

The Board of Directors (the "Board") of Water Oasis Group Limited (the "Company") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively known as the "Group") for the six months ended 31st March, 2003. The unaudited consolidated results have been reviewed by the Company's Audit Committee.

The Group recorded turnover of approximately HK\$165 million for the period under review. Profit attributable to shareholders was approximately HK\$2.2 million.

The Group's interim results reflect the impact of major negative social and economic factors that afflicted the region and led to significantly reduced profits for companies across a wide spectrum of industries. These factors had particular impact on the retail sector in Hong Kong, and on the Group's own performance.

Retail purchasing in the Group's core market was particularly affected by Hong Kong's ongoing deflationary environment, in which the retail index slipped further while unemployment rose to fresh highs. On top of this, the unexpected and devastating arrival of the SARS epidemic deeply undermined consumer confidence and pushed retail spending lower still. A sign of the seriousness of these factors could be seen in the profit warnings made by over forty listed companies between April and May 2003. The Group itself was one of these, alerting shareholders to revised prospects in an announcement made on 9th May, 2003: a reminder that the major impact of the SARS outbreak can be expected to show itself in the second half of the financial year.

Despite the inevitable and expected fall in profits for the period, the Group is also able to report a series of solid business accomplishments which have continued the Group's strategy of diversifying both markets and products, and which will provide a strong basis for future consolidation and growth in due course. In particular, the Group has continued its rapid and strenuous commitment to opening up the market in the Mainland China (the "PRC"). Its carefully planned roll-out programme is designed to avoid over-expansion while fully capitalizing on the proven high demand for Water Oasis products within the PRC. Since January 2003 the Group has established further ~H₂O+ retail outlets in the PRC, and now has a total of 37 outlets in operation across more than fifteen major cities, outlets which have quickly proved their profitability when assessed according to EBITDA criteria. It also operates three offices there, which co-ordinate administration and marketing activities. In Hong Kong, the opening of a new Oasis Beauty centre in Mongkok in May 2003 brought to six the number of these popular centres now operating.

BUSINESS REVIEW

~H₂O+ Retail Business

Hong Kong and Macau

The Group's core market came under considerable pressure in the period under review, and consequently achieved only a small net profit for the first half of the year. In order to deal effectively with what it believes to be a temporary downturn in demand, the Group worked during the year to develop and promote ancillary revenue sources to supplement ~H₂O+ product sales. The Group's beauty services and health drink sales, bringing in over 50% more revenue than in the same period during the previous year, contributed to achieving this goal. At the same time, the Group turned its attention to a number of strategies for reducing costs.

Taiwan

Despite a generally unfavourable business environment, the Group's ~H₂O+ product sales held up well in the period under review. Overall, net profit for the six months to 31st March, 2003 held steady, achieving similar levels to those obtained on average over the previous year.

China

The Group continued its policy of aggressively rolling out new outlets in this market, with a total of 37 now in operation. Measured by EBITDA criteria, these new operating units have achieved positive results at a very early stage, indicating that the Group's expansion strategy is a well-judged one. The popularity of the Group's products in the PRC suggests that its plans for franchising ~H₂O+ outlets there are appropriate, and the Group will therefore shortly begin recruitment of potential franchisees.

Spa and Beauty Businesses

Oasis Spa

The Group's high-end beauty treatment services continued to be affected by the same factors that undermined retail sales performance of ~H₂O+ products. Nevertheless, Oasis Spa consolidated its position over the previous year, turning a HK\$0.3 million net loss from that period to a small net profit of HK\$0.2 million for the six month period ended 31st March, 2003. Historically, the performance of the Group's spa business tends to do better in the second half of the year, suggesting the likelihood of reasonable overall results for Oasis Spa across the entire 2002/2003 year, although the negative effects of the SARS outbreak during the period is likely to reduce the benefits of this trend. The Group therefore plans to further improve its revenue by introducing a range of new treatment programmes, and launching a series of promotional activities designed to attract new customers for the spa business in order to achieve a better result for the coming months.

Oasis Beauty

The Group's sensitivity and rapid responsiveness to changing market conditions has been well-demonstrated in the success of its Oasis Beauty concept. Oasis Beauty was designed from the outset as a cautious business venture requiring relatively small capital outlay, carefully tailored for a tough business environment. Its strategy of offering affordable beauty treatments to mass market consumers has clearly struck a chord in Hong Kong struggling with economic downturn, and its popularity prompted the Group to open a sixth Oasis Beauty outlet in Mongkok. These six outlets, established within a year, are proving capable of consistently outperforming the market, even in the current adverse economic environment. Oasis Beauty in fact has proved a key contributor towards the bottom line figure of HK\$2.2 million achieved by the Group in the six month period ended 31st March, 2003. In the second half of the year, the Group expects Oasis Beauty to achieve similar results to those of the first half of the year, an excellent performance given the current adverse economic environment, and one that shows the Group's ability to react astutely and rapidly to shifts in economic realities and market trends. Having said this, it is important to note that both Oasis Spa and Oasis Beauty extensively use ~H₂O+ products in the treatments they offer. The success and profitability of these ventures rest firmly on market recognition of and demand for the Group's core products. The spa and beauty operations can thus be seen to function as important promotional tools for enhancing ~H₂O+ sales in Hong Kong. Together, they give the Group recognition at every socio-economic level, with Water Oasis spa and beauty services serving customers from the elite end of the spectrum right through to mass market users.

OUTLOOK

The Group remains in a strong financial position regardless of the fluctuations in the market. This is largely a result of its highly prudent investment decision-making, with the Group maintaining significant cash reserves offering high liquidity, stable returns, and the potential for rapid investment in existing and potential business opportunities. Currently the Group has over HK\$74 million of cash on hand, and maintains a debt-free position.

The Group is continuing to explore and implement a number of cost-controlling measures to improve efficiency and enhance profitability. Payroll costs in particular are being stringently targeted, with pay frozen at 2002 levels, and the structure of remuneration for sales staff adjusted to increase the segment linked to performance. In addition, outsourcing of some administrative and logistical functions will reduce the Group's expenses significantly.

The Group is also looking closely at the performance of individual outlets, and adopting measures to maximise their contributions to profit. In many cases, new and competitive rental agreements have been negotiated that will shortly boost the profitability of individual stores. The Group is also considering relocating outlets to improve their turnover. The closure of two underperforming standalone outlets located in Taipei in April 2003 helped firm the Group's position in the Taiwan market, where department store sales account for the bulk of health and beauty care purchases. The financial effects of these changes should begin to make themselves felt from the 2003/2004 fiscal year. Overall, the Group plans to implement a comprehensive package of cost-cutting initiatives designed to cut operational expenses by approximately 5% annually. These will in turn be supplemented by the addition of new sources of revenue, notably a promising line of health drink products.

Despite the negative impact of the factors outlined at the beginning of this report, the Group is able to point to a number of positive developments over the past six months. In addition to the benefits accruing from its debt-free and cash-rich position, and the expected savings from its planned cost-cutting measures, the Group expects continuing significant contributions from its Oasis Beauty outlets, along with increased revenues arising from its PRC franchise operations, which will be commenced in July this year. These factors, together with the fundamental robustness of the Group's core products and markets, should enable the Group to ride the storm and emerge strongly once the crisis recedes.