

~H₂O+
WATER OASIS GROUP LIMITED
奧思集團有限公司
(incorporated in the Cayman Islands with limited liability)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31ST MARCH, 2002

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, 2002. The unaudited consolidated results have been reviewed by the Company's Audit Committee.

The Group recorded turnover of HK\$153 million for the period under review. Profit attributable to shareholders reached HK\$10 million, a 61% decrease period-on-period. Revenues from the Hong Kong ~H₂O+ retail outlets were lower than expected due to challenging retail trading conditions, and revenue from China operations came on stream later than anticipated due to delays in the product registration process.

Despite the continued difficult operating environment in the first half of fiscal 2001/2002, the Group continued to be profitable and cash flow is strong. A 1.3 HK cents per share dividend has been declared and payable to shareholders.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Unaudited	
		Six months ended 31st March, 2002	2001
		HK\$'000	HK\$'000
Turnover		153,025	147,555
Other revenues	2	564	1,779
Cost of inventories sold		(41,911)	(34,558)
Other operating expenses		(98,589)	(83,598)
Operating profit	2, 3	13,089	31,178
Taxation	4	(2,636)	(4,607)
Profit after taxation		10,453	26,571
Minority interests		(373)	(407)
Profit attributable to shareholders		10,080	26,164
Dividends	5	4,243	12,454
Earnings per share			
- Basic	6	3.6 cents	9.7 cents
- Diluted	6	3.6 cents	N/A

NOTES TO CONDENSED CONSOLIDATED ACCOUNTS

1. Basis of preparation and principal accounting policies

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

The same accounting policies adopted in the accountants' report as disclosed in the Company's prospectus dated 27th February, 2002 (the "Prospectus") have been applied to the Interim Accounts, except that the Group has adopted the following new and revised SSAPs 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

The major changes to the Group's accounting policies and the major effects of adopting these new policies are set out below:

SSAP 9 (revised): In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively. Retained earnings at 1st October, 2000 have increased by HK\$8,910,000 by the reversal of the provision for the 2000 proposed final dividend previously recorded as a liability as at 30th September, 2000 although not declared until after the balance sheet date.

SSAP 26: In Note 2 to these Interim Accounts, the Group had disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format. Comparative information has been given.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27th September, 2001 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

On 23rd January, 2002, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company on the Main Board of the Stock Exchange, the Company became the holding company of the companies comprising the Group. Details of the Reorganisation are set out in the Prospectus.

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11th March, 2002.

The Group resulting from the Reorganisation is regarded as a continuing entity, and accordingly, the consolidated accounts have been prepared on the basis of merger accounting. The Interim Accounts have been prepared as if the current group structure had been in existence throughout the six month periods ended 31st March, 2002 and 2001, rather than from the date on which the Reorganisation was completed.

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 principal activities and geographical locations is as follows:

	Turnover		Contribution to operating profit	
	Six months ended 31st March,		Six months ended 31st March,	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activities:				
Retail sales of skin-care products	142,480	131,810	29,188	36,864
Provision of beauty-salon, spa and other related services	10,545	15,745	(265)	2,911
	153,025	147,555	28,923	39,775
Other revenues			564	1,779
Unallocated corporate expenses			(16,398)	(10,376)
Operating profit			13,089	31,178
By geographical locations:				
Hong Kong and Macau	103,903	120,656	25,288	37,333
Taiwan	49,122	26,899	3,635	2,442
	153,025	147,555	28,923	39,775
Other revenues			564	1,779
Unallocated corporate expenses			(16,398)	(10,376)
Operating profit			13,089	31,178

3. Operating profit

Operating profit is stated after charging the following:

	Six months ended 31st March, 2002	2001
	HK\$'000	HK\$'000
Depreciation	4,599	4,309
Operating leases rentals on land and buildings	32,893	24,441
Unrealised loss on trading investments	-	1,222
Loss on disposals of fixed assets	52	220

4. Taxation

	Six months ended 31st March, 2002	2001
	HK\$'000	HK\$'000
Hong Kong profits tax	1,329	3,986
Overseas taxation	1,248	621
Under provision in prior years	59	-
	2,636	4,607

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

5. Dividends

At the Board meeting held on 17th June, 2002, the directors declared an interim dividend of 1.3 HK cents 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, 2002.

The Company was not yet incorporated as at 31st March, 2001. Dividend paid during the six months ended 31st March, 2001 represented interim 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 profit attributable to shareholders of approximately HK\$10,080,000 (2001: HK\$26,164,000) and the weighted average number of 276,812,308 (2001: 269,280,000) ordinary shares in issued during the six months ended 31st March, 2002. In determining the number of shares in issue, a total of 269,280,000 shares issued on the establishment of the Company and the Reorganisation of the Group as mentioned in the Prospectus were deemed to be issued since 1st October, 2000.

The diluted earnings per share is based on 276,852,252 ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 39,944 ordinary shares, assuming that all the outstanding share options had been exercised at the beginning of the period or at the date of grant of the options, if later. There were no dilutive potential ordinary shares in existence during the six months ended 31st March, 2001 and accordingly, no diluted earnings per share have been presented.

BUSINESS REVIEW

~H₂O+ Retail Business

Hong Kong and Taiwan

Business prospects in the Hong Kong market remain flat or may even represent a slight downturn, and the research data on consumer confidence, retail spending, and unemployment indicate continued uncertainty. The Census and Statistics Department of the Hong Kong Government reported an 11.7% decrease in retail sales year-on-year from January 2001 to January 2002. Matched with the Hong Kong recorded-high and rising unemployment rate, consumer confidence remains low.

The Taiwan market holds ever-growing potential, although the recent water shortage which caused the suspension of some retail air-conditioning, has adversely affected sales. The Taiwan market is more elastic than the mature Hong Kong market and the Group is putting more resources against advertising and promotional activity to drive sales. Turnover in Taiwan is growing with profit after taxation increased by 48% as compared to the prior period.

China

The Group's expansion into the China market is proceeding rapidly. In mid-April 2002, the first ~H₂O+ retail outlet opened in Shanghai, and its initial sales results have outpaced the Group's expectations and industry norms in Shanghai.

The Spa Business

The Group's spa business results showed some signs of weakness in the period under review, due in part to the uncertain economic conditions and a resulting drop in spending from Hong Kong's middle income group. The Spa business is running at virtually breakeven, although signs from the April and May results are encouraging for the future.

OUTLOOK

In addition to addressing the challenges of the economic slowdown head-on, the Group's management has made solid progress against the business expansion objectives outlined in the Prospectus at the time of listing. Management has also uncovered additional ways to accelerate the Group's growth and capture more beauty sector market share. Some highlights include:

- In addition to the Shanghai ~H₂O+ retail outlet, more outlets are slated to open in major cities in China. Retail growth in China has been accelerated by the addition of prime locations within select department stores;
- In order to capture the mass sector of the spa market, the Group has developed a new Oasis Beauty Centre concept, of which three locations are under construction now. Management expects them to begin contributing to the revenue stream shortly;
- In an exciting new development, the Group will reach the top end of the spa market by opening a prestigious Banyan Tree Spa in Hong Kong. Under the terms of the recently signed Memorandum of Understanding ("MOU"), the new spa will be owned by the Group and operated by the Banyan Tree Group.
- In a continuous effort to diversify the Group's business, the Group has introduced a line of health drinks since last year with satisfactory results. The Group is now sourcing a wider range of health supplement products as well as distributing channels.

~H₂O+ Retail Business

A key business objective identified in the Prospectus is the use of proceeds to help the Group rapidly expand its ~H₂O+ retail presence in China, with 10 new locations plan to open in the first 12 months after listing.

As noted in the Prospectus, one of the risk factors associated with the Group's expansion in China is the need to obtain relevant government approvals and licenses. Progress in securing the necessary product registrations was slower than anticipated. As a result, the opening schedule of new ~H₂O+ retail outlets was delayed, and the China retail business did not make as large a contribution to turnover as anticipated.

The approvals needed have now been secured, and in addition to the first ~H₂O+ retail outlets opened in Shanghai in April 2002, 3 more has been added in Beijing up till today, with a total of 17 now plan for the calendar year 2002. Because of positive consumer response to the counters in department stores, the Group is rolling out its China retail presence more quickly than noted in the Prospectus.

The Spa Business

Management has made solid moves to assure that the Group is now well positioned to drive revenue from all sectors of the spa and beauty business: top, middle, and mass sector consumers.

The MOU signed with the prestigious spa operator Banyan Tree to open locations in Hong Kong will allow the Group to capture the upper end of the market. In the Prospectus HK\$8 million was allocated for spa construction; it is these funds that will be used for the Banyan Tree in Hong Kong.

The Group's established Oasis Spa business services will continue to serve the middle segment of the market.

The Group will soon offer an option for the lower, mass sector of the market, with the launch of the new Oasis Beauty Centres. The Oasis Beauty Centre concept has been under test for more than nine months in Hong Kong inside ~H₂O+ retail locations, and the results have proven the business effectiveness of the concept before any significant capital expenditure is made. The Oasis Beauty Centres will offer a select range of treatments with high consumer demand, such as facials and slimming, as well as selling beauty products. The Oasis Beauty Centres offer a smaller range of treatments than what is available at the Oasis Spas, and they will also require less space and cost to operate.

PROSPECTS

The Group's prospects are positive, and Management is acting decisively to take advantage of new opportunities in the marketplace, as well as addressing weaknesses arising from external factors affecting the Group's performance. The difficult trading environment in the Group's two current markets of Hong Kong and Taiwan, as well as temporary delays in bringing revenue on stream from the China operations, are being offset by anticipated revenue from new initiatives and an even more aggressive rollout of retail locations than originally outlined in the Prospectus.

As a new member of the Stock Exchange the Group is making good use of 2002 to build a foundation for future growth, even while experiencing a challenging retail environment. Management has successfully delivered strong progress against the objectives outlined in the Prospectus, and developed new lines of business using the Group's core brands as well as finding new partners and sales channels.

It is expected that the prospects for the coming years will remain bright, with continuing potential for further dividends and capital gains.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The directors have declared an interim dividend of 1.3 HK cents per share for the six months ended 31st March, 2002 payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on 11th July, 2002. The Register of Members will be closed from 9th July, 2002 to 11th July, 2002, 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 registrars in Hong Kong, Standard Registrars Limited of 5/F., Wing On Centre, 111 Connaught Road Central, Hong Kong for registration not later than 4:00 p.m. on 8th July, 2002. The relevant dividend warrants will be dispatched to shareholders on 15th July, 2002.

LIQUIDITY AND FINANCIAL RESOURCES

At 31st March, 2002, the Group had net current assets of HK\$133.4 million (2001: HK\$67.9 million).

The Group generally finances its operation with internally generated resources. Net proceeds from the Initial Public Offer of the Company's shares will primarily be used to support the Group's expansion in the China market and the spa business. As at 31st March, 2002, the Group maintains a strong financial position with approximately HK\$105 million cash reserves and had no indebtedness. Such cash reserves are principally placed on interest-bearing bank deposits.

In addition, the Group continues to generate strong recurring cash flows from its daily operation. Management believes this strong financial position enables the Group to get access to future development opportunities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st March, 2002, the Group employed 322 staff (31st March, 2001: 312). 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. No option has been granted to any employee pursuant to the Company's share option scheme adopted on 23rd January, 2002.

PLEGDED OF ASSETS

At 31st March, 2002, the Group did not pledge any assets (2001: pledged of other investments HK\$2,013,000) for bank guarantees given in respect of the operating leases of certain shop premises.

AUDIT COMMITTEE

The Audit Committee was set up on 23rd January, 2002 and 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, 2002.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the six months ended 31st March, 2002. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the six months ended 31st March, 2002.

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 of the Listing Rules at any time during the six months ended 31st March, 2002 except that the independent non-executive directors of the Company were not appointed for a specific term because they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

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

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

By order of the Board
Cheng Chi Wai
 Company Secretary

Hong Kong, 17th June, 2002