CEO's Statement

A growing China presence

The 2005-06 fiscal year has been a very positive one for the Water Oasis Group in terms of achieving its stated aims. In particular, we have maintained our momentum in widening the \sim H₂O+ retail network in China over the year. Ever since we first established a retail presence in China we have been committed to the regular roll-out of new outlets, but we have always insisted that each location selected must clearly prove its value in terms of positioning and market potential. This policy of consistent prudence has proved its worth, with the fiscal year bringing a major increase in the profit contributed by our China \sim H₂O+ operations.

New developments in the China context

Having shown our ability to operate effectively and profitably in the burgeoning China market, we have, I believe, made an excellent move in taking on a China distributor role for the Neutrogena brand in the department store counters in China. The owners of the Neutrogena brand, Johnson & Johnson, targeted the Group as distributors because of our proven success in developing and expanding the retail market for quality skincare products in China. We have been able to leverage our existing business and retail networks in China to maximise exposure for Neutrogena, and we have moved rapidly to create an extensive brand presence in major China cities. We have managed to put a distribution and sales infrastructure in place very quickly, and we are now poised to reap early fruits from this new initiative. Also in China, we are highly optimistic about the potential of our proven beauty centre model, which we will be launching in Beijing in early 2007. Our Hong Kong beauty business is in demand and typically provides excellent returns, and we are very optimistic that a similar model, adjusted for Mainland conditions, will offer shareholders and customers alike significantly added value. We are also poised to expand our beauty services in China if, as expected, the Group's Beijing beauty centre proves a success.

Growth anchored by experience

Expansion is one side of our growth strategy: the other is the continual improvement and sophistication of our existing quality products and services. For instance, our core $-H_2O_+$ retail business will get an additional boost in the coming year with several series of exciting new $-H_2O_+$ product offerings. This is part of our ongoing commitment to keeping the $-H_2O_+$ brand at the head of the market, meeting the changing needs of customers, and ensuring that our product range offers maximum satisfaction to the greatest number of consumers. By balancing bold expansion initiatives in China with product excellence and a commitment to nurturing the needs of existing customers, we believe we have a model that will continue to result in strong returns for our investors.

Yu Lai Si Executive Director and Chief Executive Officer 16th January 2007

emerging market diversification