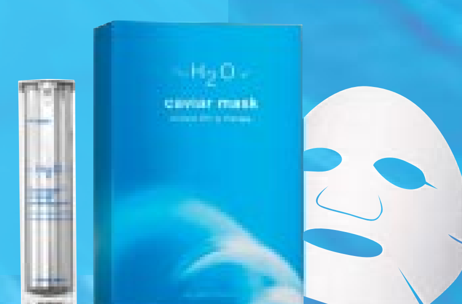
[MANAGEMENT DISCUSSION AND ANALYSIS]

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.



"Momentum to Greater Achievements"

~H_2O+ RETAIL BUSINESS

China: Continuous Rollout To Meet Positive Demand

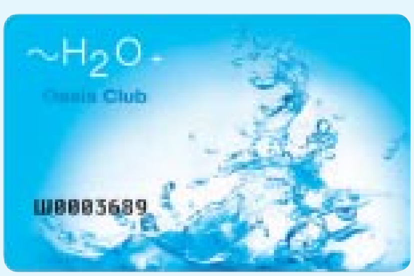
The Group's activities in China achieved substantial success during the year under review, with the Group meeting its goals for retail expansion there. Brand awareness and consumer demand rose significantly across the year. The Group identified China as a key area for expansion some time ago and its 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

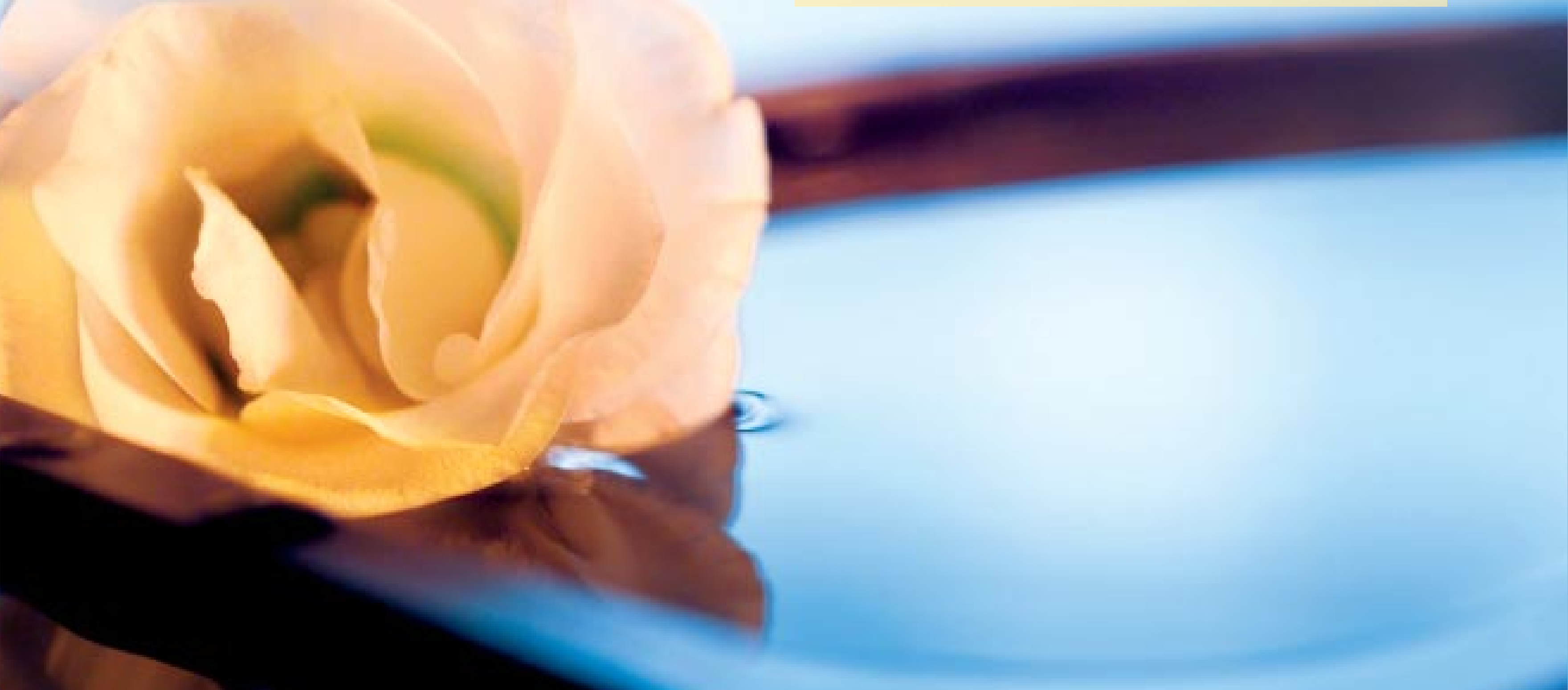
Although China represents its main growth driver for the future, the Group is committed to retaining a strong presence in other Asian markets. This commitment has been reinforced by the continued steady performance of its existing outlets in Macau, Taiwan and Singapore over the year. Macau is experiencing 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.

"Strength of Promising Outlook"

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 cashflow 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

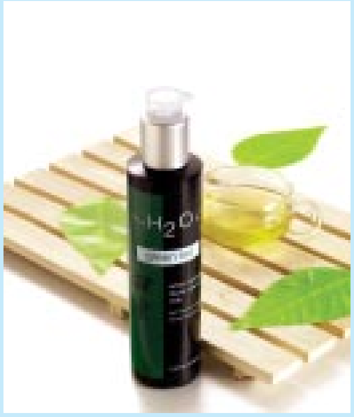
A Source Of Future Expertise

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 cashflow 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.