~H_2O+

Water Oasis Group Limited

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 1161)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30TH SEPTEMBER 2004

+ The Group's turnover increased by 15% to over HK$357 million
+ EBITDA recorded a robust growth of more than 186%, exceeding HK$20 million
+ Sales in China recorded a strong growth of 51%
+ Number of ~H_2O+ retail outlets increased by 47% to 112
+ Number of Oasis Beauty centres increased from 9 to 12
+ Oasis Spa named "Best Spa of the Year 2004"

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 2004 (the "Accounts") as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

For the year ended 30th September

	Note	**2004** *HK$'000*	As restated 2003 *HK$'000*
Turnover	2	**357,553**	310,236
Other revenues		**1,994**	1,249
Cost of inventories sold		**(93,449)**	(79,710)
Staff costs		**(102,218)**	(84,768)
Depreciation		**(15,425)**	(13,786)
Other operating expenses		**(144,878)**	(140,931)
Operating profit/(loss)	3	**3,577**	(7,710)
Taxation	4	**(1,678)**	(41)
Profit/(loss) after taxation		**1,899**	(7,751)
Minority interests		**(205)**	654
Profit/(loss) attributable to shareholders		**1,694**	(7,097)
Dividends	5	**3,422**	5,001
Earnings/(loss) per share			
Basic	6	**0.5 cents**	(2.2) cents

NOTES TO THE ACCOUNTS

1. Principal accounting policies

The Accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They have been prepared under the historical cost convention except that investment properties and trading investments are stated at fair value.

In current year, the Group adopted the Statements of Standard Accounting Practice 12 (revised) "Income Taxes" issued by the HKICPA which is effective for accounting periods commencing on or after 1st January 2003.

The change to the Group's accounting policy and the effect of adopting the revised accounting standard is set out below:

As a result of the change in policy, the opening retained earnings at 1st October 2002 and 2003 have been increased by HK$629,000 and HK$3,316,000 respectively which represent the unprovided net deferred tax assets. This change has resulted in an increase in deferred tax assets at 30th September 2003 by HK$3,436,000. The loss attributable to shareholders and the share of net losses by minority interests for the year ended 30th September 2003 have been reduced by HK$2,687,000 and HK$120,000 respectively.

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**	
		As restated		As restated		As restated		As restated
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales to external customers	**254,664**	220,531	**102,889**	89,705	**–**	–	**357,553**	310,236
Inter-segment sales	**7,110**	4,032	**–**	–	**(7,110)**	(4,032)	**–**	–
Total	**261,774**	224,563	**102,889**	89,705	**(7,110)**	(4,032)	**357,553**	310,236
Segment results	**19,205**	1,727	**12,307**	23,960	**–**	–	**31,512**	25,687
Other revenues							**1,994**	1,249
Unallocated corporate expenses							**(29,929)**	(34,646)
Operating profit/(loss)							**3,577**	(7,710)
Taxation							**(1,678)**	(41)
Profit/(loss) after taxation							**1,899**	(7,751)
Minority interests							**(205)**	654
Profit/(loss) attributable to shareholders							**1,694**	(7,097)

Secondary reporting format – geographical segments

	Turnover	
	2004	2003
	HK$'000	*HK$'000*
Hong Kong and Macau	**210,433**	190,772
China	**75,869**	50,323
Taiwan	**68,915**	69,141
Singapore	**2,336**	–
	357,553	310,236

3. **Operating profit/(loss)**

Operating profit/(loss) is stated after crediting and charging the following:

	2004	2003
	HK$'000	*HK$'000*
Crediting		
Gain on disposal of fixed assets	**566**	102
Gain on disposal of other investment	**–**	69
Revaluation gain/(deficit) on investment properties	**1,300**	(350)
Charging		
Loss on disposal of trading investments	**47**	–
Amortisation of intangible assets	**1,169**	1,009
Auditors' remuneration	**933**	823
Operating leases rental on land and buildings	**40,033**	45,918
Unrealised loss on trading investments	**70**	17
Net exchange loss/(gain)	**466**	(89)
Interest expense on long-term bank loan	**140**	–

4. **Taxation**

		As restated
	2004	2003
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**1,550**	1,074
Overseas taxation	**1,131**	872
(Over)/under provision in prior years	**(63)**	223
Deferred taxation relating to the origination and reversal of temporary differences	**(940)**	(2,128)
	1,678	41

Hong Kong profits tax has been provided at the rate of 17.5% (2003:17.5%) on the estimated assessable profit for the year after setting off available tax losses brought forward from prior years. 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**

	2004 *HK$'000*	2003 *HK$'000*
Interim, paid, of 0.5 HK cents per ordinary share (2003: 0.5 HK cents)	**1,711**	1,610
Final, proposed on 19th January 2005, of 0.5 HK cents per ordinary share (2003: 1.0 HK cents)	**1,711**	3,391
	3,422	5,001

6. **Earnings/(loss) per share**

The calculation of basic earnings/(loss) per share is based on the Group's profit attributable to shareholders of approximately HK$1,694,000 (2003: loss attributable to shareholders of approximately HK$7,097,000 as restated) and the weighted average number of 333,845,271 (2003: 322,330,137) ordinary shares in issue during the year.

No diluted earnings/(loss) per share is calculated for the years ended 30th September 2004 and 2003 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

In addition, the Group's new operation in Singapore is also progressing well, with 3 outlets up and running there and another 2 planned for opening in the coming six months. The Group's first Singapore ~H_2O+ outlet located in Suntec City was elected the "Most Outstanding Retail Outlet" among a total of 270 participating retail stores in the Suntec Awards 2004.

The major growth in sales outlets came, naturally enough, in China, which now has 51 self-managed ~H_2O+ outlets in major cities and a further 24 franchised operations in other strategic areas. The Group's franchising strategy has proved particularly successful over the year, prompting the Group to consider further expansion through this method.

China: strategies for large-scale expansion

The Group has seen ongoing growth in its China operations across the year, and has continued to increase the number of outlets in major cities around the country. Sales continue to grow as the ~H_2O+ brand becomes more and more familiar to China-based consumers.

The Group has worked hard to ensure that its franchise partners operate high quality retail operations which effectively represent the ~H_2O+ brand. As a result, motivated franchise partners are bringing ~H_2O+ products to new areas of China, accumulating profits for the Group while minimizing risks. The Group's mix of self-managed and franchised stores across major China cities has proved to be an excellent formula for growth.

The Group is also strategically planning to introduce its Oasis Spa operation model into the China market through on-going proactive negotiations and concrete plans will be established once dominant issues straightened out.

Hong Kong: focus on store locations and design

The year saw an ongoing rationalization of outlets around Hong Kong to ensure the Group continues to get the best value from each one of its retail stores. One of its strategies was to reduce the number of department store outlets in Hong Kong from 4 to 2, since experience has shown that the ratio of rental costs to sales in these environments is not as favourable as that achieved in the Group's standalone stores in Hong Kong. One retail store in Mongkok was relocated, so that the Group is now represented in the vicinity of Mongkok's prestigious and popular new Langham Place shopping area. In Causeway Bay, meanwhile, the Group added a new shop in Percival Street to supplement its existing branch nearby in Russell Street.

The Group's high-profile Percival Street retail store has been the first to experience a design makeover which, depending on feedback, may eventually be extended across the Group's other outlets. In a departure from the cool blue and white colour scheme that has characterised its retail store decor up till now, the Group has adopted a new theme for the store that emphasizes harmonious natural materials and which carries elegant resonances of both traditional Japanese and Thai design. Sales staff also offer customers value-added hospitality services when they enter the store, helping create a natural and highly relaxing atmosphere.

The Spa and Beauty Businesses

Steady returns from beauty operations

The Group's Oasis Beauty centres achieved a profitable bottom line for the year, and were steady contributors to growth. Over the year, the number of Oasis Beauty centres in Hong Kong went from 9 to 12. 3 new centres were opened in Causeway Bay, Tseung Kwan O and Kowloon West. The expansion in centres did cause a slight drop in profits due to the ensuing dilution of the customer base, but margins remain high and the venture is performing well overall.

The Oasis Spa operation posted a loss this year, part of the reason for which was the newly introduced accounting system that was described in the interim report. The Group expects that once the implications of the new accounting system have worked their way through, Oasis Spa will once again move into profitability. The Oasis Spa operation is meanwhile keeping a high profile and maintaining a reputation for quality, as was seen when it was recently named "Best Spa of the Year 2004" by *Cosmopolitan* magazine.

An astute investment decision

Taking advantage of low property prices in the Hong Kong market earlier in 2004, the Group purchased a retail shop in Causeway Bay for approximately HK$35 million. The purchase was primarily for investment purposes, although it represents also a fallback position if rental negotiations for the Group's two current Causeway Bay premises should pose problems in the future. The shop is currently being rented out to tenants. Recent market conditions suggest the value of the property has already risen significantly, which gives the Group considerable planning flexibility, including the option of selling the property and profiting from the gains.

Future Development

China: growth through expansion and advertising

The Group expects further growth in its China operations over the coming year. It intends to add another 10 self-managed outlets to its portfolio, while at the same time extending the number of franchised outlets to between 50 and 70. Beauty services have now also begun being offered in the Group's Beijing store, the first step of transplanting the Group's beauty operations into the China market.

The rise in the number of China outlets also allows the Group to revisit its advertising spend and look into the feasibility of conducting larger-scale advertising campaigns on the Mainland in 2005, which should boost its profitability further.

Hong Kong and Taiwan: maintaining a stable, profitable retail network

The Group considers itself currently to be operating the optimum number of retail stores in both the Hong Kong and Taiwan markets given market conditions, and is thus not planning any major expansion in its retail outlets for the immediate future except for plans to open 1 new Hong Kong store in a concept mall located in Kwun Tong.

To avoid dilution of the market, the Group also plans to keep its Oasis Beauty and Oasis Spa centres at their existing numbers. It is, however, considering opening a further Oasis Beauty in Kowloon to take advantage of the rejuvenation of the shopping environment there. It also is considering plans to expand the size of its Causeway Bay Oasis Spa centre to meet demand for treatment rooms particularly in peak periods.

Oasis Beauty School

This year, the Group has planned and begun to implement a new venture, provisionally called the "Oasis Beauty School" (the "School"). Designed to operate as a profitable and self-financing training school for beauty professionals, it is also expected to provide the Group with a ready supply of skilled talent for its own beauty centres. The Group is linking up with international beauty bodies to provide certifications for its courses.

The Group has approached this venture cautiously from the outset, determined that costs should be minimised as far as possible. To this end, the School will initially be housed within the Group's existing Causeway Bay headquarters, using some 3,000 square feet of office space that is currently under-utilized.

The Group has employed an experienced consultant to advise on the project and oversee initial setup. Progress has been smooth, and the School is now well on track for opening in around March or April 2005.

Sound management policies extending into the future

The Group will continue working hard to maintain its momentum, introducing new ventures in its traditional market and planning carefully for expansion in China. Its strategy has always been one of adopting caution while maintaining the full confidence of its shareholders. It continues to hold a healthy balance of around HK$79 million in cash. New investments are adopted prudently, and must not be cost-intensive or involve much cash outflow.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity and financial resources position remained very strong. Its cash and bank deposits as at 30th September 2004 amounted to approximately HK$79 million (2003: HK$79 million). The Group generally finances its operation with internally generated resources.

As at 30th September 2004, the Group has a bank loan of approximately HK$19 million. An investment property was pledged as security for the bank loan.

The gearing ratio, expressed as a percentage of the bank loan over shareholders' fund of approximately HK$157 million, is approximately 12% (2003: 0%).

During the year, 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.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The directors have declared a final dividend of 0.5 HK cents per share for the year ended 30th September 2004 payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on 10th March 2005. The Register of Members will be closed from 7th March 2005 to 10th March 2005, both days inclusive, during which period no transfer of shares will be registered. To qualify for the 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 at 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 2005. The relevant dividend warrants will be dispatched to shareholders on 22nd March 2005.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th September 2004, the Group employed 840 staff (2003: 733). 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 approximately 26 million 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$0.42 to HK$1.67 and these options are generally exercisable within a period of one to three years from the date of grant.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 30th September 2004, 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 2004 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 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 of the Company for the year ended 30th September 2004 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 (http://www.hkex.com.hk) in due course.

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

Hong Kong, 19th January 2005

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*, Wong Chun Nam and Wong Chi Keung.

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