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, 2004. The unaudited consolidated results have been reviewed by the Company's Audit Committee.

Beginning from a low point in September 2003, the Group has worked well to build and consolidate profitability as the economy improves. For the six months ended 31st March, 2004, total turnover of the Group shows a 10% increase as compared to the same period last year, which in fact represents a 25% growth from the second half of 2003. During the period under review, contribution to operating profit from retail sale of skin-care products also indicates a strong period-to-period growth of over 120%.

Despite the fact that during the six months period ended 31st March, 2004, the Group implemented a new accounting method with the introduction of a new point-of-sale ("POS") system for its spa and beauty services that, in the short term, has resulted in a fall in recorded profit within these sectors, for the period under review, the Group still recorded turnover of HK$182 million, while profit attributable to shareholders reached HK$1.3 million.

Any comparison should be tempered by recognition of the significant and often turbulent forces affecting markets over the past twelve months. That period saw the highly negative impact of SARS which led to large falls in profitability for many retail companies in the period from April to September 2003, not excluding the Group. When compared to its September 2003 figures for turnover and profit, which reflect the seriously muted retail environment of the time, the Group's results at 31st March, 2004 indeed represent a solid turnaround and a powerful growth trajectory which has placed the Group back in a strong position now that the economy has stabilised.

The turnaround has been achieved through commitment to successful strategies which have included maintaining strong cash flows, pressing forward with expansion in China, and continuing to develop new products tailored for the region. For example, it has increased the number of its China outlets by 59% since March 2003, while in Hong Kong it has doubled the number of Oasis Beauty Centres in operation since a year ago. With its

China operations already self-financing and turning a profit, the Group is confident that new initiatives planned for the Mainland will further boost revenues in the future. These new initiatives include plans to transplant the Group's successful "Oasis Spa" and "Oasis Beauty" concepts to China, and plans to launch a new "second line" of skin-care and beauty products specially tailored for the China mass market.

### Dividend

The Board proposed an interim dividend of 0.5 HK cents for the six months ended 31st March, 2004 (2003: 0.5 HK cents).

## Business Review

### ~$H_2O$+ Retail Business

HONG KONG

The Group's Hong Kong retail business found its feet in the six months under review, after enduring the full brunt of the SARS period. Although total turnover shows approximately 5% below that recorded for the comparison period of one year ago, it has shown a solid and steady rise since the September lows brought on by SARS. Compared with the second half of 2003, for example, the Group's interim figures indicate a 24% rise in turnover. Renegotiation of leases for many of the Group's Hong Kong premises took place last year before the property rebound, and the Group was thus able to achieve good rental rates, which have further helped profitability.

In addition, a more focused and efficient advertising strategy (including a series of roadshows and carefully targeted direct mailing campaigns) has been successful in targeting prime customers at the same time as reducing advertising costs. The Group has also continued to build on the favourable response to its product diversification strategies. It launched a new colour line of ~$H_2O$+ cosmetic products in late April 2004, a range which has quickly proved popular. Later in the year, the Group also plans to launch further products under its popular "Oasis" series.

## CHINA

During the period, the Group has pressed on with its franchising programme and since December 2003 has established five franchisees on the Mainland with eight franchised outlets in seven large cities. The number of self-managed outlets grew to 43, representing a 34% growth over the number a year ago, which has helped to double the revenue earned from the territory. The Group has been very successful in rapidly expanding the number of its China outlets in a relatively short period of time, implementing an efficient programme for locating premium retail opportunities in major cities and quickly getting operations up and running. Its achievements in this respect have set the Group's brand apart from other skincare and cosmetics brands trying to establish themselves in the China market. This continued expansion of its varied operations in China has demonstrated the Group's commitment to delivering on the promises it made for growth at its listing in 2002.

A strong point of the Group's China developments is the fact that they are now fully self-financing, and no further cash investment from the Group should be required. As a prudent financial manager, the Group has always been averse to ventures requiring substantial start-up investment over a lengthy period. In the case of its China operations, the Group has been able to enter the Mainland market at low cost and in a manner that has allowed its operations to quickly become financially self-sufficient in terms of operating costs. As a result, the Group's China outlets have almost immediately achieved healthy returns on investment and are already contributing positive bottom lines to the Group's results, a fact which bodes extremely well for future growth in that market.

The Group has been active in promoting its products and services in China, providing residents with information about water-based skincare products and raising awareness of their benefits. With the recent liberalisation of travel for Mainland citizens to Hong Kong, the Group has also adopted innovative cross-border promotional strategies, taking advantage of the "Individual Travellers Scheme" to offer incentives for Mainland visitors to enjoy the Group's products and services in Hong Kong. Overall, expansion of the Group's activities in China through self-managed and franchised operations has resulted in a more economic scale of spending on the Mainland in areas such as advertising and distribution.

TAIWAN

In Taiwan, where the Group continues to operate 15 retail outlets, business has rebounded strongly since September last year. Although the number of outlets has remained the same, combined turnover in the six months under review has soared by nearly 48% by comparison with the second half of 2003. Its contribution to operating profit also increased by 29% over the figure for the same period last year.

SINGAPORE

As part of the Group's goal of diversifying its markets, it officially opened its first ever retail outlet in Singapore in late March 2004.

## The Spa and Beauty Businesses

The Group's service business, which includes its Oasis Spa and Oasis Beauty outlets, also dealt with and recovered from last year's challenges like the retail segment. Turnover outperformed by approximately 6% as that achieved in the comparable period a year ago. With the opening of two more Oasis Beauty Centres in Hong Kong, the Group brought their total number from just 6 a year ago to 12 at 31st March, 2004, a 100% growth rate over the year. The Group's increasing focus on the beauty service segment of its business is continuing to bring with it improved profit due to the higher profit margins that these services typically carry.

New developments for the Group's service business are leading to greater controls and efficiencies in its operations. When it first started its spa and beauty operations, the Group sold its packages to customers without imposing expiry dates, using this flexibility as a promotional strategy and an effective marketing tool. From an accounting perspective it adopted a statistical estimation basis for calculating revenue, a method which reflected actual usage reasonably well. With its spa and beauty business well-established and thriving, the Group decided from October 2003 to bring its operating practices into line with market norms by imposing expiry dates on all its spa and beauty packages. At the same time, it introduced a new POS system which was able to record revenue on an actual consumption basis, and ceased operating the previous statistical estimation system.

These two changes have had a temporary impact on reported profit figures from the spa and beauty sector in the period under review, although this impact is largely one of timing. The imposition of expiry dates and the replacement of a statistical estimation system with a consumption system means that the spa and beauty segment has necessarily recorded a drop in profit in the short term. The fall in profit is estimated to be around HK$4 million in the period under review, but this decrease does not reflect any decline in customer usage or spending patterns in the sector. By contrast, increased profits are expected to be seen showing up in the system in the second half of the year, especially as the successful branding of these services continues to attract quality customers and enhance the Group's profitability.

Other advantages of the new POS system include improvements for customers. The system produces for each customer a detailed record of visits made and services used, all in a handy format. As customer numbers increase, the new software is also making it far simpler for the Group to handle and process increased traffic.

## Prospects

The Group's first half results mark a solid turnaround in its performance after the challenges of 2003. Through careful cost control measures, planned diversification, and the maintenance of a prudent financial regime, it has responded fast and proactively to the pressures of recent times. At the same time, it has pressed firmly ahead with new ventures that it believes hold strong potential, with its Mainland expansion in particular proceeding smoothly and rapidly and achieving considerable early success. These levels of prudence combined with an eye for emerging opportunities will continue to characterise the Group's operations in the future. For example, the Group intends to pursue ongoing rationalisation of its ~$H_2O$+ retail outlets in Hong Kong, which may involve relocating less cost-effective outlets to high profile locations with heavy customer traffic.

Throughout the period under review, the Group has remained committed to its promises to develop the China market, a commitment which has resulted in a rapid increase in the number of outlets that the Group has opened there over the past twelve months. The Group has deliberately moved quickly and effectively in China with the aim of establishing a firm early foothold in a market with great potential. It intends to continue its focused policy of building up a strong market presence on the Mainland through aggressive roll out of self-managed outlets and franchised operations. On the other hand, the Group plans to move one of its major Beijing outlets in October 2004 to even larger premises to incorporate the provision of beauty services, and this development will mark the very first of the Group's beauty service outlets in China. Other plans for expanding the range of beauty services offered in China are also being formulated, with a Sino-foreign joint venture for a spa in the planning stage. The target opening date for this enterprise is in the fourth quarter of 2004. Most of the planned developments within China will be backed up by the current operations, creating no drain on the Group's existing resources.

On a smaller scale, the Group is looking to expand its operations in the new Singapore market where initial response to the Group's presence has been very positive. It hopes to add a further 2 ~$H_2O$+ retail outlets in Singapore by the end of 2004.

The Group is also currently considering the advantages of applying for a China retail licence under the CEPA arrangement. At the moment, the Group is able to utilise the retail licences of the outlets in China where its products are sold, but obtaining a retail licence under the CEPA scheme may prove an advantage for medium term growth in the territory.

At the level of products and services, diversification remains a keyword. The Group currently has a number of exciting new products undergoing the approval procedures from $H_2O$ Plus L.P. in the USA, and is continuing to explore self-developed products that may be specially suited for its markets. In addition, the Group is planning to launch a secondary product line under the ~$H_2O$+ family specifically designed for the China market, one whose lower cost and more mass-market orientation should appeal to a wide range of new consumers there. This second line is designed to create a volume business for the Group which should significantly increase the Group's turnover. At the same time, distribution costs will be minimal, leading to higher profit margins. As the Hong Kong economy improves and China consumers continue to flex their new economic power, the Group is confident that its turnaround period will be followed by a new plateau of solid returns for investors and shareholders.