Water Oasis Group Limited

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

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30TH SEPTEMBER 2005

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 2005 (the "Accounts") as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	For the year ended 30th September **2005** *HK$'000*	2004 *HK$'000*
Turnover	2	**413,888**	357,553
Cost of inventories sold		**(99,048)**	(93,449)
Gross profit		**314,840**	264,104
Other revenues	2	**2,646**	1,994
Gain arising from change in fair value of investment properties		**23,763**	1,300
Staff costs		**(132,367)**	(102,218)
Depreciation		**(16,665)**	(15,425)
Other operating expenses		**(174,281)**	(146,178)
Operating profit	3	**17,936**	3,577
Taxation	4	**(4,653)**	(1,678)
Profit after taxation		**13,283**	1,899
Minority interests		**(521)**	(205)
Profit attributable to shareholders		**12,762**	1,694
Dividends	5	**22,237**	3,422
Earnings per share			
Basic	6	**3.7 HK cents**	0.5 HK cents
Diluted	6	**N/A**	N/A

CONSOLIDATED BALANCE SHEET

	Note	As at 30th September **2005** *HK$'000*	2004 *HK$'000*
Non-current assets			
Intangible assets		**1,264**	1,922
Fixed assets		**118,863**	78,669
Rental deposits		**13,063**	12,121
Other investment		–	452
Deferred tax assets		**2,753**	4,266
		135,943	97,430
Current assets			
Inventories		**35,150**	31,057
Trading investments		**65**	6,772
Accounts receivable	7	**31,751**	25,172
Prepayments		**15,676**	11,932
Other deposits and receivables		**4,950**	6,273
Tax recoverable		**182**	2,326
Bank balances and cash		**85,680**	79,018
		173,454	162,550
Current liabilities			
Accounts payable	8	**11,330**	6,583
Accruals and other payables		**46,741**	28,306
Receipts in advance		**72,345**	44,885
Long-term bank loan – current portion		**1,950**	1,950
Taxation payable		**1,496**	3,639
		133,862	85,363
Net current assets		**39,592**	77,187
Total assets less current liabilities		**175,535**	174,617
Financed by:			
Share capital		**34,212**	34,212
Reserves		**123,190**	122,672
Shareholders' funds		**157,402**	156,884
Minority interests		**209**	(193)
Non-current liabilities			
Pension obligations		**620**	620
Long-term bank loan – non-current portion		**14,787**	16,737
Deferred tax liabilities		**2,517**	569
		175,535	174,617

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.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKAS") (collectively the "HKFRSs") which are effective for accounting periods commencing on or after 1st January 2005. In current year, the Group early adopted HKAS 40 "Investment Property".

In prior years, investment properties held on leases with unexpired periods of greater than 20 years are valued by independent valuers annually. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the accounts: increases in valuation are credited to the investment properties revaluation reserve; decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit; and any subsequent increases are credited to operating profit up to the amount previously debited.

Pursuant to the fair value model of HKAS 40, which the Group has elected to apply, fair value changes in investment properties are to be recognized in the Accounts during the year in which they arise. As a result of the adoption of this accounting standard, the Group's operating profit for the current year has included approximately HK$23.8 million as gain on increase in fair value of investment properties.

The effect of adopting the new accounting standard was adjusted to the opening balance of investment properties revaluation reserve and retained profits of approximately HK$6.4 million, respectively, as at 1st October 2004 in accordance with the transitional provisions of HKAS 40. Comparative information has not been restated. Certain comparative figures have been reclassified to conform to current year's presentation.

The Group has not early adopted other new and revised HKFRSs in the Accounts for the year ended 30th September 2005. The Group has already commenced an assessment of the impact of these new and revised HKFRSs and considered it as insignificant on the Group's results of operation and financial position.

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 **2005** *HK$'000*	Retailing 2004 *HK$'000*	Services **2005** *HK$'000*	Services 2004 *HK$'000*	Elimination **2005** *HK$'000*	Elimination 2004 *HK$'000*	Group **2005** *HK$'000*	Group 2004 *HK$'000*
Sales to external customers	**284,808**	254,664	**129,080**	102,889	**–**	–	**413,888**	357,553
Inter-segment sales	**15,088**	7,110	**–**	–	**(15,088)**	(7,110)	**–**	–
Total	**299,896**	261,774	**129,080**	102,889	**(15,088)**	(7,110)	**413,888**	357,553
Segment results	**15,394**	19,205	**13,990**	12,307	**–**	–	**29,384**	31,512
Other revenues							**2,646**	1,994
Gain arising from change in fair value of investment properties							**23,763**	1,300
Unallocated corporate expenses							**(37,857)**	(31,229)
Operating profit							**17,936**	3,577
Taxation							**(4,653)**	(1,678)
Profit after taxation							**13,283**	1,899
Minority interests							**(521)**	(205)
Profit attributable to shareholders							**12,762**	1,694

Secondary reporting format – geographical segments

	Turnover **2005** *HK$'000*	Turnover 2004 *HK$'000*
Hong Kong and Macau	**227,267**	210,433
China	**111,388**	75,869
Taiwan	**67,353**	68,915
Singapore	**7,880**	2,336
	413,888	357,553

3. **Operating profit**

Operating profit is stated after crediting and charging the following:

	2005 *HK$'000*	2004 *HK$'000*
Crediting		
Gain on disposal of fixed assets	**–**	566
Gain on redemption of other investment	**34**	–
Gain/(loss) on disposal of trading investments	**580**	(47)
Charging		
Amortisation of intangible assets	**1,325**	1,169
Auditors' remuneration	**1,286**	933
Operating leases rental on land and buildings	**42,990**	40,033
Unrealised loss on trading investments	**–**	70
Net exchange loss	**315**	466
Interest expense on long-term bank loan	**597**	140

4. **Taxation**

	2005 *HK$'000*	2004 *HK$'000*
Current taxation		
Hong Kong profits tax	**1,107**	1,550
Overseas taxation	**490**	1,131
Over provision in prior years	**(421)**	(63)
Deferred taxation relating to the origination and reversal of temporary differences	**3,477**	(940)
	4,653	1,678

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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**

	2005 *HK$'000*	2004 *HK$'000*
Interim, paid, of 1.0 HK cents (2004: 0.5 HK cents) per ordinary share	**3,421**	1,711
Special, paid, of 2.5 HK cents (2004: nil) per ordinary share	**8,553**	–
Final, proposed on 13th January 2006, of 3.0 HK cents (2004: 0.5 HK cents) per ordinary share	**10,263**	1,711
	22,237	3,422

6. **Earnings per share**

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK$12,762,000 (2004: HK$1,694,000) and the weighted average number of 342,116,000 (2004: 333,845,271) ordinary shares in issue during the year.

No diluted earnings per share is calculated for the years ended 30th September 2005 and 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 year and the potential ordinary shares would have no dilutive effect.

7. **Accounts receivable**

Details of the aging analysis are as follows:

	2005 *HK$'000*	2004 *HK$'000*
0 to 30 days	**27,349**	22,277
31 days to 60 days	**2,564**	1,205
61 days to 90 days	**527**	1,610
Over 90 days	**1,311**	80
	31,751	25,172

Credit terms generally range from 30 days to 90 days.

8. Accounts payable

Details of the aging analysis are as follows:

	2005 HK$'000	2004 HK$'000
0 to 30 days	**11,330**	6,583

BUSINESS REVIEW

This year highlighted the difference between the strategies for success required by the new China market, and those necessary in the older, more mature Asian markets of Hong Kong and Taiwan. The China market has continued to show strong potential and the Group has been involved in ongoing promotion and expansion plans there throughout the year. This has been a learning curve for the Group, but its cautious policies have helped it manage the process very well and it has prepared an excellent foundation for profit growth in the future. In Hong Kong, an improved market sentiment has been a welcome development, although this has been accompanied by rapidly rising rental prices that have somewhat offset the increase in consumer spending. The Group has demonstrated its commitment to consolidating its presence in Asia, as shown across the year by its opening of new stores in Macau and Singapore.

~H_2O+ Retail Business

China: continuous rollout to meet positive demand

The Group's activities in China achieved substantial success during the year under review, with the Group meeting its goals for retail expansion there. Brand awareness and consumer demand rose significantly across the year. The Group identified China as a key area for expansion some time ago and its steady commitment to this market, challenging though it has been at times, is now beginning to bear fruit. During the year, for example, the Group's China turnover increased by over 45%, partly aided by the ongoing rollout of its retail network. From a presence made up of 90 outlets in March 2005, the Group now has 100 outlets (including 55 self-managed and 45 franchised outlets) in place, with more than 10 in the immediate pipeline. The costs of rollout and promotion in this new market mean that, to date, profits from China have yet to become significant, but once the Group reaches its optimal level of exposure it expects these to make up a major percentage of its overall profits.

In summary, in less than four years since it began opening outlets in China, the Group has managed to promote and build up a sought-after international brand-name, and create an extensive network of sales outlets in many of China's top cities. One of the reasons behind this success is the extensive research the Group has conducted before opening new China outlets. The special care it has taken in selecting shop locations and choosing preferred franchisees has helped create a very solid, reliable and strategically-situated sales network for ~H_2O+ products across China.

Hong Kong: fine-tuning a successful formula

The Group's Hong Kong retail operations benefited from an optimistic economic environment in the territory. Sales were stable across the year, and much of the Group's attention was focused on fine-tuning its sales network to maximize returns from this mature market. Some underperforming outlets were either closed down or relocated to areas with better customer traffic or lower rental costs.

To maximize returns from its highest-spending Hong Kong retail customers, in October 2005 the Group introduced a new Customer Relationship Management (CRM) program. Amongst other things the aim of the program is to encourage higher levels of spending, particularly amongst the Group's VIP customers, and it thus includes a number of new and revamped customer incentives which the Group believes will prove very popular.

Elsewhere in Asia: steady, controlled retail growth

Although China represents its main growth driver for the future, the Group is committed to retaining a strong presence in other Asian markets. This commitment has been reinforced by the continued steady performance of its existing outlets in Macau, Taiwan and Singapore over the year. Macau is experiencing an economic boom at the moment with the development of its gaming and leisure industries, and to meet increasing demand the Group opened its second retail outlet there. This new shop is situated in one of Macau's newest landmark's, Fisherman's Wharf, the first theme park and a tourist area core. The Taiwan market, meanwhile, has been solid, and there the Group has concentrated on guaranteeing reliable supplies and excellent service. In Singapore, the Group opened its fourth ~H_2O+ retail store recently to further expand its market presence there.

Spa and Beauty Businesses

Growing profit contributors

From their original function as business diversification strategies, the Group's spa and beauty businesses have gone on to become major contributors to its overall turnover, accounting for over 30% of turnover in the year under review. As a result, these sectors are now important profit contributors to the Group, a situation that should increase in the future.

Diversifying to reach a wider customer base

Recognizing the value of these business segments, over the year the Group has explored new ways of expanding its involvement in the spa and beauty sectors. Currently, its Oasis Spa business targets high-end clientele, while Oasis Beauty is focused more on attracting mass market customers. Both these sectors have enjoyed steady business over the year, and during the year the Group adjusted its presence by expanding its Oasis Beauty outlet in Kowloon Bay. To fill a perceived gap between the higher and lower markets targeted by Oasis Spa and Oasis Beauty, in mid 2005 the Group launched a new concept, Aqua Beauty. Three Aqua Beauty outlets were opened initially, in Tsuen Wan, Shatin and Mongkok. Each outlet was set up in a building in which an Oasis Beauty outlet was already operating, as a way of minimizing start-up costs and allowing efficient resource sharing. Despite the short time since its opening, the Aqua Beauty operation has already attained a cash-flow break-even position, boding extremely well for future growth. With the establishment of Aqua Beauty to complement its existing spa and beauty enterprises, the Group has now successfully diversified into the high, mid and mass markets for beauty services.

Oasis Beauty School

A source of future expertise

The Oasis Beauty School is another venture introduced just this year. As reported in the interim report, the Oasis Beauty School was an initiative designed to increase the Group's diversification while helping develop a method for sourcing trained staff for the Group's specialized needs. Its first intake of students arrived in March 2005 and these students are already well-advanced in the year-long course. Planned as an efficient enterprise that would not require large start-up sums, the beauty school has already achieved a cash-flow break-even position.

Prospects

Multiple options for China growth

The Group is well-advanced in applying for its own China retail license, which will give it the option of running its own retail stores in China if desired and free it from its current total reliance on establishing partnerships with China-based retail chains or franchisees. Also in China, the Group is negotiating with China-based partners with the aim of setting up spa operations on the Mainland. This is a longer-term business strategy because even after negotiations are successfully completed, there will be a period required for the spas to be designed and built. Nevertheless, the Group believes this venture has strong prospects in today's affluent urban China environment.

In general, the Group is demonstrating its robust confidence in the future opportunities of the China market at two practical levels. Firstly, it is in the process of expanding its China team, adding to it extra staff in its bid to bolster the marketing and franchising divisions expected to see the strongest growth. Secondly, a significantly boosted budget – more than 40% higher than the marketing expenditure in 2004/2005 – will be in place to support the expanded workforce on the Mainland. The Group expects to achieve satisfactory performance that will well-justify the additional investments.

Further product diversification

As reported in the interim report, the Group has been undergoing discussions with H_2O Plus, L.P., of the United States with a view to launching a secondary line of ~H_2O+ products in Asia. This development is progressing steadily and currently the new product range has reached the final stage of testing, after which it should be ready for launching in the first half of 2006. The products, of which there are a total of around twenty separate items, will be manufactured in the US and will retail on average at between one third and one half of the price levels of the current ~H_2O+ range. The Group anticipates that this new range will attract a new customer base drawn by the quality US origin and the competitive pricing.

Besides this secondary line, the Group has plans to further diversify its range of products and services over the longer term, with the aim of developing a number of independent income streams that will help it lessen its financial reliance on any particular market sector. In terms of products, this will involve introducing more new health food lines from Japan within 2006, as well as adding to its range of self-developed products which to date have proven widely successful and well-received. As mentioned in the interim report, the Group is also in the process of negotiating the rights to carry a new brand of skin care products. Negotiations are proceeding smoothly and the Group hopes to finalize the details of this new arrangement in the first half of the 2005/2006 fiscal year.

In a different direction, the Group is continuing to explore options in the private provision of health and beauty services. Two years ago the Group collaborated with property developer Cheung Kong in the setting up of a beauty centre in one of its upmarket housing developments. This enterprise was a successful one, and the Group has recently begun negotiations for a similar plan with another leading Hong Kong property developer. The idea is that the developer provides the space and infrastructure necessary, while the Group gets the operation running. This is a business model that has proven widely successful when it has been implemented, reporting high margins. The Group is confident that, with its experience and expertise in the industry and its prudent business regime, such a move would represent a promising new venture for future growth.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity and financial resources position remained very strong. Its cash and bank deposits as at 30th September 2005 amounted to approximately HK$85.7 million (2004: HK$79.0 million). The Group generally finances its operation with internally generated resources.

As at 30th September 2005, the Group has a bank loan of approximately HK$16.7 million (2004: HK$18.7 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$157.4 million (2004: HK$156.9 million), is approximately 11% (2004: 12%).

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 proposed a final dividend of 3.0 HK cents per share for the year ended 30th September 2005 payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on 16th March 2006. The Register of Members will be closed from 10th March 2006 to 16th March 2006, 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 whose share registration public offices are located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 15th March 2006. The relevant dividend warrants will be dispatched to shareholders on 28th March 2006.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th September 2005, the Group employed 1,030 staff (2004: 840). 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 directors and employees pursuant to the Company's share option scheme. Exercise prices of which ranges from HK$0.42 to HK$1.67.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the Accounts with Management and discussed with the independent auditors matters on auditing, internal control and financial reporting.

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

During the year ended 30th September 2005, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. All directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the review period.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied throughout the financial year ended 30th September 2005 with the Code of Best Practice set out in Appendix 14 to 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.

Effective for accounting period commencing on or after 1st January 2005, a new code on Corporate Governance Practices (the "New Code") shall be applicable. Appropriate actions are being taken by the Company to comply with the New Code.

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

A detailed results announcement of the Company for the year ended 30th September 2005 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 of Hong Kong Limited (http://www.hkex.com.hk) in due course.

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

Hong Kong, 13th January 2006

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.