



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, 2005

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, 2005. The unaudited consolidated results have been reviewed by the Company’s Audit Committee.

The Group recorded turnover of approximately HK\$199.6 million for the period under review. Profit attributable to shareholders was approximately HK\$12.6 million. An interim dividend of 1.0 HK cent per share and a special dividend of 2.5 HK cent per share have been declared and payable to the shareholders.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited Six months ended 31st March,	
	Notes	2005 HK\$'000	2004 HK\$'000
Turnover	2	199,585	181,941
Cost of inventories sold		(49,611)	(49,780)
Gross profit		149,974	132,161
Other revenues	2	1,287	1,561
Gain arising from change in fair value of investment properties		15,563	1,299
Operating expenses		(148,654)	(132,300)
Operating profit	2, 3	18,170	2,721
Taxation	4	(5,050)	(1,206)
Profit after taxation		13,120	1,515
Minority interests		(519)	(172)
Profit attributable to shareholders		12,601	1,343
Dividends	5	11,974	1,711
Earnings per share			
– Basic	6	3.7 HK cent	0.4 HK cent
– Diluted	6	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	Unaudited As at 31st March, 2005 <i>HK\$'000</i>	Audited As at 30th September, 2004 <i>HK\$'000</i>
Non-current assets			
Intangible assets		1,590	1,922
Fixed assets		107,021	78,669
Rental deposits		12,629	12,121
Other investment		–	452
Deferred tax assets		2,544	4,266
		<u>123,784</u>	<u>97,430</u>
Current assets			
Inventories		35,078	31,057
Trading investments		–	6,772
Accounts receivable	7	32,189	25,172
Prepayments		15,116	11,932
Other deposits and receivables		5,091	6,273
Tax recoverable		71	2,326
Bank balances and cash		86,247	79,018
		<u>173,792</u>	<u>162,550</u>
Current liabilities			
Accounts payable	8	10,419	6,583
Accruals and other payables		36,356	28,306
Receipts in advance		59,222	44,885
Long-term bank loan - current portion		1,950	1,950
Taxation payable		2,258	3,639
		<u>110,205</u>	<u>85,363</u>
Net current assets		<u>63,587</u>	<u>77,187</u>
Total assets less current liabilities		<u><u>187,371</u></u>	<u><u>174,617</u></u>
Financed by:			
Share capital		34,212	34,212
Reserves		134,360	122,672
Shareholders' funds		168,572	156,884
Minority interests		207	(193)
Non-current liabilities			
Pension obligations		620	620
Long-term bank loan - non-current portion		15,763	16,737
Deferred tax liabilities		2,209	569
		<u>187,371</u>	<u>174,617</u>

Notes:

1. Basis of preparation and principal accounting policies

These unaudited condensed consolidated 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 (the “Listing Rules”) and Statement of Standard Accounting Practice (“SSAP”) 25 (revised) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

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, 2004 except for the early adoption of Hong Kong Accounting Standard (“HKAS”) 40 “Investment Property” issued by the HKICPA which is effective for accounting periods commencing on or after 1st January, 2005.

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 Interim Accounts in the period in which they arise. As a result of the adoption of this accounting policy, the Group's operating profit for the current period has included approximately HK\$15.6 million as gain on increase in fair value of investment properties attributable to the Group.

The effect of adopting the new accounting policy 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 period's presentation.

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,	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Primary reporting format – business segments				
Retail sales of skin-care products	144,936	136,636	14,297	10,727
Provision of beauty-salon, spa and other related services	54,649	45,305	5,313	4,642
	<u>199,585</u>	<u>181,941</u>	<u>19,610</u>	<u>15,369</u>
Other revenues			1,287	1,561
Gain arising from change in fair value of investment properties			15,563	1,299
Unallocated corporate expenses			(18,290)	(15,508)
Operating profit			<u>18,170</u>	<u>2,721</u>

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

	Turnover Six months ended 31st March,	
	2005 HK\$'000	2004 HK\$'000
Secondary reporting format – geographical segments		
Hong Kong and Macau	104,228	100,506
China	52,139	42,997
Taiwan	39,753	38,109
Singapore	3,465	329
	<u>199,585</u>	<u>181,941</u>

3. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 31st March,	
	2005 HK\$'000	2004 HK\$'000
Crediting		
Gain on disposals of fixed assets	16	151
Gain on disposals of trading investments	580	–
Gain on redemption of other investment	34	–
	<u>630</u>	<u>151</u>
Charging		
Amortization of intangible assets	637	583
Depreciation	7,958	8,448
Loss on disposals of trading investments	–	61
Staff costs	52,925	47,304
Interest expenses on long-term bank loan	203	–
	<u>60,723</u>	<u>56,396</u>

4. Taxation

	Six months ended 31st March,	
	2005 HK\$'000	2004 HK\$'000
Hong Kong profits tax	129	196
Overseas taxation	1,560	1,010
Deferred taxation	3,361	–
	<u>5,050</u>	<u>1,206</u>

Hong Kong profits tax has been provided for the period at the rate of 17.5% (2004: 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 15th June, 2005, the directors declared an interim dividend of 1.0 HK cent per share (2004: 0.5 HK cent per share) and a special dividend of 2.5 HK cent per share (2004: Nil) (collectively the “Interim Dividend”). 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, 2005.

6. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately HK\$12,601,000 (2004: HK\$1,343,000) and the weighted average number of 342,116,000 (2004: 325,935,497) ordinary shares in issue during the six months ended 31st March, 2005.

No diluted earnings per share is calculated for the period ended 31st March, 2005 (2004: Nil) 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.

7. Accounts receivable

Details of the ageing analysis are as follows:

	As at 31st March, 2005 HK\$'000	As at 30th September, 2004 HK\$'000
0 to 30 days	27,904	22,277
31 days to 60 days	2,003	1,205
61 days to 90 days	968	1,610
Over 90 days	1,314	80
	<u>32,189</u>	<u>25,172</u>

Credit terms generally range from 30 days to 90 days.

8. Accounts payable

Details of the ageing analysis are as follows:

	As at 31st March, 2005 HK\$'000	As at 30th September, 2004 HK\$'000
0 to 30 days	<u>10,419</u>	<u>6,583</u>

BUSINESS REVIEW

~H₂O+ retail business

China

The Group's China operations have continued to achieve considerable success, as shown by the increasing weighting of sales from the China market as a percentage of the Group's overall sales. Sales contributions from the China operations are some 20% higher than those in the same period last year. This is partly because of the Group's continuing roll-out of retail stores in China, both on a self-managed and franchised basis, as it continues to move towards its ambitious target figures.

Currently the Group has 54 self-managed stores in China, up from 51 last year and well on the way to a target number of 60 by the end of the year. As for franchised outlets, the Group currently has 36, up from 24, and these will continue to roll out at a good pace. The Group aims to have 70 franchised outlets in operation by the end of the year. Overall, the Group has nearly 90 outlets already in place in China cities, with a planned target of 130 by year-end. This wide roll-out is building on the rapid success of Water Oasis products in the China market, which has quickly translated into a positive bottom line for the Group's overall China operations.

Hong Kong

Within the sphere of its traditional retail operations in Hong Kong, the Group has been constantly alert to opportunities for revenue enhancement on the one hand, and cost-saving opportunities on the other. In terms of cost-saving, the Group has focused on the costs associated with the renting of its Hong Kong outlets. Having enjoyed excellent rental rates for the past two years (negotiated in the aftermath of the SARS period), the Group recognizes that costs will rise when many of its leases will be renegotiated in late 2005. In response to a familiar Hong Kong property market cycle, in 2004 the Group hedged its rental exposure by acquiring retail properties in Causeway Bay while prices were relatively low. The properties are currently being rented out. The Group is considering selling these investment properties later in the year and realizing gains which could amount to up to HK\$30 million in total. Increased rental costs should therefore be offset by returns anticipated from the Group's strategic property investment.

In addition, the Group has made adjustments to its Hong Kong retail network to maximize return. In the period under review, underperforming outlets were closed or relocated to other strategic locations to better reflect customer traffic and achieve lower rental costs. This sort of fine-tuning of retail outlet coverage and ongoing assessment of rental exposure will remain a characteristic of the Group as it monitors its retail effectiveness in the stable and mature Hong Kong market.

Taiwan, Singapore

The Group maintained a stable exposure in the Taiwan market, remaining cautious about expansion and operating from the position that its current market coverage is optimal. This assessment was borne out by record high profits achieved in the first half of the year. In Singapore meanwhile, where it is a relative newcomer to the market, the Group achieved a healthy cashflow breakeven position in the period under review. This result bodes well for the Group's fourth Singapore outlet, due to be opened in the third quarter of 2005.

The spa and beauty businesses

One of the reasons the Group originally diversified into the spa and beauty business was because of the higher margins available on services provided. Despite a few fluctuations due to external economic events in previous years, the value to the Group of its spa and beauty business has proved extremely positive. The weighting of the Group's sales from this sector has continued to grow, and in the period under review spa and beauty revenue made up 27% of the Group's overall sales, an almost 3% rise over last year. The success of the spa and beauty operations has led to a need for expansion at selected outlets to cater for demand. For example, additional space has been rented to boost the Group's Kowloon Bay Oasis Beauty outlet, and plans are afoot to extend the space available for the Tsuen Wan Oasis Beauty outlet as well. Moves are also underway to expand the Group's customer base by diversifying its range of beauty services further. From the middle of 2005, the Group will launch a new Beauty Centre brand "Aqua Beauty", aimed at women who currently fall between the socio-economic brackets appealed to by the Oasis Spa and Oasis Beauty operations.

Oasis Beauty School

In a move designed to create a reliable, high-quality stream of operational talent for its retail, beauty and spa activities, the Group last year began the initial planning for the launch of a skincare and beauty training school. It also saw this move as an opportunity to create diversified revenue. The enterprise, called the “Oasis Beauty School”, began operations as planned in March and attracted a good initial student base. As previously reported, the Oasis Beauty School development was planned from the outset as a cautious business venture involving relatively low capital expenditure. This, combined with a positive student response as manifested in enrolment numbers, has resulted in an operation producing immediate good returns. The School’s achievement of achieving a cashflow breakeven position after the first month of business is a record for the Group.

PROSPECTS

Further growth in China operations

As mentioned above, the Group’s activities in China have continued apace over the period, and it is now well advanced towards its goal of operating 60 self-managed and 70 franchised retail outlets by the end of the year. In addition to this, the Group has noted the growing demand for spa and beauty services in urban China, and the rapid success of a number of spa chains there catering specifically for the lower end of the market. With its own spa and beauty experience and existing involvement in the China market, the Group believes it has the potential to break successfully into this sector on the Mainland. It aims not to compete with existing mass market spa chains however, but to build an upmarket reputation by tailoring its spa and beauty centres to a more affluent elite in major cities.

The Group has now begun negotiations with a China-based partner in a major city for the setting up of the first Water Oasis spa and beauty centre to appear in China. Under any arrangement, the potential partner would own the site and be responsible for all capital investment, while the Group would manage and operate the business and receive a management fee for its role. The Group believes this venture represents an ideal opportunity to explore the particular challenges of operating a spa business in China. It will utilise its Hong Kong experience but at the same time fully explore the special conditions applicable to Mainland customers. Once the most successful formula has been developed, it will turn attention to expanding its spa and beauty network more widely. By partnering with a China-based enterprise for this initial move into the market, the Group believes it is exploring a high-opportunity new market at a minimal level of risk. It will not be required to make any significant investment besides perhaps some portable equipment. The Group is optimistic that the first Water Oasis spa and beauty centre will be operational by the end of 2005.

The Group is currently in the process of applying for its own retail license in China, and the license should have completed processing by the end of the year. In the past, the Group has worked effectively in China by taking advantage of the retail licenses of the outlets selling its products, but obtaining its own retail license would bring a number of additional advantages to the Group. For example, it would allow the Group to operate its own standalone stores if desired, instead of having to rely on department store outlets, a possibility that may become more and more attractive as shopping trends change in China. By the same token, a license would mean the Group could also operate its own spa and beauty centres, if it wished to expand and diversify from its current partnering strategy. The license should also increase the Group’s bargaining power with Mainland department stores, establishing it a better recognised and weightier player in the competitive skin care and beauty products market.

New secondary line to be developed jointly with H₂O Plus, L.P.

The Group has recently worked through initial discussions with H₂O Plus, L.P. in the USA about developing and launching a secondary line of skincare products that will create product diversification and offer opportunities to target another market segment, both in Hong Kong and China. The new line, which will consist of around 20 products, will be co-owned by H₂O Plus, L.P. and Water Oasis. Development, formulation and testing will be carried out by H₂O Plus, L.P., while the Group will be responsible for the marketing and distribution side of operations. The basic parameters of this arrangement have been laid out, and the Group is now ready to proceed towards negotiating a formal agreement.

The name and brand image of the new line is still under development, but it is expected that prices will average between one third and a half of the current ~H₂O+ product range. This pricing should open up a large new potential customer base for the Group, particularly in China where price sensitivity is a crucial issue. Furthermore, because the new line of products will all be manufactured in the USA, the line will maintain a genuine “foreign product” status in the China market: a valuable situation in terms of prestige and generation of demand.

The Group expects to begin selling the secondary line in Hong Kong in the first quarter of 2006, before going on to launch it in China once the somewhat lengthy product registration process is completed. In Hong Kong, the new line will be sold through a mix of department stores and selected standalones. The line represents a further example of careful diversification on the Group's part, but besides the benefits of diversification the development offers the Group other important advantages. In China in particular, having an extra brand will boost the Group's exposure in department stores as well as improving its bargaining power in that context, since it will no longer be a single-brand distributor but a multi-brand operator.

New brand to be carried by Water Oasis

Commentators have in the past suggested that the Water Oasis Group is limited because its primary role is as a distributor of ~H₂O+ products. The Group's diversification into the spa and beauty business, and other initiatives such as the Oasis Beauty School, have proved this to be an inaccurate assessment. However, in a further diversification move, the Group has recently negotiated with H₂O Plus, L.P. the right to distribute another brand of skin care or cosmetics products. This represents a superb opportunity for the Group to expand by selecting a brand with a different emphasis and target market from those of its existing brand. The Group is still considering its possibilities, and a number of possible choices are on hand. In general, the Group is looking to target a less expensive brand that could give it the chance to move into the mass market.

During the first half of the financial year, there has been a period of considerable planning and negotiation as the Group prepares proactively for the next phase of its growth. Having proved itself in the China retail market, the Group is on the verge of new ventures in spa and beauty there. Its plans for a secondary range of ~H₂O+ products and for distributing a wholly new brand represent a prudent yet ambitious process of diversification and attention to the mass market which is expected to yield good returns, particularly when applied to the Mainland market. These initiatives, while still in some cases at the planning stage, are expected to come quickly to fruition and rapidly repay investors with solid returns.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The directors have declared an Interim Dividend of 3.5 HK cent per share for the six months ended 31st March, 2005 payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on 7th July, 2005. The Register of Members will be closed from 5th July, 2005 to 7th July, 2005, 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 4th July, 2005. The relevant dividend warrants will be dispatched to shareholders on 15th July, 2005.

LIQUIDITY AND FINANCIAL RESOURCES

At 31st March, 2005, the Group had net current assets of approximately HK\$64 million (30th September, 2004: HK\$77 million).

The Group generally finances its operation with internally generated resources. As at 31st March, 2005, the Group had cash reserves of approximately HK\$86 million (30th September, 2004: HK\$79 million).

As at 31st March, 2005, the Group has a bank loan of approximately HK\$18 million (30th September, 2004: HK\$19 million). This bank loan was used to finance the purchase of certain investment properties which in turn are pledged as security for such loan.

The Group's gearing ratio, expressed as a percentage of the bank loan over the shareholders' fund of approximately HK\$169 million (30th September, 2004: HK\$157 million), is approximately 11% (30th September, 2004: 12%).

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, 2005, the Group employed 935 staff (30th September, 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 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, 2005.

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.

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.

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, 2005 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 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, 15th June, 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 The Standard.