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Water Oasis Group Limited

(Incorporated in the Cayman Islands with limited liability)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31ST MARCH, 2003

The Board of Directors (the "Board") of Water Oasis Group Limited (the "Company") herein announces the unaudited consolidated results of the Company and its subsidiaries (collectively known as the "Group") for the six months ended 31st March, 2003. The unaudited consolidated results have been reviewed by the Company's Audit Committee.

The Group recorded turnover of HK$165 million for the period under review. Profit attributable to shareholders was HK$2.2 million. A dividend of 0.5 HK cent per share has been declared and payable to the shareholders.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	**Unaudited Six months ended 31st March, 2003**	2002
		HK$'000	*HK$'000*
Turnover	2	**165,130**	153,025
Other revenues	2	**656**	564
Cost of inventories sold		**(41,688)**	(41,911)
Operating expenses		**(120,024)**	(98,589)
Operating profit	2, 3	**4,074**	13,089
Taxation	4	**(1,985)**	(2,636)
Profit after taxation		**2,089**	10,453
Minority interests		**78**	(373)
Profit attributable to shareholders		**2,167**	10,080
Dividends	5	**1,610**	4,243
Earnings per share			
– Basic	6	**0.7 cent**	3.6 cents
– Diluted	6	**0.7 cent**	3.6 cents

NOTES

1. **Basis of preparation and principal accounting policies**
These unaudited consolidated condensed interim accounts ("Interim Accounts") have been prepared in accordance with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Statement of Standard Accounting Practice ("SSAP") 25 (revised) "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and methods of computation used in the preparation of the Interim Accounts are consistent with those used in the annual accounts for the year ended 30th September, 2002 except for the adoption of certain revised SSAPs which are effective for accounting periods commencing on or after 1st January, 2002 and are applicable to the Group.

The effect of adopting these revised Standards are set out below:

(a) SSAP 1 (revised) : Presentation of financial statements
SSAP 15 (revised) : Cash flow statements

Upon adoption of SSAP 1 (revised) and SSAP 15 (revised), certain presentational changes have been made in the Interim Accounts. There is no change in accounting policies upon adoption of these revised Standards.

(b) SSAP 11 (revised) : Foreign currency translation

The effect on the accounts of the Group upon adoption of SSAP 11 (revised) is not material to the current and prior periods.

(c) SSAP 34 (revised) : Employee benefits

The new Standard provides the recognition basis for employee benefits including short-term employee benefits, post-employment benefits, termination benefits and other long-term employment benefits. The effect on the accounts of the Group upon adoption of SSAP 34 (revised) is not material to the current and prior periods.

2. **Segment information**
The Group is principally engaged in the retail sales of skin-care products, provision of beauty salon, spa and other related services. An analysis of the Group's turnover and contribution to operating profit for the period by business segments is as follows:

	Turnover Six months ended 31st March, 2003	2002	**Contribution to operating profit Six months ended 31st March, 2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Primary reporting format – business segments				
Retail sales of skin-care products	**122,480**	142,480	**4,865**	29,188
Provision of beauty-salon, spa and other related services	**42,650**	10,545	**15,845**	(265)
	165,130	153,025	**20,710**	28,923
Other revenues			**656**	564
Unallocated corporate expenses			**(17,292)**	(16,398)
Operating profit			**4,074**	13,089

The geographical analysis of the Group's turnover for the period is as follows:

Secondary reporting format – geographical segments		
Hong Kong and Macau	**101,024**	103,903
Taiwan	**42,816**	49,122
Mainland China (the "PRC")	**21,290**	–
	165,130	153,025

3. **Operating profit**
Operating profit is stated after charging the following:

	Six months ended 31st March, 2003	2002
	HK$'000	*HK$'000*
Depreciation	**6,358**	4,599
Operating leases rentals on land and buildings	**38,671**	32,893
Staff costs	**41,225**	34,472
Unrealised loss on trading investments	**49**	–
Loss on disposals of fixed assets	**2**	52

4. **Taxation**

	Six months ended 31st March, 2003	2002
	HK$'000	*HK$'000*
Hong Kong profits tax	**770**	1,329
Overseas taxation	**925**	1,248
Under provision in prior years	**290**	59
	1,985	2,636

Hong Kong profits tax has been provided for the period at the rate of 17.5% (2002: 16%) on the estimated assessable profit, after setting off available tax losses brought forward from prior year. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

5. **Dividends**
At the Board meeting held on 17th June, 2003, the directors declared an interim dividend of 0.5 HK cent per share. This proposed interim dividend is not reflected as a dividend payable in the Interim Accounts, but will be reflected as an appropriation of retained profits for the year ending 30th September, 2003.

6. **Earnings per share**
The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately HK$2,167,000 (2002: HK$10,080,000) and the weighted average number of 322,762,637 (2002: 276,812,308) ordinary shares in issued during the six months ended 31st March, 2003.

The diluted earnings per share is based on 322,913,587 (2002: 276,852,252) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 150,950 (2002: 39,944) ordinary shares, deemed to be issued at no consideration based on the assumption that all outstanding share options granted had been exercised at the beginning of the period or at the date of grant of the options, if later.

BUSINESS REVIEW

The Group's interim results reflect the impact of major negative social and economic factors that afflicted the region and led to significantly reduced profits for companies across a wide spectrum of industries. These factors had particular impact on the retail sector in Hong Kong, and on the Group's own performance.

Retail purchasing in the Group's core market was particularly affected by Hong Kong's ongoing deflationary environment, in which the retail index slipped further while unemployment rose to fresh highs. On top of this, the unexpected and devastating arrival of the SARS epidemic deeply undermined consumer confidence and pushed retail spending lower still. A sign of the seriousness of these factors could be seen in the profit warnings made by over forty listed companies between April and May 2003. The Group itself was one of these, alerting shareholders to revised prospects in an announcement made on 9th May, 2003: a reminder that the major impact of the SARS outbreak can be expected to show itself in the second half of the financial year.

Despite the inevitable and expected fall in profits for the period, the Group is also able to report a series of solid business accomplishments which have continued the Group's strategy of diversifying both markets and products, and which will provide a strong basis for future consolidation and growth in due course. In particular, the Group has continued its rapid and strenuous commitment to opening up the market in the PRC. Its carefully planned roll-out programme is designed to avoid over-expansion while fully capitalizing on the proven high demand for Water Oasis products within the PRC. Since January 2003 the Group has established further ~H_2O+ retail outlets in the PRC, and now has a total of 37 outlets in operation across more than fifteen major cities, outlets which have quickly proved their profitability when assessed according to EBITDA criteria. It also operates three offices there, which co-ordinate administration and marketing activities. In Hong Kong, the opening of a new Oasis Beauty centre in Mongkok in May 2003 brought to six the number of these popular centres now operating.

~H_2O+ Retail Business

Hong Kong and Macau

The Group's core market came under considerable pressure in the period under review, and consequently achieved only a small net profit for the first half of the year. In order to deal effectively with what it believes to be a temporary downturn in demand, the Group worked during the year to develop and promote ancillary revenue sources to supplement ~H_2O+ product sales. The Group's beauty services and health drink sales, bringing in over 50% more revenue that in the same period during the previous year, contributed to achieving this goal. At the same time, the Group turned its attention to a number of strategies for reducing costs.

Taiwan

Despite a generally unfavourable business environment, the Group's ~H_2O+ product sales held up well in the period under review. Overall, net profit for the six months to 31st March, 2003 held steady, achieving similar levels to those obtained on average over the previous year.

China

The Group continued its policy of aggressively rolling out new outlets in this market, with a total of 37 now in operation. Measured by EBITDA criteria, these new operating units have achieved positive results at a very early stage, indicating that the Group's expansion strategy is a well-judged one. The popularity of the Group's products in the PRC suggests that its plans for franchising ~H_2O+ outlets there are appropriate, and the Group will therefore shortly begin recruitment of potential franchisees.

Spa and Beauty Businesses

Oasis Spa

The Group's high-end beauty treatment services continued to be affected by the same factors that undermined retail sales performance of ~H_2O+ products. Nevertheless, Oasis Spa consolidated its position over the previous year, turning a HK$0.3 million net loss from that period to a small net profit of HK$0.2 million for the six month period ended 31st March, 2003. The Group plans to further improve its revenue by introducing a range of new treatment programmes, and launching a series of promotional activities designed to attract new customers for the spa business in order to achieve a better result for the coming months.

Oasis Beauty

The Group's sensitivity and rapid responsiveness to changing market conditions has been well-demonstrated in the success of its Oasis Beauty concept. Oasis Beauty's strategy of offering affordable beauty treatments to mass market consumers has clearly struck a chord in Hong Kong struggling with economic downturn, and its popularity prompted the Group to open a sixth Oasis Beauty outlet in Mongkok. Oasis Beauty in fact has proved a key contributor towards the bottom line figure of HK$2.2 million achieved by the Group in the six month period ended 31st March, 2003. In the second half of the year, the Group expects Oasis Beauty to achieve similar results to those of the first half of the year, an excellent performance given the current adverse economic environment, and one that shows the Group's ability to react astutely and rapidly to shifts in economic realities and market trends. Having said this, it is important to note that both Oasis Spa and Oasis Beauty extensively use ~H_2O+ products in the treatments they offer. The success and profitability of these ventures rest firmly on market recognition of and demand for the Group's core products. The spa and beauty operations can thus be seen to function as important promotional tools for enhancing ~H_2O+ sales in Hong Kong. Together, they give the Group recognition at every socio-economic level, with Water Oasis spa and beauty services serving customers from the elite end of the spectrum right through to mass market users.

OUTLOOK

The Group remains in a strong financial position regardless of the fluctuations in the market. This is largely a result of its highly prudent investment decision-making, with the Group maintaining significant cash reserves offering high liquidity, stable returns, and the potential for rapid investment in existing and potential business opportunities. Currently the Group has over HK$74 million of cash on hand, and maintains a debt-free position.

The Group is continuing to explore and implement a number of cost-controlling measures to improve efficiency and enhance profitability. Payroll costs in particular are being stringently targeted. In addition, outsourcing of some administrative and logistical functions will reduce the Group's expenses significantly.

The Group is also looking closely at the performance of individual outlets, and adopting measures to maximise their contributions to profit. In many cases, new and competitive rental agreements have been negotiated that will shortly boost the profitability of individual stores. The Group is also considering relocating outlets to improve their turnover. The closure of two underperforming standalone outlets located in Taipei in April 2003 helped firm the Group's position in the Taiwan market, where department store sales account for the bulk of health and beauty care purchases. The financial effects of these changes should begin to make themselves felt from the 2003/2004 fiscal year. These will in turn be supplemented by the addition of new sources of revenue, notably a promising line of health drink products.

Despite the negative impact of the factors outlined at the beginning of this announcement, the Group is able to point to a number of positive developments over the past six months. In addition to the benefits accruing from its debt-free and cash-rich position, and the expected savings from its planned cost-cutting measures, the Group expects continuing significant contributions from its Oasis Beauty outlets, along with increased revenues arising from its PRC franchise operations, which will be commenced in July. These factors, together with the fundamental robustness of the Group's core products and markets, should enable the Group to ride the storm and emerge strongly once the crisis recedes.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The directors have declared an interim dividend of 0.5 HK cent per share for the six months ended 31st March, 2003 payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on 11th July, 2003. The Register of Members will be closed from 9th July, 2003 to 11th July, 2003, both days inclusive, during which period no transfer of shares will be registered. To qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Standard Registrars Limited of G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 8th July, 2003. The relevant dividend warrants will be dispatched to shareholders on 15th July, 2003.

LIQUIDITY AND FINANCIAL RESOURCES

At 31st March, 2003, the Group had net current assets of HK$110 million (30th September, 2002: HK$114.5 million).

The Group generally finances its operation with internally generated resources. As at 31st March, 2003, the Group had cash reserves of approximately HK$74 million and with no indebtedness. Such cash reserves are principally placed on interest-bearing bank deposits.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st March, 2003, the Group employed 622 staff (31st March, 2002: 322). Salaries of employees are maintained at competitive levels while discretionary bonus and share options may also be granted to the eligible employees based on the Group's and the individual's performance. Other employee benefits include provident fund, insurance and medical cover, educational allowances and training programs.

AUDIT COMMITTEE

The Audit Committee has reviewed with Management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters which included a review of the Interim Accounts for the six months ended 31st March, 2003.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the period, 4,500,000 ordinary shares of HK$0.1 each of the Company were repurchased at prices ranging from HK$0.68 to HK$0.83 per share through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The repurchase involved a total cash outlay of approximately HK$3.3 million.

Saved as disclosed above, none of the Company's subsidiaries purchased or sold any of the Company's listed securities during the six months ended 31st March, 2003.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules at any time during the six months ended 31st March, 2003 except that the independent non-executive directors of the Company were not appointed for a specific term because they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing all the information in respect of the Company required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange *(http://www.hkex.com.hk)* in due course.

By order of the Board
Yu Lai Si
Executive Director and Chief Executive Officer

Hong Kong, 17th June, 2003