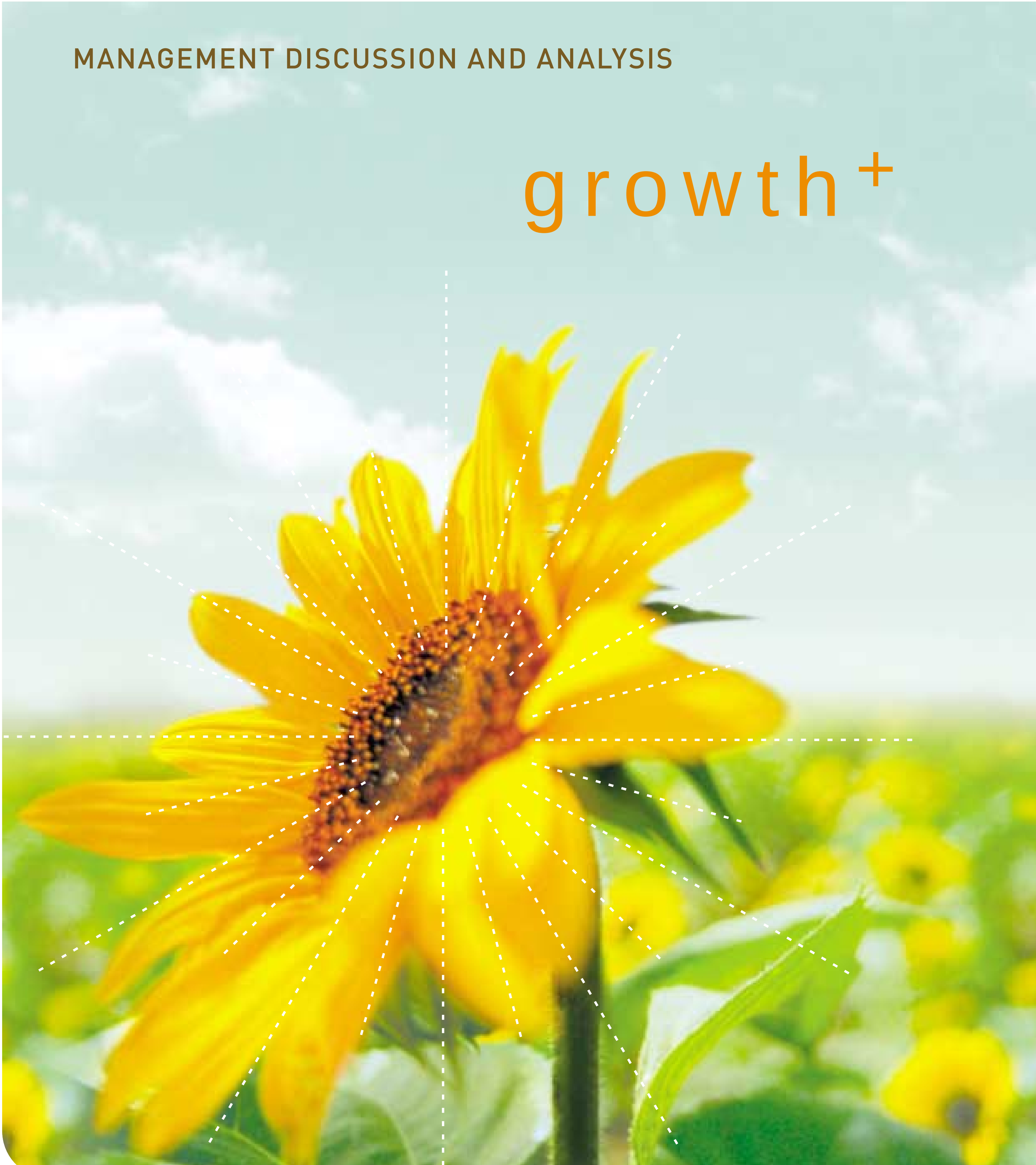
MANAGEMENT DISCUSSION AND ANALYSIS



+ Profitability driven by underlying operational strengths

RETURN TO PROFITABILITY

The retailing of ~H_2O+ products and the provision of beauty services continued to be the Group's two core areas of operation in the fiscal 2003/2004. By comparison with the loss reported by the Group for the last financial year, this year saw the Group put on a strong showing and return to profitability. Perhaps even more important than its positive bottom line figure, however, is the evidence of robust growth shown by the more than 186% growth in EBITDA figures, with amount exceeding HK$20 million, which the Group considers to be the most appropriate indicators of the underlying realities of its operations. These figures reflect not only the Group's strong growth momentum, particularly in the China market, but also the effectiveness of the cost control measures it successfully implemented throughout the year.

~H_2O+ **BRAND**

STRONG RETAIL SALES EXPANSION LED BY THE CHINA MARKET

Over the year, the Group continued to expand the number of its ~H_2O+ retail outlets in operation. By now it is operating 112 such outlets, up from 76 at the beginning of the year, and representing a 47% growth in the total number. In terms of geographical distribution, 17 of these outlets are located in Hong Kong, 1 in Macau, and 16 in Taiwan. Taiwan performance was particularly strong during the year, resulting in final profits that were almost double those of last year. The award organised by *Marie Claire* magazine proved that ~H_2O+ products were well received in the Taiwan market, the "Face Oasis™ Hydrating Treatment" was rated as one of "Annual Top 10 Hydration" while the "Oasis 24 Hydrating Booster" was "Annual Top 10 Repair & Serum".