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Water Oasis Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1161)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31ST MARCH, 2004

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, 2004. The unaudited consolidated results have been reviewed by the Company's Audit Committee.

The Group recorded turnover of HK$182 million for the period under review. Profit attributable to shareholders was HK$1.3 million. A dividend of 0.5 HK cent per share has been declared and payable to the shareholders.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNTS

		Unaudited Six months ended 31st March,	
			Restated
		2004	2003
	Notes	***HK$'000***	*HK$'000*
Turnover	2	**181,941**	165,130
Other revenues	2	**2,860**	656
Cost of inventories sold		**(49,780)**	(41,688)
Operating expenses		**(132,300)**	(120,024)
Operating profit	2, 3	**2,721**	4,074
Taxation	4	**(1,206)**	(2,231)
Profit after taxation		**1,515**	1,843
Minority interests		**(172)**	78
Profit attributable to shareholders		**1,343**	1,921
Dividends	5	**1,711**	1,610
Earnings per share			
– Basic	6	**0.4 cent**	0.6 cent
– Diluted	6	**N/A**	0.6 cent

NOTES

1. **Basis of preparation and principal accounting policies**

These unaudited condensed consolidated profit and loss 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 "HKSA").

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, 2003 except for the adoption of the SSAP 12 (revised) "Income taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January, 2003.

The effect of adopting the revised accounting standard is set out below:

Deferred taxation is provided in full using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As a result of this change in policy, the opening reserves at 1st October, 2002 and 2003 have been increased by approximately HK$629,000 and HK$3,316,000 respectively, which represent the unprovided net deferred tax assets. In addition, the change resulted in a decrease in the profit attributable to shareholders for the six months ended 31st March, 2003 by approximately HK$246,000.

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,		**Contribution to operating profit Six months ended 31st March,**	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Primary reporting format – business segments				
Retail sales of skin-care products	**136,636**	122,480	**10,727**	4,865
Provision of beauty-salon, spa and other related services	**45,305**	42,650	**4,642**	15,845
	181,941	165,130	**15,369**	20,710
Other revenues			**2,860**	656
Unallocated corporate expenses			**(15,508)**	(17,292)
Operating profit			**2,721**	4,074

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

	Turnover Six months ended 31st March, 2004	2003
	HK$'000	*HK$'000*
Secondary reporting format – geographical segments		
Hong Kong and Macau	**100,506**	101,024
Taiwan	**38,109**	42,816
China	**42,997**	21,290
Singapore	**329**	–
	181,941	165,130

3. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 31st March, 2004	2003
	HK$'000	*HK$'000*
Crediting		
Gain on disposal of fixed assets	**151**	–
Charging		
Amortization of intangible assets	**583**	483
Depreciation	**8,448**	6,358
Loss on disposals of fixed assets	**–**	2
Loss on disposals of trading investments	**61**	–
Staff costs	**47,304**	41,225

4. Taxation

	Six months ended 31st March, 2004	Restated 2003
	HK$'000	*HK$'000*
Hong Kong profits tax	**196**	770
Overseas taxation	**1,010**	925
Under provision in prior years	**–**	290
Deferred taxation	**–**	246
	1,206	2,231

Hong Kong profits tax has been provided for the period at the rate of 17.5% (2003: 17.5%) 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 16th June, 2004, 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, 2004.

6. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately HK$1,343,000 (2003: HK$1,921,000, restated) and the weighted average number of 325,935,497 (2003: 322,762,637) ordinary shares in issue during the six months ended 31st March, 2004.

No diluted earnings per share is calculated for the period ended 31st March, 2004 since the exercise prices of the Company's outstanding options were higher than the average fair value per share of the Company during the period and the potential ordinary shares would have no dilutive effect.

The calculation of the diluted earnings per share for the period ended 31st March, 2003 is based on 322,913,587 ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 150,950 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

Beginning from a low point in September 2003, the Group has worked well to build and consolidate profitability as the economy improve. For the six months ended 31st March, 2004, total turnover of the Group shows a 10% increase as compared to the same period last year, which in fact represents a 25% growth from the second half of 2003. During the period under review, contribution to operating profit from retail sale of skin-care products also indicates a strong period-to-period growth of over 120%.

Despite the fact that during the six months period ended 31st March, 2004, the Group implemented a new accounting method with the introduction of a new point-of-sale ("POS") system for its spa and beauty services that, in the short term, has resulted in a fall in recorded profit within these sectors, for the period under review, the Group still recorded turnover of HK$182 million, while profit attributable to shareholders reached HK$1.3 million.

Any comparison should be tempered by recognition of the significant and often turbulent forces affecting markets over the past twelve months. That period saw the highly negative impact of SARS which led to large falls in profitability for many retail companies in the period from April to September 2003, not excluding the Group. When compared to its September 2003 figures for turnover and profit, which reflect the seriously muted retail environment of the time, the Group's results at 31st March, 2004 indeed represent a solid turnaround and a powerful growth trajectory which has placed the Group back in a strong position now that the economy has stabilised.

The turnaround has been achieved through commitment to successful strategies which have included maintaining strong cash flows, pressing forward with expansion in China, and continuing to develop new products tailored for the region. For example, it has increased the number of its China outlets by 59% since March 2003, while in Hong Kong it has doubled the number of Oasis Beauty Centres in operation since a year ago. With its China operations already self-financing and turning a profit, the Group is confident that new initiatives planned for the Mainland will further boost revenues in the future. These new initiatives include plans to transplant the Group's successful "Oasis Spa" and "Oasis Beauty" concepts to China, and plans to launch a new "second line" of skin-care and beauty products specially tailored for the China mass market.

~H_2O+ Retail Business

Hong Kong

The Group's Hong Kong retail business found its feet in the six months under review, after enduring the full brunt of the SARS period. Although total turnover shows approximately 5% below that recorded for the comparison period of one year ago, it has shown a solid and steady rise since the September lows brought on by SARS. Compared with the second half of 2003, for example, the Group's interim figures indicate a 24% rise in turnover. Renegotiation of leases for many of the Group's Hong Kong premises took place last year before the property rebound, and the Group was thus able to achieve good rental rates, which have further helped profitability.

In addition, a more focused and efficient advertising strategy (including a series of roadshows and carefully targeted direct mailing campaigns) has been successful in targeting prime customers at the same time as reducing advertising costs. The Group has also continued to build on the favourable response to its product diversification strategies. It launched a new colour line of ~H_2O+ cosmetic products in late April 2004, a range which has quickly proved popular. Later in the year, the Group also plans to launch further products under its popular "Oasis" series.

China

During the period, the Group has pressed on with its franchising programme and since December 2003 has established five franchisees on the Mainland with eight franchised outlets in seven large cities. The number of self-managed outlets grew to 43, representing a 34% growth over the number a year ago, which has helped to double the revenue earned from the territory. The Group has been very successful in rapidly expanding the number of its China outlets in a relatively short period of time, implementing an efficient programme for locating premium retail opportunities in major cities and quickly getting operations up and running. Its achievements in this respect have set the Group's brand apart from other skincare and cosmetics brands trying to establish themselves in the China market. This continued expansion of its varied operations in China has demonstrated the Group's commitment to delivering on the promises it made for growth at its listing in 2002.

A strong point of the Group's China developments is the fact that they are now fully self-financing, and no further cash investment from the Group should be required. As a prudent financial manager, the Group has always been averse to ventures requiring substantial start-up investment over a lengthy period. In the case of its China operations, the Group has been able to enter the Mainland market at low cost and in a manner that has allowed its operations to quickly become financially self-sufficient in terms of operating costs. As a result, the Group's China outlets have almost immediately achieved healthy returns on investment and are already contributing positive bottom lines to the Group's results, a fact which bodes extremely well for future growth in that market.

The Group has been active in promoting its products and services in China, providing residents with information about water-based skincare products and raising awareness of their benefits. With the recent liberalisation of travel for Mainland citizens to Hong Kong, the Group has also adopted innovative cross-border promotional strategies, taking advantage of the "Individual Travellers Scheme" to offer incentives for Mainland visitors to enjoy the Group's products and services in Hong Kong. Overall, expansion of the Group's activities in China through self-managed and franchised operations has resulted in a more economic scale of spending on the Mainland in areas such as advertising and distribution.

Taiwan

In Taiwan, where the Group continues to operate 15 retail outlets, business has rebounded strongly since September last year. Although the number of outlets has remained the same, combined turnover in the six months under review has soared by nearly 48% by comparison with the second half of 2003. Its contribution to operating profit also increased by 29% over the figure for the same period last year.

Singapore

As part of the Group's goal of diversifying its markets, it officially opened its first ever retail outlet in Singapore in late March 2004.

The Spa and Beauty Businesses

The Group's service business, which includes its Oasis Spa and Oasis Beauty outlets, also dealt with and recovered from last year's challenges like the retail segment. Turnover outperformed by approximately 6% as that achieved in the comparable period a year ago. With the opening of two more Oasis Beauty Centres in Hong Kong, the Group brought their total number from just six a year ago to twelve at 31st March, 2004, a 100% growth rate over the year. The Group's increasing focus on the beauty service segment of its business is continuing to bring with it improved profit due to the higher profit margins that these services typically carry.

New developments for the Group's service business are leading to greater controls and efficiencies in its operations. When it first started its spa and beauty operations, the Group sold its packages to customers without imposing expiry dates, using this flexibility as a promotional strategy and an effective marketing tool. From an accounting perspective it adopted a statistical estimation basis for calculating revenue, a method which reflected actual usage reasonably well. With its spa and beauty business well-established and thriving, the Group decided from October 2003 to bring its operating practices into line with market norms by imposing expiry dates on all its spa and beauty packages. At the same time, it introduced a new POS system which was able to record revenue on an actual consumption basis, and ceased operating the previous statistical estimation system.

These two changes have had a temporary impact on reported profit figures from the spa and beauty sector in the period under review, although this impact is largely one of timing. The imposition of expiry dates and the replacement of a statistical estimation system with a consumption system means that the spa and beauty segment has necessarily recorded a drop in profit in the short term. The fall in profit is estimated to be around HK$4 million in the period under review, but this decrease does not reflect any decline in customer usage or spending patterns in the sector. By contrast, increased profits are expected to be seen showing up in the system in the second half of the year, especially as the successful branding of these services continues to attract quality customers and enhance the Group's profitability.

Other advantages of the new POS system include improvements for customers. The system produces for each customer a detailed record of visits made and services used, all in a handy format. As customer numbers increase, the new software is also making it far simpler for the Group to handle and process increased traffic.

PROSPECTS

The Group's first half results mark a solid turnaround in its performance after the challenges of 2003. Through careful cost control measures, planned diversification, and the maintenance of a prudent financial regime, it has responded fast and proactively to the pressures of recent times. At the same time, it has pressed firmly ahead with new ventures that it believes hold strong potential, with its Mainland expansion in particular proceeding smoothly and rapidly and achieving considerable early success. These levels of prudence combined with an eye for emerging opportunities will continue to characterise the Group's operations in the future. For example, the Group intends to pursue ongoing rationalisation of its ~H_2O+ retail outlets in Hong Kong, which may involve relocating less cost-effective outlets to high profile locations with heavy customer traffic.

Throughout the period under review, the Group has remained committed to its promises to develop the China market, a commitment which has resulted in a rapid increase in the number of outlets that the Group has opened there over the past twelve months. The Group has deliberately moved quickly and effectively in China with the aim of establishing a firm early foothold in a market with great potential. It intends to continue its focused policy of building up a strong market presence on the Mainland through aggressive roll out of self-managed outlets and franchised operations. On the other hand, the Group plans to move one of its major Beijing outlets in October 2004 to even larger premises to incorporate the provision of beauty services, and this development will mark the very first of the Group's beauty service outlets in China. Other plans for expanding the range of beauty services offered in China are also being formulated, with a Sino-foreign joint venture for a spa in the planning stage. The target opening date for this enterprise is in the fourth quarter of 2004. Most of the planned developments within China will be backed up by the current operations, creating no drain on the Group's existing resources.

On a smaller scale, the Group is looking to expand its operations in the new Singapore market where initial response to the Group's presence has been very positive. It hopes to add a further 2 ~H_2O+ retail outlets in Singapore by the end of 2004.

The Group is also currently considering the advantages of applying for a China retail licence under the CEPA arrangement. At the moment, the Group is able to utilise the retail licences of the outlets in China where its products are sold, but obtaining a retail licence under the CEPA scheme may prove an advantage for medium term growth in the territory.

At the level of products and services, diversification remains a keyword. The Group currently has a number of exciting new products undergoing the approval procedures from H_2O Plus L.P. in the USA, and is continuing to explore self-developed products that may be specially suited for its markets. In addition, the Group is planning to launch a secondary product line under the ~H_2O+ family specifically designed for the China market, one whose lower cost and more mass-market orientation should appeal to a wide range of new consumers there. This second line is designed to create a volume business for the Group which should significantly increase the Group's turnover. At the same time, distribution costs will be minimal, leading to higher profit margins. As the Hong Kong economy improves and China consumers continue to flex their new economic power, the Group is confident that its turnaround period will be followed by a new plateau of solid returns for investors and shareholders.

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, 2004 payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on 9th July, 2004. The Register of Members will be closed from 7th July, 2004 to 9th July, 2004, 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 6th July, 2004. The relevant dividend warrants will be dispatched to shareholders on 15th July, 2004.

LIQUIDITY AND FINANCIAL RESOURCES

At 31st March, 2004, the Group had net current assets of HK$98 million (30th September, 2003: HK$96 million).

The Group generally finances its operation with internally generated resources. As at 31st March, 2004, the Group had cash reserves of approximately HK$83 million and with no indebtedness. Such cash reserves are principally placed on interest-bearing bank deposits.

During the period, the Group entered into foreign exchange forward contracts to reduce exposure to foreign exchange risks. The Group continues to follow the practice of prudent cash management.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st March, 2004, the Group employed 773 staff (30th September, 2003: 733). 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, 2004.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

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, 2004 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(9) 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, 16th June, 2004

As at the date of this announcement, the executive directors of the Company are Yu Lai Si, Tam Chie Sang, Yu Lai Chu, Eileen, Yu Kam Shui, Erastus and Lai Yin Ping. The independent non-executive directors of the Company are Wong Lung Tak, Patrick *JP* and Wong Chun Nam.

Please also refer to the published version of this announcement in The Standard.