~H2O+

Water Oasis Group Limited

奧思集團有限公司

(incorporated in the Cayman Islands with limited liability)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 30TH SEPTEMBER 2002

AUDITED FINANCIAL RESULTS

The Board of Directors (the "Directors") of Water Oasis Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively known as the "Group") for the year ended 30th September 2002 (the "Accounts") as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30th September

	Note	**2002**	2001
		HK$'000	*HK$'000*
Turnover	2	**308,449**	285,998
Other revenues		**1,586**	2,831
Cost of inventories sold		**(82,993)**	(68,036)
Staff costs		**(69,433)**	(51,079)
Depreciation		**(10,051)**	(7,882)
Other operating expenses		**(135,589)**	(101,327)
Operating profit	3	**11,969**	60,505
Taxation	4	**(5,063)**	(7,812)
Profit after taxation		**6,906**	52,693
Minority interests		**418**	(683)
Profit attributable to shareholders		**7,324**	52,010
Dividends	5	**7,462**	23,760
Earnings per share			
Basic	6	**2.4 cents**	19.3 cents
Diluted	6	**N/A**	N/A

NOTES TO THE ACCOUNTS

1. Principal accounting policies

The same accounting policies adopted in the accountants' report as disclosed in the prospectus of the Company dated 27th February 2002 have been applied to the Accounts except that, the Group adopted the following new and revised Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants which became effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

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. Segment information is presented as follows:

Primary reporting format – business segments

	Retailing		**Services**		**Elimination**		**Group**	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales to external customers	**260,953**	254,582	**47,496**	31,416	**–**	–	**308,449**	285,998
Inter-segment sales	**697**	380	**–**	–	**(697)**	(380)	**–**	–
Total	**261,650**	254,962	**47,496**	31,416	**(697)**	(380)	**308,449**	285,998
Segment results	**30,975**	72,979	**13,003**	6,267	**–**	–	**43,978**	79,246
Other revenues							**1,586**	2,831
Unallocated corporate expenses							**(33,595)**	(21,572)
Operating profit							**11,969**	60,505
Taxation							**(5,063)**	(7,812)
Profit after taxation							**6,906**	52,693
Minority interests							**418**	(683)
Profit attributable to shareholders							**7,324**	52,010

Secondary reporting format – geographical segments

	Turnover	
	2002	2001
	HK$'000	*HK$'000*
Hong Kong	**210,769**	234,622
Mainland China (the "PRC")	**8,469**	–
Taiwan	**89,211**	51,376
	308,449	285,998

3. Operating profit

Operating profit is stated after charging the amortisation of intangible assets of approximately HK$411,000 (2001: nil).

4. Taxation

	2002	2001
	HK$'000	*HK$'000*
Hong Kong profits tax	**3,028**	7,358
Overseas taxation	**2,129**	1,123
Over provision in prior years	**(94)**	(669)
	5,063	7,812

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

5. Dividends

	2002
	HK$'000
Interim, paid, of 1.3 HK cents per ordinary share	**4,243**
Final, proposed on 14th January 2003, of 1.0 HK cents per ordinary share	**3,219**
	7,462

The Company was incorporated on 27th September 2001. Dividend paid during the year ended 30th September 2001 represented dividend paid by the relevant subsidiaries of the Group to their then shareholders outside the Group.

6. **Earnings per share**

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$7,324,000 (2001: HK$52,010,000) and the weighted average number of 301,674,082 (2001: 269,280,000) ordinary shares in issue during the year.

No diluted earnings per share is calculated for the year ended 30th September 2002 since the exercise prices of the Company's outstanding options were higher than the average fair value per share of the Company during the year and the potential ordinary shares would have no dilutive effect.

BUSINESS REVIEW
The year 2001/2002 has been an important period of transition and growth for the Group, as it has diversified both its markets and its products in response to changing conditions within the region.

After a series of strong years within the Hong Kong market, the prolonged economic downturn has inevitably impacted on the Group's profits, as a result of lower retail spending and consumer uncertainty within a deflationary environment. The Group has approached this development as a positive challenge, believing that by identifying areas of future growth and strategically investing in them, it can sow the seeds for exciting and profitable future expansion.

While we have approached the year under review as a year of investment and an important brand-building exercise, particularly in the PRC, it has been extremely gratifying to see positive initial returns even at the very earliest stages.

Some repositioning in the Hong Kong market is also proving to be an astute move. The investment currently being made in expanding our spa businesses into mass sector markets look set to consolidate the Group's reputation as a major player with a wide portfolio and considerable expertise in the beauty and skin-care sector.

The Group has certainly not been exempt from the woes afflicting the Hong Kong retail sector generally over the past year. Although profits have fallen for the year under review, the Group has been actively laying substantial foundations for new business growth in markets both old and new. This "year of investment" will prove to have been a necessary and valuable transition period as the Group moves forward to the next stage of its growth.

~H_2O+ RETAIL BUSINESS
Hong Kong
The Group's ~H_2O+ retail outlets in Hong Kong experienced an overall year-on-year fall of ~H_2O+ product sales of 26%. There have been limited opportunities to pare costs in line with this fall, since rental leases remain high despite the economic downturn, and certain recurring marketing costs remained similar to last year, costs which included essential television and periodical advertising and public relation activities. The Group has, however, taken every opportunity to reduce costs where possible, and has devised a comprehensive programme for increasing profitability in the coming year.

Adding to the pressure on profit attributable to shareholders has been the additional necessary costs incidental upon the Group's regional expansion programme. These have included increased payroll costs as new administrative offices and retail outlets have been opened in the PRC and Taiwan. The Group's expansion is a carefully planned one which is already beginning to signal the likelihood of significant long-term returns, but inevitably its initial phases have involved start-up costs which, over a few short months, have yet to pay themselves off though increased profitability.

Diversification for growth
The Group responded to market conditions with a series of diversification initiatives designed to open up new revenue streams. These included the introduction of new beauty services at ~H_2O+ retail outlets and the sale of a range of Japanese health drinks. Compared with the HK$7 million of the Group's sales in 2001 coming from these lines of revenue, in the year under review some HK$37 million in sales of such lines was achieved, a remarkable fivefold increase.

Taiwan

Steady expansion

The Group's Taiwan presence has been strengthened during the year, with the addition of three new retail outlets around Taipei. In a market showing great demand for prestigious foreign cosmetics and skin-care brands where relatively few such brands are available, the Group's ~H_2O+ line is attracting increasing numbers of loyal and enthusiastic buyers, a development reflected in the 74% rise in sales during the year under review. The nature of the Taiwan market means that profit margins tend to be lower than those obtainable in Hong Kong, for instance, yet the Group's growth in Taiwan has been on a scale that has seen profit attributable to shareholders in 2001/2002 rise by 58% over the previous year.

The PRC

Grasping burgeoning opportunities

The Directors believe that the PRC represents a major new opportunity for the Group. Hence the Group's policy of aggressive expansion, which has seen the opening of 23 retail outlets mostly between August and September 2002. To this end, some HK$7 million was spent during the year in initial advertising costs to introduce the ~H_2O+ brand to potential customers, particularly those in northern cities such as Beijing and Shanghai. The level of potential in this market is shown by the fact that the Group spent three years carefully building up its 17 Hong Kong outlets, while it has taken just nine months to establish 23 booming outlets in the PRC.

The first six months of the Group's PRC operations commencing from April 2002 incurred losses of HK$8 million, largely in essential set-up costs which dominated the initial consolidation period. Losses at this level are normal and were expected and planned for by the Group as part of the starting-up process. However, by December 2002, just nine months after the Group first entered the PRC market, its Mainland outlets began contributing a profit, a remarkable achievement given the fact that the Group arrived as a complete newcomer to the PRC market, selling a product line largely unknown in China at the outset. Furthermore, the Group's rapid PRC expansion has been achieved with no dilution of sales, suggesting that there remains considerable room for growth within the market. The Directors believe that the Group's performance in the PRC represents a significant level of achievement, and that the Group has significantly outperformed competitors who have sought to establish a foothold there.

THE SPA BUSINESS

Oasis Spa

In the first half of the year under review, the Group's Oasis Spa business was adversely affected by a fall in consumer confidence, following on from a number of high-profile failures of spa and health businesses in Hong Kong. The Group worked hard to rebuild confidence and reassure customers of the fundamental strengths of Oasis Spa, a strategy which paid off in the second half of the year, as sales rebounded. As a result, the negative results of the first half were turned around and the business went on to contribute HK$1.6 million to the Group's bottom line in the second half, making an overall contribution across the year of HK$1.4 million.

Oasis Beauty

Oasis Beauty represents a cautious business development on the part of the Group, tailored to the current tough business climate. Oasis Beauty outlets offer affordable beauty treatment aimed at mass market consumers, making use mainly of ~H_2O+ products, and the five initial outlets opened in Hong Kong have required relatively lower initial capital investment due to the scale of these operations. The Group is watching the performance of this new business line carefully to assess its potential for expansion, and has been encouraged by the initial consumer response. Although the first of the outlets commenced operation only as recently as July 2002, the Group began to reap profits from its Oasis Beauty outlets in September, just two months later. Initial setup costs have affected the immediate returns from this new line of business, and the Group has consequently incurred a relatively small loss of HK$0.8 million for the year. The Group's general prudence in developing this business line and the signs of profitability already appearing suggest that Oasis Beauty will prove to be a useful and valuable business diversification in the longer term.

PROSPECTS

The Group's policies of aggressive expansion within growth markets and effective diversification in Hong Kong are, the Directors believe, the way forward for the Group in the current tight economic conditions. Early signs from the Group's new China operations in particular suggest a huge potential for growth in this rapidly opening market.

As a result, the Group intends to continue pursuing its rapid and aggressive expansion in the PRC. It expects to increase the number of outlets there from the current 23 to a total of approximately 30 by the coming Lunar New Year. These additional outlets will all be situated in prime locations, and will benefit from the extensive advertising and marketing of ~H_2O+ that has already taken place. At the same time, the Group is negotiating to set up franchise operations that will expand the distribution of ~H_2O+ products into various Chinese cities. The Directors believe that its intensive investment in the China market will bring the Group rapid returns and establish the ~H_2O+ brand firmly in the consciousness of China's newly affluent consumers, setting up long-term sales potential.

Within Hong Kong, supplementing the Group's core focus on the ~H_2O+ brand, Oasis Beauty will be built up to become a firm contributor of turnover and profits from the mass sector. Represented at every level of the skin-care and beauty treatment market, the Group's status in the market place and its increasingly diverse sources of income should consolidate its position as a market leader in Hong Kong.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's considerable prospects testify to its strengths, which are built upon a fundamental financial soundness. Debt-free and with some HK$89 million of cash reserves in hand, the Group is well-equipped with resources for funding development and expansion strategies. Nevertheless, the Group maintains a prudent financial regimen, adopting risk-averse policies and avoiding speculative investments. Major investment decisions are made only after detailed analysis, although the Group is quick to act to take advantage of fast-moving situations, as is the case with its PRC developments in a booming market.

The Group takes a proactive approach to dealing with economic fluctuations, and expects to implement a number of measures for increasing its cost-effectiveness and profitability over the coming year. Tighter control over payroll expenses is one such measure, supplemented by outlet rationalization, which may include renegotiating rental costs and relocating outlets for maximum cost-effectiveness. In addition, the Group will be adopting more economical advertising strategies, with greater use of in-store advertising and higher exposure in local magazines. The launch of the Citibank Oasis Visa Card will also play its part in raising the Group's profile in an effective and economically efficient manner.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors recommended a final dividend of 1.0 HK cents per share for the year ended 30th September 2002 payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on 11th March 2003. The Register of Members will be closed from 5th March 2003 to 11th March 2003, both days inclusive, during which period no transfer of shares will be effected. To qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars 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 4th March 2003. The relevant dividend warrants will be dispatched to shareholders on 13th March 2003.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th September 2002, the Group employed 523 staff (30th September 2001: 323). Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance and medical cover, educational allowances and training programs. Options to subscribe for a maximum of 20,960,000 shares in the Company in aggregate had been granted to certain employees pursuant to the Company's share option scheme. Exercise prices of which ranges from HK$0.52 to HK$1.67 and these options are exercisable within a period of one to three years from the date of grant.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year under review, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied throughout the financial year ended 30th September 2002 with the Code of Best Practice set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") except that:

(a) 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; and

(b) the Directors fully intended to comply with the requirement to hold a full board meeting every six months but were not able to do so in December 2002 due to extensive travel commitments, the holiday season and unavailability of final results for contemplation.

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

A detailed results announcement of the Company for the year ended 30th September 2002 containing all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

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

Hong Kong, 14th January 2003

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting ("AGM") of the Company will be held at Grand III, Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong on 11th March 2003 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditors of the Group for the year ended 30th September 2002.

2. To declare a final dividend in respect of the year ended 30th September 2002.

3. To re-elect the retiring directors and to fix the remuneration of the directors.

4. To re-appoint auditors of the Company and authorise the directors of the Company to fix their remuneration.

5. As special business, to consider and, if though fit, pass with or without amendments, the following resolutions, as Ordinary Resolutions:

Ordinary Resolutions

(A) "THAT:

(a) subject to paragraph (c) of this resolution, the exercise by the directors of the Company during the relevant period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this resolution shall authorise the directors of the Company during the relevant period to make or grant offers, agreements and options which might require the exercise of such power after the end of the relevant period;

(c) the aggregate nominal amount of share capital in the Company to be allotted or agreed conditionally or unconditionally to be allotted, whether pursuant to an option or otherwise, and issued by the directors of the Company pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a rights issue; (ii) any issue of shares in the Company under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to subscribe for shares in the Company; or (iii) any issue of shares in the Company as scrip dividend or similar arrangement providing for the allotment of shares in the Company in lieu of the whole or part of a dividend pursuant to the articles of association of the Company from time to time, shall not exceed 20% of the aggregate nominal amount of issued share capital of the Company at the date of passing this resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this resolution, "relevant period" means the period from the date of passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company following the passing of this resolution;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the laws of the Cayman Islands or the Company's articles of association to be held; and

(iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders in a general meeting of the Company.

"rights issue" means an offer of shares of the Company open for a period fixed by the directors of the Company to holders of shares of the Company whose names appear in the register of members of the Company on a fixed record date in proportion to their then holdings of such shares, subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdictions, or of the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company.**"**

(B) "THAT:

(a) subject to paragraph (b) of this resolution, the exercise by the directors of the Company during the relevant period of all the powers of the Company to purchase its fully-paid up shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with the Rules Governing the Listing of Securities on the Stock Exchange and all applicable laws, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of share capital in the Company to be purchased by the Company pursuant to paragraph (a) of this resolution shall be no more that 10% of the aggregate nominal amount of the issued share capital of the Company at the date of passing this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(c) for the purpose of this resolution, "relevant period" means the period from the date of passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company following the passing of this resolution;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the laws of the Cayman Islands or the Company's articles of association to be held; and

(iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders in a general meeting of the Company.**"**

(C) "THAT:

conditional upon Ordinary Resolutions A and B set out in the notice convening the annual general meeting of the Company to be held on 11th March 2003 being duly passed, the general mandate granted to the directors of the Company pursuant to Ordinary Resolution A set out in this notice be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution B set out in this notice, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution."

By order of the Board
CHENG Chi Wai
Company Secretary

Hong Kong, 14th January 2003

Notes:

(1) Any member entitled to attend and vote at the AGM is entitled to appoint another person as the member's proxy to attend and vote instead of the member. A proxy need not be a member of the Company. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the AGM if the member so wish.

(2) To be valid, the form of proxy, the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority must be deposited with the secretary of the Company at the Company's principal place of business at 18/F., World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong not less than 48 hours before the time fixed for holding the AGM or adjourned meeting.

(3) An explanatory statement containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against Ordinary Resolutions A to C set out in this notice will be sent to shareholders of the Company together with the 2002 Annual Report.

(4) The transfer books and register of members of the Company will be closed from 5th March 2003 to 11th March 2003, both days inclusive. During such period, no shares transfers will be effected. In order to qualify for the proposed final dividend and attending the AGM, all transfers, accompanied by the relevant share certificates must be lodged with the Company's Registrars, Standard Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 4th March 2003.

Please also refer to the published version of this announcement in South China Morning Post.