

**DIRECTORS***Executive Directors*

YU Lai Si  
TAM Chie Sang  
YU Lai Chu, Eileen  
YU Kam Shui, Erastus  
LAI Yin Ping

*Independent Non-executive Directors*

WONG Lung Tak, Patrick, J.P.  
WONG Chun Nam, Duffy

**AUDIT COMMITTEE**

WONG Lung Tak, Patrick, J.P.  
WONG Chun Nam, Duffy

**COMPANY SECRETARY**

CHENG Chi Wai

**AUDITORS**

PricewaterhouseCoopers

**SOLICITORS**

Richards Butler

**PRINCIPAL BANKERS**

Citibank, N.A.  
The Hongkong and Shanghai Banking Corporation Limited  
Hang Seng Bank Limited

**PRINCIPAL SHARE REGISTRAR AND  
TRANSFER OFFICE**

Bank of Butterfield International (Cayman) Ltd.  
Butterfield House  
68 Fort Street  
P.O. Box 705  
Grand Cayman  
Cayman Islands  
British West Indies

**HONG KONG BRANCH SHARE REGISTRAR AND  
TRANSFER OFFICE**

Standard Registrars Limited  
Ground Floor  
Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

**REGISTERED OFFICE**

Century Yard, Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

**HEAD OFFICE AND  
PRINCIPAL PLACE OF BUSINESS**

18th Floor, World Trade Centre  
280 Gloucester Road  
Causeway Bay  
Hong Kong

**COMPANY'S WEBSITE**

[www.wateroasis.com.hk](http://www.wateroasis.com.hk)

Water Oasis Group Limited is a skin-care and beauty group with exclusive distribution rights to the renowned  $\sim\text{H}_2\text{O}^+$  brand skincare product range in the Greater China region. The  $\sim\text{H}_2\text{O}^+$  range has wide appeal for both men and women due to its water-based, oil-free formula, and the health benefits resulting from its marine-based skin care ingredients. **The Group's main business derives from the retail sales of  $\sim\text{H}_2\text{O}^+$  products through its retail outlets in Hong Kong (17 outlets), Taiwan (17 outlets), and, more recently, the PRC (23 outlets).** Water Oasis was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited in March 2002.

In addition to its  $\sim\text{H}_2\text{O}^+$  retail sales outlets, the Group also operates **two spa centres in Hong Kong under the "Oasis Spa" brand name.** These spa centres provide beauty and slimming treatments, hydro bath and massage services, utilizing the full range of  $\sim\text{H}_2\text{O}^+$  products. Since 2002, **the Group has also operated five "Oasis Beauty" centres, offering a range of competitively-priced beauty treatments aimed at mass market consumers.**

The year 2001/2002 has been an important period of transition and growth for the Group, as it has diversified both its markets and its products in response to changing conditions within the region. After a series of strong years within the Hong Kong market, the prolonged economic downturn has inevitably impacted on the Group's profits, as a result of lower retail spending and consumer uncertainty within a deflationary environment. The Group has approached this development as a positive challenge, believing that by identifying areas of future growth and strategically investing in them, it can sow the seeds for exciting and profitable future expansion.

While we have approached the year under review as a year of investment and an important brand-building exercise, particularly in the People's Republic of China (the "PRC"), it has been extremely gratifying to see positive initial returns even

at the very earliest stages. The set up costs associated with our new PRC outlets, for example, together with the costs of initial promotional and advertising campaigns for  $\sim H_2O \sim$  products in this new market, has justified themselves fully given the rapid move into profitability of our PRC operations, a development bodes very well for the coming years. The enthusiasm with which PRC consumers have embraced  $\sim H_2O \sim$  products has exceeded our expectations to the extent that our initial plan for establishing 10 PRC outlets during the entire 2002/ 2003 year has been revised upwards, with 23 now having been opened in just nine months and more planned for early 2003. Just as we have had to revise our expansion rate, so it seems likely that we shall have to revise in our favour our initial expectations of the growth of profitability for our PRC outlets.

**Our year of investment will, I believe, prove to have been a necessary and valuable transition period as the Group moves forward to the next stage of its growth.**

Some repositioning in the Hong Kong market is also proving to be an astute move. The investment currently being made in expanding our spa businesses into mass sector markets look set to consolidate the Group's reputation as a major player with a wide portfolio and considerable expertise in the beauty and skin-care sector. Again, customer response to our new Oasis Beauty line suggests that it is only a matter of time before the Group's investments impact significantly on our bottom line.

The Group has certainly not been exempt from the woes afflicting the Hong Kong retail sector generally over the past year. Neither

have we been idle, however, in anticipating economic changes and responding carefully and pragmatically to them. Although profits have fallen for the year under review, the Group has been actively laying substantial foundations for new

business growth in markets both old and new. Our year of investment will, I believe, prove to have been a necessary and valuable transition period as the Group moves forward to the next stage of its growth.



YU Lai Si  
Executive Director and Chief Executive Officer

14th January 2003

# contrasting market environments

“ Demand for foreign cosmetics and other beauty products has been **soaring**, and opportunities for catering to this **demand have grown** significantly, particularly **in the PRC.** ”







The Group's operations and positive achievements over the past year need to be set in the context of two very different sets of external market conditions. Hong Kong, currently the Group's core market, experienced continued deflation, and its retail sector generally was faced with further falls in the retail index and increased levels of unemployment. In addition to this generally challenging economic environment, the year saw increased competition within the cosmetics and beauty treatment markets. At the same time, however, the retail environment in the Group's other major markets, the PRC and Taiwan, has been one of growth and increased spending. Demand for foreign cosmetics and other beauty products has been soaring, and opportunities for catering to this demand have grown significantly, particularly in the PRC.

In the light of the contrasting economic environments within which the Group has operated over the past year and the general performance of competitors, Management believes that the Group's business development and financial results have been sound and its response to market conditions positive and effective. In particular, the Group's strategies of product diversification and aggressive PRC expansion have had a near immediate impact, and although these developments have yet to register fully on the Group's bottom line, their potential for the future robust financial health and growth of the Group is already making itself felt.





# wide- ranging business achievements

The Group has been highly active over the year, particularly since its listing in March, in expanding its presence into major cities in the PRC. Over recent months, the Group has established 23  $\sim\text{H}_2\text{O}^+$  retail outlets in prime department store locations and shopping malls in Beijing, Shanghai, Shenzhen, Guangzhou, Hangzhou & Shenyang, an energetic expansion that has gone well beyond the initial plans for 10 outlets outlined in the Prospectus. This retail expansion has been implemented in conjunction with the setting up of three administrative offices in Beijing, Shanghai and Shenzhen, employing around 100 staff.

Taiwan, too, has been the focus of careful expansion, with the opening of a further three  $\sim\text{H}_2\text{O}^+$  outlets in well-known Taipei department stores since the Group's listing. By contrast, because of the less favourable Hong Kong environment, the Group has approached its plans to open additional outlets in Hong Kong with considerable caution. And any expansion will take place only once the best locations have been pinpointed and the most competitive rental deals negotiated.







The Group has not been idle in its involvement in the Hong Kong market, however, as a number of

new initiatives and achievements testify. It has been particularly active in working to diversify its business lines and supplement its famous ~H<sub>2</sub>O+ products. For example, the Group has broadened its spa business with the establishment of its new "Oasis Beauty" business line, offering a range of competitively-priced beauty treatments aimed at mass market consumers.

Five such Oasis Beauty centres have been opened around Hong Kong in recent months, catering to a mass sector market and quickly attracting a strong clientele.



“ The Group has been **highly active** in expanding its presence into the **huge potential PRC market** while at the same time, has not been idle in its involvement in the HK market, as a number of **new initiatives** and **achievements** testify. ”

The Group's status in the Hong Kong business environment was confirmed by a further business achievement over the course of the year, with the launch of the exclusive "Citibank Oasis Visa Card", which offers its users a number of beauty benefits. As a bank which is highly selective in its choice of partners for its credit card schemes, Citibank's selection of the Group as card partner is a strong testimony to the Group's standing amongst financial institutions. The launching of the Citibank Oasis Visa Card will act as a valuable marketing tool for the Group, and the range of free gifts and benefits that it offers users represents an astute strategy for consolidating customer loyalty and enlarging the Group's market segments.



用全新Citibank Oasis Visa Card兌換，可享Oasis Beauty免費Facial！

成功申請，可獲禮券HK\$880 ~H2O+產品及HK\$1,200優惠券！

申請熱線 8128 8800

~H<sub>2</sub>O+ citibank

## ~H<sub>2</sub>O+ RETAIL BUSINESS

### Hong Kong

The Group's ~H<sub>2</sub>O+ retail outlets in Hong Kong experienced an overall year-on-year fall of ~H<sub>2</sub>O+ product sales of 26%. There have been limited opportunities to pare costs in line with this fall, since rental leases remain high despite the economic downturn, and certain recurring marketing costs remained similar to last year, costs which included essential television and periodical advertising and public relation activities. The Group has, however, taken every opportunity to reduce costs where possible, and has devised a comprehensive programme for increasing profitability in the coming year.

Adding to the pressure on profit attributable to shareholders has been the additional necessary costs incidental upon the Group's regional expansion programme. These have included increased payroll costs as new administrative offices and retail outlets have been opened in the PRC and Taiwan. The Group's expansion is a carefully planned one which is already beginning to signal the likelihood of significant long-term returns, but inevitably its initial phases have involved start-up costs which, over a few short months, have yet to pay themselves off though increased profitability.

Despite the muted atmosphere over the past twelve months within the retail cosmetics and beauty market generally, the Group is able to report a profit for the year under review, indicating prudent financial management, responsiveness to market conditions, a fundamental financial stability and strong customer loyalty. All these factors, Management believes, lie behind the Group's ability to deal decisively with the current market challenges, and will see the Group emerge even stronger from the economic downturn.

### *Diversification for growth*

The Group responded to market conditions with a series of diversification initiatives designed to open up new revenue streams. These included the introduction of new beauty services at ~H<sub>2</sub>O+ retail outlets and the sale of a range of Japanese health drinks. Compared with the HK\$7 million of the Group's sales in 2001 coming from these lines of revenue, in the year under review some HK\$37 million in sales of such lines was achieved, a remarkable fivefold increase.

### Taiwan

#### *Steady expansion*

The Group's Taiwan presence has been strengthened during the year, with the addition of three new retail outlets around Taipei. In a market showing great demand for prestigious foreign cosmetics and skin-care brands where relatively few such brands are available, the Group's ~H<sub>2</sub>O+ line is attracting increasing numbers of loyal and enthusiastic buyers, a development reflected in the 74% rise in sales during the year under review. The nature of the Taiwan market means that profit margins tend to be lower than those obtainable in Hong Kong, for instance, yet the Group's growth in Taiwan has been on a scale that has seen profit attributable to shareholders in 2001/2002 rise by 58% over the previous year.



## The PRC

### *Grasping burgeoning opportunities*

The Directors believe that the PRC represents a major new opportunity for the Group. Hence the Group's policy of aggressive expansion, which has seen the opening of 23 retail outlets mostly between August and September 2002. Urban Chinese in the PRC are driving a huge demand for foreign and luxury products, and the Group believes that now is the time to establish a powerful presence on the Mainland. To this end, some HK\$7 million was spent during the year in initial advertising costs to introduce the ~H<sub>2</sub>O+ brand to potential customers, particularly those in northern cities such as Beijing and Shanghai. The level of potential in this market is shown by the fact that the Group spent three years carefully building up its 17 Hong Kong outlets, while it has taken just nine months to establish 23 booming outlets in the PRC.

The first six months of the Group's PRC operations commencing from April 2002 incurred losses of HK\$8 million, largely in essential set-up costs which dominated the initial consolidation period. Losses at this level are normal and were expected and planned for by the Group as part of the starting-up process. However, by December 2002, just nine months after the Group first entered the PRC market, its Mainland outlets began contributing a profit, a remarkable achievement given the fact that the Group arrived as a complete newcomer to the PRC market, selling a product line largely unknown in China at the outset. Furthermore, the Group's rapid PRC expansion has been achieved with no dilution of sales, suggesting that there remains considerable room for growth within the market. The Directors believe that the Group's performance in the PRC represents a significant level of achievement, and that the Group has significantly outperformed competitors who have sought to establish a foothold there.

The Group's success in this market is still at an early stage, and the booming performance of its new PRC outlets is too recent to impact on the Group's financial results for the year. Indicators, however, are proving extremely positive for the future, and Management strongly believes that the market opportunities arising for the Group are huge. In the short term, profit margins in the PRC will remain relatively small compared with Hong Kong because of the current PRC tax regime, despite the fact that the retail prices of ~H<sub>2</sub>O+ products are high as a direct result of demand. In the longer term, profit margins too should improve as China implements WTO standards and progressively lowers tariffs and taxes.

## THE SPA BUSINESS

### Oasis Spa

In the first half of the year under review, the Group's Oasis Spa business was adversely affected by a fall in consumer confidence, following on from a number of high-profile failures of spa and health businesses in Hong Kong. The Group worked hard to rebuild confidence and reassure customers of the fundamental strengths of Oasis Spa, a strategy which paid off in the second half of the year, as sales rebounded. As a result, the negative results of the first half were turned around and the business went on to contribute HK\$1.6 million to the Group's bottom line in the second half, making an overall contribution across the year of HK\$1.4 million.

### Oasis Beauty

Oasis Beauty represents a cautious business development on the part of the Group, tailored to the current tough business climate. Oasis Beauty outlets offer affordable beauty treatment aimed at mass market consumers, making use mainly of ~H<sub>2</sub>O+ products, and the five initial outlets opened in Hong Kong have required relatively lower initial capital investment due to the scale of these operations. The Group is watching the performance of this new business line carefully to assess its potential for expansion, and has been encouraged by the initial consumer response. Although the first of the outlets commenced operation only as recently as July 2002, the Group began to reap profits from its Oasis Beauty outlets in September, just two months later. Initial setup costs have affected the immediate returns from this new line of business, and the Group has consequently incurred a relatively small loss of HK\$0.8 million for the year. The Group's general prudence in developing this business line and the signs of profitability already appearing suggest that Oasis Beauty will prove to be a useful and valuable business diversification in the longer term.

## PROSPECTS

The Group's policies of aggressive expansion within growth markets and effective diversification in Hong Kong are, the Directors believe, the way forward for the Group in the current tight economic conditions. Early signs from the Group's new China operations in particular suggest a huge potential for growth in this rapidly opening market.

As a result, the Group intends to continue pursuing its rapid and aggressive expansion in the PRC. It expects to increase the number of outlets there from the current 23 to a total of approximately 30 by the coming Lunar New Year. These additional outlets will all be situated in prime locations, and will benefit from the extensive advertising and marketing of ~H<sub>2</sub>O+ that has already taken place. At the same time, the Group is negotiating to set up franchise operations that will expand the distribution of ~H<sub>2</sub>O+ products into various Chinese cities. Franchisees will be carefully selected by the Group, which will also benefit financially through franchising fees that the selected distributors will be required to pay. The Directors believe that its intensive investment in the China market will bring the Group rapid returns and establish the ~H<sub>2</sub>O+ brand firmly in the consciousness of China's newly affluent consumers, setting up long-term sales potential.

Within Hong Kong, supplementing the Group's core focus on the ~H<sub>2</sub>O+ brand, Oasis Beauty will be built up to become a firm contributor of turnover and profits from the mass sector. Represented at every level of the skin-care and beauty treatment market, the Group's status in the market place and its increasingly diverse sources of income should consolidate its position as a market leader in Hong Kong.

### Fundamental underlying strengths

The Group's considerable prospects testify to its strengths, which are built upon a fundamental financial soundness. Debt-free and with some HK\$89 million of cash reserves in hand, the Group is well-equipped with resources for funding development and expansion strategies. Nevertheless, the Group maintains a prudent financial regimen, adopting risk-averse policies and avoiding speculative investments. Major investment decisions are made only after detailed analysis, although the Group is quick to act to take advantage of fast-moving situations, as is the case with its PRC developments in a booming market.

The Group takes a proactive approach to dealing with economic fluctuations, and expects to implement a number of measures for increasing its cost-effectiveness and profitability over the coming year. Tighter control over payroll expenses is one such measure, supplemented by outlet rationalization, which may include renegotiating rental costs and relocating outlets for maximum cost-effectiveness. In addition, the Group will be adopting more economical advertising strategies, with greater use of in-store advertising and higher exposure in local magazines. The launch of the Citibank Oasis Visa Card will also play its part in raising the Group's profile in an effective and economically efficient manner.

The Group's ability to respond prudently and effectively to changing conditions lies behind the confidence which many investors have in its longer-term prospects. Management has successfully maintained profitability in a challenging year, while at the same time taken well-timed steps to expand and diversify, steps that seem set to strengthen the Group's performance further in the years to come.



## DIRECTORS

### *Executive Directors*

**Ms. YU Lai Si**, aged 41, is one of the founders and is the chief executive officer of the Group. Ms. Yu holds a bachelor's degree in business administration. She started her career in the services industry and then moved to the advertising industry. In 1993, she set up her own distribution business and acted as the sole distributing agent of various well-known international brands of cosmetics and fashion labels. Ms. Yu is primarily responsible for corporate policy formulation, business strategy planning, business development and the overall management of the Group. Ms. Yu is the sister of Ms. Yu Lai Chu, Eileen and Mr. Yu Kam Shui, Erastus.

**Mr. TAM Chie Sang**, aged 50, is one of the founders of the Group. He started his career in the retail and services industry in 1967 and has owned and managed a retail jewellery chain since 1990. Mr. Tam first become involved in the cosmetic and skin-care businesses in 1993 and was, together with Ms. Yu Lai Si, and Ms. Yu Lai Chu, Eileen, the sole agent for several well-known international brands before the founders set up the Group. Mr. Tam is primarily responsible for the strategic planning of the Group. Mr. Tam is the husband of Ms. Yu Lai Chu, Eileen.

**Ms. YU Lai Chu, Eileen**, aged 50, is one of the founders of the Group. Ms. Yu started her own realty agency business in 1984 and has managed a retail jewellery chain with Mr. Tam Chie Sang since 1990. In 1993, she entered into the cosmetic and skin-care market. She together with Mr. Tam Chie Sang and Ms. Yu Lai Si acted as the sole distributing agent of a number of well known international brands of cosmetics. She is primarily responsible for the business development of the Group with particular emphasis on the spa business. Ms. Yu is the sister of Mr. Yu Kam Shui, Erastus and Ms. Yu Lai Si and the wife of Mr. Tam Chie Sang.

**Mr. YU Kam Shui, Erastus**, aged 52, is one of the founders of the Group and the founder of the Group's Taiwan operations. He holds a bachelor's degree in business administration from the University of Hawaii. Mr. Yu started his career in trading in the United States in 1993. In 1999, he set up 水貝兒股份有限公司 (Water Babe Company Limited), through which the Group's Taiwan operations are run, and was the managing director of that company until January 2001. Mr. Yu is primarily responsible for the business development of the Group. Mr. Yu is the brother of Ms. Yu Lai Chu, Eileen and Ms. Yu Lai Si and is Ms. Lai Yin Ping's husband.

**Ms. LAI Yin Ping**, aged 47, is one of the founders of the Group. She holds a bachelor's degree in arts with economics as her major. Prior to founding the Group in May 1998, she co-founded a trading business with Mr. Yu Kam Shui, Erastus in the United States in 1993. Ms. Lai is primarily responsible for the strategic planning of the Group. Ms. Lai is the wife of Mr. Yu Kam Shui, Erastus.

### *Independent Non-executive Directors*

**Dr. WONG Lung Tak, Patrick**, J.P., aged 54, is an independent non-executive Director. Dr. Wong is a certified public accountant and is the managing director of Wong Lam Leung & Kwok CPA Limited. He has over 30 years' experience in the accountancy profession. Among his qualifications, he obtained a Doctor of Philosophy in Business in 2000, awarded a Badge of Honour in 1993 by the Queen of England and appointed a Justice of the Peace in 1998. Dr. Wong involves in many other community services, holding posts in various organizations and committees in government and voluntary agencies.

**Mr. WONG Chun Nam, Duffy**, aged 49, is an independent non-executive Director. Mr. Wong is a partner of Ho, Wong & Wong Solicitors & Notaries, practicing commercial, corporate and tax law. Mr. Wong has been a practicing solicitor in Hong Kong since 1982 and is also a notary public, a chartered secretary, an associate of the Taxation Institute of Hong Kong, and a member of the Chartered Institute of Arbitrators. He participates in many community services including membership of the Board of Review under the Inland Revenue Ordinance.

**SENIOR MANAGEMENT**

**Mr. CHENG Chi Wai**, aged 38, is the chief financial officer and company secretary of the Group. Mr. Cheng holds a bachelor's degree in accounting and is a fellow of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants as well as a chartered secretary. Mr. Cheng has more than 14 years' experience in auditing, financial control and corporate finance and previously worked in an international accounting firm and held key finance positions in several companies whose shares are listed on the Stock Exchange.

**Mr. HO Fai Man**, aged 34, is the deputy general manager overseeing the Group's operations in China. Mr. Ho holds a bachelor's degree in accounting and is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Society of Accountants. Mr. Ho has more than 10 years' experience in auditing, finance, accounting and business development areas in international accounting firm, multinational corporations and Hong Kong listed companies.

**Mr. HONG Shun Jey**, aged 45, is the general manager of 水貝兒股份有限公司 (Water Babe Company Limited) responsible to oversee all the Group's operations in Taiwan. Mr. Hong holds a MBA degree and has over 15 years' experience in finance, accounting and general operations with major international companies and retail chains.

**Ms. LIP Miu Fan**, aged 38, is the manager overseeing the Group's spa and beauty centres' operations. Ms. Lip holds a diploma in beauty therapy and has more than 9 years' sales and management experience working for a number of well-known beauty and fitness chain centres.

**Ms. NG Man Yee, Phoebe**, aged 33, is the marketing manager of the Group. Ms. Ng graduated from the University of Hong Kong with a bachelor's degree in social work in 1992. Prior to joining the Group, she worked for several international advertising agencies serving multi-national brands for both the PRC and the Hong Kong markets.



The directors present their first annual report and the audited consolidated accounts of the Company and its subsidiaries for the year ended 30th September 2002.

### GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27th September 2001 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

On 23rd January 2002, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Water Oasis Group (BVI) Limited through a share swap and became the holding company of the companies comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 27th February 2002 (the "Prospectus").

The Company was listed on the Main Board of the Stock Exchange on 11th March 2002.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its principal subsidiaries are engaged in the distribution of ~H<sub>2</sub>O+ brand skin-care products in Hong Kong, Macau, Taiwan and the People's Republic of China (the "PRC"). Certain of its principal subsidiaries also engaged in the operation of spa and beauty centres in Hong Kong under the brand names "Oasis Spa" and "Oasis Beauty", which offer wide varieties of massage and beauty services. The Company and subsidiaries are hereinafter collectively referred to as the Group.

Details of the Company's principal subsidiaries at 30th September 2002 are set out in note 26 to the accounts.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30th September 2002 are set out in the consolidated profit and loss account on page 21.

The Directors recommended a final dividend of 1.0 HK cents per share for the year ended 30th September 2002 payable to shareholders whose names appear on the Register of Members of the Company at the close of business on 11th March 2003. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, such dividend will be payable on 13th March 2003.

### SHARE CAPITAL

Details of the Company's authorised and issued share capital as at 30th September 2002 are set out in note 19 to the accounts.

### RESERVES

Movements in the reserves of the Group and of the Company are set out in note 20 to the accounts.

### INVESTMENT PROPERTIES

The Group revalued its investment property as at 30th September 2002 on an open market value basis. Details of which are set out in note 11 to the accounts.

### FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

### DIRECTORS AND DIRECTORS' SERVICES AGREEMENTS

The directors of the Company who held office during the year and up to the date of this report were:

#### Executive directors:

YU Lai Si  
TAM Chie Sang  
YU Lai Chu, Eileen  
YU Kam Shui, Erastus  
LAI Yin Ping

#### Independent non-executive directors:

WONG Lung Tak, Patrick, J.P.  
WONG Chun Nam, Duffy

In accordance with Article 87(1) and (2) of the Company's articles of association, Ms. Yu Lai Chu, Eileen, Mr. Yu Kam Shui, Erastus and Ms. Lai Yin Ping would retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

All directors, except the Chairman and/or the managing director of the Company, are subject to retirement by rotation as required by the Company's articles of association.

Each of the executive directors has entered into a service agreement with the Company. Each agreement is for a period of three years commencing on 1st October 2001 and shall continue thereafter until terminated by either party giving to the other not less than three calendar months' prior notice in writing, so as to expire on 30th September 2004 or at any time thereafter provided that no such notice may be given before 30th June 2004.

Except for the above, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company or any of the subsidiaries within one year without payment of compensation, other than normal statutory compensation.

### AUDIT COMMITTEE

The Company's audit committee comprises Mr. Wong Lung Tak, Patrick and Mr. Wong Chun Nam, Duffy who are the independent non-executive directors of the Company. In establishing the terms of reference for this committee, the directors had made reference to the "Guide for the formation of an audit committee" issued by the Hong Kong Society of Accountants in December 1997.

The audit committee of the Company has reviewed the accounting principles and policies adopted by the Company and discussed with management the internal control, auditing and financial reporting matters in respect of the annual report including review of the audited consolidated accounts of the Group for the year ended 30th September 2002.



### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

As at 30th September 2002, as notified to the Company pursuant to Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the interests of the directors and the chief executive in the shares of the Group were as follows:

Name of Director <sup>(6)</sup>	Name of company	Personal interests	Corporate interests	Number of shares		Total interests
				Family interests	Other interests	
Yu Lai Si	The Company	77,666,880 ordinary	—	—	—	77,666,880 ordinary
	Water Oasis Company Limited	330,000 non voting deferred	—	—	—	330,000 non voting deferred
Tam Chie Sang	The Company	—	—	—	77,666,880 ordinary <sup>(1)</sup>	77,666,880 ordinary
	Water Oasis Company Limited	165,000 non voting deferred	—	165,000 non voting deferred <sup>(2)</sup>	—	330,000 non voting deferred
Yu Lai Chu, Eileen	The Company	—	—	—	77,666,880 ordinary <sup>(1)</sup>	77,666,880 ordinary
	Water Oasis Company Limited	165,000 non voting deferred	—	165,000 non voting deferred <sup>(3)</sup>	—	330,000 non voting deferred
Yu Kam Shui, Erastus	The Company	—	—	38,833,440 ordinary <sup>(5)</sup>	38,833,440 ordinary <sup>(4)</sup>	77,666,880 ordinary
Lai Yin Ping	The Company	—	—	38,833,440 ordinary <sup>(4)</sup>	38,833,440 ordinary <sup>(5)</sup>	77,666,880 ordinary

Notes:

(1) These shares are registered in the name of Zinna Group Limited. All voting rights over Zinna Group Limited are held by Royalion Worldwide Limited, which is wholly owned by Hitchin Trading Limited as trustee of Hitchin Unit Trust which in turn is ultimately held by Trident Trust Company (Cayman) Limited, which forms part of the discretionary trust set up by Tam Chie Sang and Yu Lai Chu, Eileen. Trident Trust Company (Cayman) Limited is the trustee of the discretionary trust, the beneficiaries of which are the family members of Tam Chie Sang and Yu Lai Chu, Eileen.

(2) These shares are registered in the name of Yu Lai Chu, Eileen, the wife of Tam Chie Sang.

(3) These shares are registered in the name of Tam Chie Sang, the husband of Yu Lai Chu, Eileen.

- (4) These shares are registered in the name of Advance Favour Holdings Limited, a British Virgin Islands company held by K S Yu 2002 Grantor Retained Annuity Trust formed for the benefit of Yu Kam Shui, Erastus and Lai Yin Ping's sister, Lai Yin Ling and upon her death, Yu Kam Shui, Erastus' mother Fung Sin Ping. Yu Kam Shui, Erastus and Lai Yin Ping are the trustees to the K S Yu 2002 Grantor Retained Annuity Trust.
- (5) These shares are registered in the name of Billion Well Holdings Limited, a British Virgin Islands company held by Y P Lai 2002 Grantor Retained Annuity Trust formed for the benefit of Lai Yin Ping and Lai Yin Ping's sister, Lai Yin Ling and upon her death, Lai Yin Ping's mother, Wong Kwai Ying. Lai Yin Ping is the sole trustee to the Y P Lai 2002 Grantor Retained Annuity Trust.
- (6) Each of Yu Lai Si, Tam Chie Sang, Yu Lai Chu, Eileen, Yu Kam Shui, Erastus and Lai Yin Ping had outstanding options to subscribe for certain number of shares of the Company as set out below under "Directors' and Chief Executive's Rights to acquire Shares or Debentures" pursuant to the share option scheme of the Company.

Other than disclosed above, as at 30th September 2002, none of the directors or the chief executive has (i) any interest in, or any deemed interest in, pursuant to Section 28 of the SDI Ordinance or under Section 31 or Part I of the Schedule to the SDI Ordinance, the shares of the Company or any associated corporation (within the meaning of the SDI Ordinance); or (ii) any interest which is required to be entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance; or (iii) any interest which is required to be disclosed, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules, to the Company and The Stock Exchange of Hong Kong Limited.

### SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted on 23rd January 2002.

The purpose of the Share Option Scheme is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

Pursuant to the Share Option Scheme, the Board of Directors may, on or before 22nd January 2012, at its discretion offer to grant options at an option price of HK\$1.00 to any employees, directors (including executive directors, non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; any advisor (professional or otherwise) or consultant, distributors, suppliers, agents, customers, partners, joint venture partners, promotor, service provider to subscribe for shares of the Company, representing (when aggregated with options granted under any other scheme) initially not more than 10% of the shares in issue as at the date of the listing of the shares. The subscription price is the higher of the average of the closing prices of the share of the Company on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of the offer of options and the nominal value of the shares. The maximum aggregate number of shares issued and to be issued on the exercise of options and in respect of which options may be granted under the Share Option Scheme may not exceed 30% of the total number of shares in issue from time to time excluding any shares issued on the exercise of options.

The movements of the options granted under the Share Option Scheme during the year were as follows:

Date of grant	Exercise price per share HK\$	Granted during the year	Number of share options	
			Lapsed during the year	Outstanding at 30th September 2002
11th March 2002	1.18	3,264,000	—	3,264,000
26th April 2002	1.67	1,500,000	—	1,500,000
30th August 2002	0.52	19,460,000	—	19,460,000
Total		24,224,000		24,224,000

The options are generally exercisable in stages within a period of one to three years from the date of grant.

The above options granted are not recognised in the accounts until they are exercised. Chapter 17 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of share options granted to participants. The Directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share option based on various speculative assumptions would be meaningless and could be misleading to the shareholders.

### DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the Share Option Scheme, the directors and chief executive officer of the Company have personal interests in share options which have been granted to them to subscribe for shares in the Company.

Name of director	Date of grant	Exercise price per share HK\$	Granted during the year	Number of share options	
				Lapsed during the year	Outstanding at 30th September 2002
Yu Lai Si	30th August 2002	0.52	3,000,000	–	3,000,000
Tam Chie Sang	30th August 2002	0.52	1,500,000	–	1,500,000
Yu Lai Chu, Eileen	30th August 2002	0.52	1,500,000	–	1,500,000
Yu Kam Shui, Erastus	30th August 2002	0.52	1,500,000	–	1,500,000
Lai Yin Ping	30th August 2002	0.52	1,500,000	–	1,500,000

These options are exercisable from 28th February 2003 to the close of business on 29th August 2007.

No option was exercised by the Company's directors during the year.

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or the chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, the chief executive, their spouses or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such right during the year.

### SUBSTANTIAL SHAREHOLDERS

At 30th September 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those stated below:

Name	Number of ordinary shares	Approximate percentage of voting power
Yu Lai Si	77,666,880	23.9%
Zinna Group Limited <sup>(1)</sup>	77,666,880	23.9%
Advance Favour Holdings Limited <sup>(2)</sup>	38,833,440	11.9%
Billion Well Holdings Limited <sup>(3)</sup>	38,833,440	11.9%

## Notes:

- (1) All voting rights of Zinna Group Limited are held by Royalion Worldwide Limited, which is wholly owned by Hitchin Trading Limited as trustee of Hitchin Unit Trust which in turn is ultimately held by Trident Trust Company (Cayman) Limited which forms part of a discretionary trust set up by Tam Chie Sang and Yu Lai Chu, Eileen, Trident Trust Company (Cayman) Limited is the trustee of the discretionary trust, the beneficiaries of which are the family members of Tam Chie Sang and Yu Lai Chu, Eileen.
- (2) Advance Favour Holdings Limited is a British Virgin Islands company held by K S Yu 2002 Grantor Retained Annuity Trust formed for the benefit of Yu Kam Shui, Erastus and Lai Yin Ping's sister, Lai Yin Ling and upon her death, Yu Kam Shui, Erastus mother, Fung Sin Ping. Yu Kam Shui, Erastus and Lai Yin Ping are the trustees to the K S Yu 2002 Grantor Retained Annuity Trust.
- (3) Billion Well Holdings Limited is a British Virgin Islands company held by Y P Lai 2002 Grantor Retained Annuity Trust formed for the benefit of Lai Yin Ping and Lai Yin Ping's sister, Lai Yin Ling and upon her death, Lai Yin Ping's mother, Wong Kwai Ying. Lai Yin Ping is the sole trustee to the Y P Lai 2002 Grantor Retained Annuity Trust.

### DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, which subsisted at the end of the year or at any time during the year.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

There were no competing business of which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year which required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30th September 2002, the aggregate purchases attributable to the Group's five largest suppliers represented approximately 99% of the Group's purchase. Whereas the aggregate turnover attributable to the Group's five largest customers was less than 1% of the Group's turnover.

### DISTRIBUTABLE RESERVES

As at 30th September 2002, distributable reserves of the Company amounted to approximately HK\$3,782,000.

### EMPLOYEES AND REMUNERATION POLICIES

As at 30th September 2002, the Group employed 523 staff (30th September 2001: 323). 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 20,960,000 shares in the Company in aggregate had been granted to certain employees pursuant to the Company's share option scheme. Exercise prices of which ranges from HK\$0.52 to HK\$1.67 and these options are exercisable within a period of one to three years from the date of grant.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year under review, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.



## USE OF PROCEEDS

The net proceeds from the initial public offering and placing of the Company's shares in March 2002 amounted to approximately HK\$51 million. As at 30th September 2002, the directors have applied the net proceeds as follows:

- as to approximately HK\$11 million for the establishment of 17 retail outlets in the PRC for the sales of ~H<sub>2</sub>O+ products;
- as to approximately HK\$7 million for the marketing and promotion of the Group's products and services;
- as to approximately HK\$6 million for the establishment of 4 new "Oasis Beauty" centres, catering to a mass sector market.

The net proceeds from the initial public offering and placing will continue to be used substantially for the purposes as set out in the prospectus of the Company dated 27th February 2002.

## PRE-EMPTIVE RIGHTS

There is no provisions for pre-emptive rights under the Company's articles of association although there is no restriction against such rights under the Companies Law of the Cayman Islands.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied throughout the financial year ended 30th September 2002 with the Code of Best Practice set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except that:

- (a) 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; and
- (b) the Directors fully intended to comply with the requirement to hold a full board meeting every six months but were not able to do so in December 2002 due to extensive travel commitments, the holiday season and unavailability of final results for contemplation.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 48.

## AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

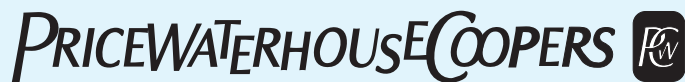
On behalf of the Board

**YU Lai Si**

*Executive Director and Chief Executive Officer*

Hong Kong, 14th January 2003

## AUDITORS' REPORT



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**  
22nd Floor Prince's Building  
Central  
Hong Kong

## AUDITORS' REPORT TO THE SHAREHOLDERS OF WATER OASIS GROUP LIMITED

*(incorporated in the Cayman Islands with limited liability)*

We have audited the accounts on pages 21 to 47 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are required to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

### OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30th September 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 14th January 2003

**CONSOLIDATED PROFIT AND LOSS ACCOUNT***FOR THE YEAR ENDED 30TH SEPTEMBER*

	Note	2002 HK\$'000	2001 HK\$'000
Turnover	3	308,449	285,998
Other revenues	3	1,586	2,831
Cost of inventories sold		(82,993)	(68,036)
Staff costs		(69,433)	(51,079)
Depreciation		(10,051)	(7,882)
Other operating expenses		<u>(135,589)</u>	<u>(101,327)</u>
Operating profit	4	11,969	60,505
Taxation	5	<u>(5,063)</u>	<u>(7,812)</u>
Profit after taxation		6,906	52,693
Minority interests		<u>418</u>	<u>(683)</u>
Profit attributable to shareholders	6	<u>7,324</u>	<u>52,010</u>
Dividends	7	<u>7,462</u>	<u>23,760</u>
Earnings per share			
Basic	8	<u>2.4 cents</u>	<u>19.3 cents</u>
Diluted	8	<u>N/A</u>	<u>N/A</u>

## CONSOLIDATED BALANCE SHEET

AS AT 30TH SEPTEMBER

	Note	2002 HK\$'000	2001 HK\$'000
Intangible assets	10	3,256	–
Fixed assets	11	30,778	28,273
Rental deposits		11,186	10,121
Other investments	13	2,013	2,013
Current assets			
Inventories	14	36,901	18,682
Trading investments	15	237	410
Accounts receivable	16	19,531	8,446
Prepayments		14,136	13,353
Other deposits and receivables		8,294	3,755
Tax recoverable		2,055	–
Bank balances and cash		88,685	63,274
		<u>169,839</u>	<u>107,920</u>
Current liabilities			
Accounts payable	17	8,239	7,178
Accruals and other payables		25,287	8,489
Receipts in advance	18	20,340	10,637
Taxation payable		1,466	13,756
		<u>55,332</u>	<u>40,060</u>
Net current assets		<u>114,507</u>	<u>67,860</u>
Total assets less current liabilities		<u>161,740</u>	<u>108,267</u>
Financed by:			
Share capital	19	32,640	26,928
Reserves	20	127,934	78,729
Shareholders' funds		160,574	105,657
Minority interests		1,166	2,610
		<u>161,740</u>	<u>108,267</u>



**BALANCE SHEET***AS AT 30TH SEPTEMBER*

	Note	2002 HK\$'000 Note 1
Investment in a subsidiary	12	3,000
Current assets		
Amounts due from subsidiaries	12	51,222
Prepayments		1,490
Bank balances and cash		10,605
		<u>63,317</u>
Current liabilities		
Amounts due to subsidiaries	12	7,112
Accruals and other payables		833
		<u>7,945</u>
Net current assets		<u>55,372</u>
Total assets less current liabilities		<u>58,372</u>
Financed by:		
Share capital	19	32,640
Reserves	20	25,732
		<u>58,372</u>

## CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30TH SEPTEMBER

	Note	2002 HK\$'000	2001 HK\$'000
Net cash inflow from operating activities	21(a)	<u>14,377</u>	<u>52,337</u>
Returns on investments and servicing of finance			
Interest received		936	2,782
Dividends paid to minority shareholders of a subsidiary		(43)	(330)
Dividends paid		<u>(4,243)</u>	<u>(32,670)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(3,350)</u>	<u>(30,218)</u>
Taxation			
Hong Kong profits tax paid		(17,880)	(13,654)
Overseas tax paid		<u>(1,528)</u>	<u>(1,006)</u>
Net cash outflow from taxation		<u>(19,408)</u>	<u>(14,660)</u>
Investing activities			
Purchase of fixed assets		(13,965)	(18,692)
Proceeds from disposal of fixed assets		304	24
Purchase of trading investments		–	(1,091)
Proceeds from disposal of trading investments		–	1,180
Purchase of other investments		–	(2,013)
Payment for license fees		(3,667)	–
Acquisition of further interest in a subsidiary		<u>(1,000)</u>	<u>–</u>
Net cash outflow from investing activities		<u>(18,328)</u>	<u>(20,592)</u>
Net cash outflow before financing activities		<u>(26,709)</u>	<u>(13,133)</u>
Financing	21(b)		
Issue of new shares		61,690	–
Initial Public Offer expenses		(10,100)	–
Advance from a minority shareholder		<u>284</u>	<u>425</u>
Net cash inflow from financing activities		<u>51,874</u>	<u>425</u>
Increase/(decrease) in cash and cash equivalents		25,165	(12,708)
Cash and cash equivalents at the beginning of the year		63,274	76,455
Effect of foreign exchange rate changes		<u>246</u>	<u>(473)</u>
Cash and cash equivalents at end of the year		<u>88,685</u>	<u>63,274</u>
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		<u>88,685</u>	<u>63,274</u>

**CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES***FOR THE YEAR ENDED 30TH SEPTEMBER*

	Note	2002 HK\$'000	2001 HK\$'000
Exchange differences arising on translation of a subsidiary	20	<u>246</u>	<u>(611)</u>
Gain/(loss) not recognised in the consolidated results		246	(611)
Profit attributable to shareholders		<u>7,324</u>	<u>52,010</u>
Total recognised gains and losses		<u><u>7,570</u></u>	<u><u>51,399</u></u>

## 1. GROUP REORGANISATION AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27th September 2001 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

On 23rd January 2002, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Water Oasis Group (BVI) Limited through a share swap and became the holding company of the companies comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 27th February 2002 (the "Prospectus").

The Company was listed on the Main Board of the Stock Exchange on 11th March 2002.

The Group resulting from the Reorganisation is regarded as a continuing entity, and accordingly, the consolidated accounts have been prepared for on the basis of merger accounting. The accounts have been prepared as if the current group structure had been in existence throughout the years ended 30th September 2002 and 2001, rather than from the date on which the Reorganisation was completed.

The Company was incorporated on 27th September 2001 and did not enter into any transaction until 15th October 2001. Accordingly, there are no comparatives for the Company's balance sheet.

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of accounting

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment properties and investments in securities are stated at fair value.

The Reorganisation referred to in note 1 above has been accounted for using merger accounting by regarding the Company as being the holding company for the Group from the beginning of the earliest period presented.

The same accounting policies adopted in the accountants' report as disclosed in the Prospectus have been applied to the accounts, except that, the Group adopted the following new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which became effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards is set out in the accounting policies below.



## NOTES TO THE ACCOUNTS

2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(b) Basis of consolidation**

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th September. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power and holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**(c) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1st April 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life not exceeding 15 years.

Goodwill on acquisitions that occurred prior to 1st April 2001 was written off against reserves. The Group has elected the transitional provision 1(a) set out in paragraph 88 of SSAP 30 and goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1st April 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

**(d) Intangible assets**

Expenditure on acquiring licenses for sale of products in the People's Republic of China (the "PRC") is capitalised and amortised using the straight-line method over the licenses period. Licenses are not revalued as there is no active market for these assets.

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (e) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued by independent valuers. 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 annual 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. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

### (f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of leasehold improvements is calculated to write off their costs less accumulated impairment losses on a straight-line basis over the unexpired periods of the leases.

Depreciation of other fixed assets is calculated to write off their costs less accumulated impairment losses on a straight-line basis over their estimated useful lives to the Group. The principal annual rates used for this purpose are as follows:

Motor vehicles	20% to 33 $\frac{1}{3}$ %
Computer equipment	33 $\frac{1}{3}$ %
Office equipment, furniture and fixtures	20% to 33 $\frac{1}{3}$ %

Major costs incurred in restoring fixed assets to their normal working conditions are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

### (g) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases, net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

## NOTES TO THE ACCOUNTS

2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(h) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost represents invoiced value on purchases and is calculated on a weighted-average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

**(i) Investments***(i) Trading investments*

Trading investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Profits or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

*(ii) Other investments*

Other investments held for long-term purposes are stated at cost less any provision for diminution in value other than temporary in nature.

The carrying amounts of other investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

**(j) Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

**(k) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

**(l) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

**(m) Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (n) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

### (o) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

### (p) Retirement benefit costs

The Group's contributions to the defined contribution retirement scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

### (q) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Receipts from the sale of gift coupons are recorded as liabilities. Such receipts are recognised as sales when the coupons are redeemed in exchange for products or as other income upon the coupon expiry date.

Revenue from rendering of services is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income from listed investment is recognised when the right to receive payment is established.

### (r) Segment reporting

In note 3 to the accounts, the Group had disclosed segment revenue and results as defined under SSAP 26.

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude investment properties and other investments. Segment liabilities comprise operating liabilities and exclude items such as taxation. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country/place in which the customer is located. Total assets and capital expenditure are where the assets are located.



## NOTES TO THE ACCOUNTS

2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(s) Dividends**

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively. As detailed in note 20 to the accounts retained earnings at 1st October 2000 have increased by HK\$8,910,000 by the reversal of the provision for the 2000 proposed final dividend previously recorded as a liability as at 30th September 2000 although not declared until after the balance sheet date.

3. **TURNOVER, REVENUE AND SEGMENT INFORMATION**

The Group is principally engaged in the retail sales of skin-care products, provision of beauty salon, spa and related services. Revenues recognised during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sales of goods	260,953	254,581
Rendering of services	47,496	31,417
	<u>308,449</u>	<u>285,998</u>
Other revenues		
Interest income	936	2,782
Gross rental income from an investment property	288	49
Income from expired coupons	307	—
Others	55	—
	<u>1,586</u>	<u>2,831</u>
Total revenues	<u>310,035</u>	<u>288,829</u>

3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

## Primary reporting format – business segments

	Retailing		Services		Elimination		Group	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to external customers	260,953	254,582	47,496	31,416	–	–	308,449	285,998
Inter-segment sales	697	380	–	–	(697)	(380)	–	–
Total	<u>261,650</u>	<u>254,962</u>	<u>47,496</u>	<u>31,416</u>	<u>(697)</u>	<u>(380)</u>	<u>308,449</u>	<u>285,998</u>
Segment results	<u>30,975</u>	<u>72,979</u>	<u>13,003</u>	<u>6,267</u>	<u>–</u>	<u>–</u>	<u>43,978</u>	<u>79,246</u>
Other revenues							1,586	2,831
Unallocated corporate expenses							(33,595)	(21,572)
Operating profit							11,969	60,505
Taxation							(5,063)	(7,812)
Profit after taxation							6,906	52,693
Minority interests							418	(683)
Profit attributable to shareholders							<u>7,324</u>	<u>52,010</u>

	Retailing		Services		Group	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	103,478	69,689	27,135	11,608	130,613	81,297
Unallocated assets					86,459	67,030
Total assets					<u>217,072</u>	<u>148,327</u>
Segment liabilities	31,756	21,900	17,739	4,404	49,495	26,304
Unallocated liabilities (including minority interests)					7,003	16,366
Total liabilities					<u>56,498</u>	<u>42,670</u>
Depreciation	<u>7,019</u>	<u>5,457</u>	<u>3,032</u>	<u>2,425</u>	<u>10,051</u>	<u>7,882</u>
Capital expenditures	<u>5,892</u>	<u>17,512</u>	<u>8,073</u>	<u>1,180</u>	<u>13,965</u>	<u>18,692</u>

## NOTES TO THE ACCOUNTS

**3. TURNOVER, REVENUE AND SEGMENT INFORMATION** *(Continued)*

Secondary reporting format – geographical segments

	Turnover		Capital expenditures		Total assets	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	210,769	234,622	9,456	16,461	68,265	56,557
PRC	8,469	–	2,783	–	28,594	2,662
Taiwan	89,211	51,376	1,726	2,231	33,754	22,078
	<u>308,449</u>	<u>285,998</u>	<u>13,965</u>	<u>18,692</u>	<u>130,613</u>	<u>81,297</u>
Unallocated assets					<u>86,459</u>	<u>67,030</u>
Total assets					<u>217,072</u>	<u>148,327</u>

**4. OPERATING PROFIT**

Operating profit is stated after crediting and charging the following:

	2002 HK\$'000	2001 HK\$'000
<b>Crediting</b>		
Gain on disposal of trading investments	<u>–</u>	<u>89</u>
<b>Charging</b>		
Amortisation of intangible assets	411	–
Auditors' remuneration	677	333
Operating leases rental on land and buildings	46,571	50,582
Unrealised loss on trading investments	173	1,469
Loss on disposals of fixed assets	156	705
Retirement benefit costs (included in staff costs)	1,891	1,383
Net exchange losses	137	104
Revaluation deficit on an investment property	<u>949</u>	<u>–</u>

## 5. TAXATION

	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax	3,028	7,358
Overseas taxation	2,129	1,123
Over provision in prior years	(94)	(669)
	<u>5,063</u>	<u>7,812</u>

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit, after setting off available tax losses brought forward from prior year, for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries/places in which the Group operates.

Deferred taxation assets have not been provided in respect of the following as the amounts are not material:

	2002 HK\$'000	2001 HK\$'000
Accelerated depreciation allowances	(517)	(285)
Tax losses	<u>763</u>	<u>1,033</u>
	<u>246</u>	<u>748</u>

## 6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$8,025,000 (2001: HK\$nil).

## 7. DIVIDENDS

	2002 HK\$'000
Interim, paid, of 1.3 HK cents per ordinary share	4,243
Final, proposed on 14th January 2003, of 1.0 HK cents per ordinary share	<u>3,219</u>
	<u>7,462</u>

The Company was incorporated on 27th September 2001. Dividend paid during the year ended 30th September 2001 represented dividend paid by the relevant subsidiaries of the Group to their then shareholders outside the Group.

## NOTES TO THE ACCOUNTS

**8. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$7,324,000 (2001: HK\$52,010,000) and the weighted average number of 301,674,082 (2001: 269,280,000) ordinary shares in issue during the year.

No diluted earnings per share is calculated for the year ended 30th September 2002 since the exercise prices of the Company's outstanding options were higher than the average fair value per share of the Company during the year and the potential ordinary shares would have no dilutive effect.

**9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS****(a) Directors' emoluments**

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Fees	157	–
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits-in-kinds	8,672	1,093
Bonuses	–	–
Retirement benefit costs	55	10
	<u>8,884</u>	<u>1,103</u>

Directors' fees disclosed above are all paid to independent non-executive directors.

Certain directors of the Company have been granted options to acquire shares of the Company. Details of share options granted, exercised and lapsed during the year are disclosed in the Directors' Report.

The emoluments of the directors fell within the following bands:

	Number of Directors	
	2002	2001
Emolument bands		
HK\$ nil – HK\$1,000,000	5	5
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$4,500,000	–	–
HK\$4,500,001 – HK\$5,000,000	1	–
	<u>7</u>	<u>5</u>

## 9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2001: one) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining two (2001: four) individuals during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries, housing allowances, other allowances and benefits-in-kinds	2,168	2,546
Bonuses	602	552
Retirement benefit costs	12	40
	<u>2,782</u>	<u>3,138</u>

The emoluments of employees fell within the following bands:

	Number of Employees	
	2002	2001
Emolument bands		
HK\$ nil – HK\$1,000,000	–	3
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	1	1
	<u>2</u>	<u>4</u>

During the year, no directors waived any emoluments and no emoluments have been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group as compensation for loss of office.

## 10. INTANGIBLE ASSETS

### Group

	License fees HK\$'000
Additions	3,667
Amortisation charge	<u>(411)</u>
At 30th September 2002	<u>3,256</u>
At 30th September 2002	
Cost	3,667
Accumulated amortisation	<u>(411)</u>
Net book amount	<u>3,256</u>

There were no intangibles as of 30th September 2001.



## NOTES TO THE ACCOUNTS

**11. FIXED ASSETS****Group**

	Investment property HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Office equipment, furniture and fixtures HK\$'000	Total HK\$'000
Cost or valuation						
As at 1st October 2001	6,899	20,678	3,611	2,540	7,556	41,284
Additions	–	8,827	340	904	3,894	13,965
Revaluation	(949)	–	–	–	–	(949)
Disposals	–	(345)	(448)	–	(158)	(951)
As at 30th September 2002	5,950	29,160	3,503	3,444	11,292	53,349
Accumulated depreciation and impairment						
As at 1st October 2001	–	8,610	1,306	1,252	1,843	13,011
Charge for the year	–	6,434	1,032	829	1,756	10,051
Disposals	–	(332)	(71)	–	(88)	(491)
As at 30th September 2002	–	14,712	2,267	2,081	3,511	22,571
Net book value						
As at 30th September 2002	5,950	14,448	1,236	1,363	7,781	30,778
As at 30th September 2001	6,899	12,068	2,305	1,288	5,713	28,273
The analysis of the cost or valuation at 30th September 2002 of the above assets is as follows:						
At cost	–	29,160	3,503	3,444	11,292	47,399
At valuation	5,950	–	–	–	–	5,950
	5,950	29,160	3,503	3,444	11,292	53,349
The analysis of the cost or valuation at 30th September 2001 of the above assets is as follows:						
At cost	6,899	20,678	3,611	2,540	7,556	41,284
At valuation	–	–	–	–	–	–
	6,899	20,678	3,611	2,540	7,556	41,284

The investment property is held under a medium-term lease (less than 50 years but not less than 10 years) in Hong Kong.

The investment property was revalued at 30th September 2002 on the basis of their open market value by American Appraisal Hongkong Limited, an independent firm of chartered surveyors.

**12. INVESTMENTS IN SUBSIDIARIES****Company**

	2002 HK\$'000
Unlisted shares, at cost	3,000
Amounts due from subsidiaries	51,222
Amounts due to subsidiaries	<u>(7,112)</u>
	<u>47,110</u>

Details of the principal subsidiaries are set out on Note 26.

The amounts due from/to subsidiaries classified as current asset/liabilities are unsecured, interest-free and are repayable on demand.

**13. OTHER INVESTMENTS****Group**

Other investments represent investments in various capital guaranteed funds stated at cost. As at 30th September 2002, the market value of other investments was approximately HK\$2,055,000 (2001: HK\$2,001,000).

These investments were pledged to a bank for bank guarantees given in respect of certain operating leases of certain shop premises as at 30th September 2001. The pledge and guarantee was released during the year ended 30th September 2002.

**14. INVENTORIES****Group**

	2002 HK\$'000	2001 HK\$'000
Finished goods – merchandises	<u>36,901</u>	<u>18,682</u>

As at 30th September 2002 and 2001, all inventories were stated at cost.

**15. TRADING INVESTMENTS****Group**

Trading investments are listed securities in Hong Kong and are stated at market value at the balance sheet date.

## NOTES TO THE ACCOUNTS

**16. ACCOUNTS RECEIVABLE****Group**

Details of the ageing analysis are as follows:

	2002 HK\$'000	2001 HK\$'000
0 to 30 days	18,152	6,322
31 days to 60 days	875	2,114
61 days to 90 days	468	3
Over 90 days	36	7
	<u>19,531</u>	<u>8,446</u>

Credit terms generally range from 30 days to 90 days.

**17. ACCOUNTS PAYABLE****Group**

Details of the ageing analysis are as follows:

	2002 HK\$'000	2001 HK\$'000
0 to 30 days	<u>8,239</u>	<u>7,178</u>

**18. RECEIPTS IN ADVANCE****Group**

The balance represents proceeds from sales of gift coupons not yet redeemed and money received in advance for beauty salon services.

**19. SHARE CAPITAL****Company**

	Authorised ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 1st October 2001	3,800,000	380
Increase in authorised ordinary share capital	<u>996,200,000</u>	<u>99,620</u>
At 30th September 2002	<u>1,000,000,000</u>	<u>100,000</u>
	Issued and fully paid ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 30th September 2002	<u>326,400,000</u>	<u>32,640</u>

## 19. SHARE CAPITAL *(Continued)*

- (a) The Company was incorporated with an authorised share capital of HK\$380,000 divided into 3,800,000 shares with a nominal value of HK\$0.1 each. On 15th October 2001, one share of HK\$0.1 in the capital of the Company was allotted and issued at par.
- (b) In preparation for the listing of the Company's shares on the Stock Exchange, the following changes in authorised and issued share capital of the Company took place on 23rd January 2002:
- (i) the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of an additional 996,200,000 shares of HK\$0.1 each;
  - (ii) as consideration for the acquisition by the Company of the entire issued capital of Water Oasis Group (BVI) Limited, now an intermediate holding company, an aggregate of 29,999,999 shares of HK\$0.1 each, credited as fully paid, were issued and allotted by the Company to the then shareholders of Water Oasis Group (BVI) Limited.
- (c) On 8th March 2002, a total of 239,280,000 shares of HK\$0.1 each were credited and issued as fully paid through a capitalisation issue from the share premium account of the Company (note 20).
- (d) A total of 57,120,000 new shares of HK\$0.1 each were issued and offered for subscription at a price of HK\$1.08 per share upon listing of the Company's shares on the Main Board of the Stock Exchange on 11th March 2002.
- (e) The share capital presented in the consolidated balance sheet as at 30th September 2001 represents the share capital of the Company, arising on incorporation, from the share swap transaction and capitalisation issue described in notes 19 (a), (b) (ii) and (c) above, which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of preparation referred to in note 1.

## 20. RESERVES

### Group

	Exchange reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st October 2000 as previously reported	(55)	(25,694)	76,839	51,090
Effect of adopting SSAP 9 (revised)	—	—	8,910	8,910
At 1st October 2000 as restated	(55)	(25,694)	85,749	60,000
Profit attributable to shareholders	—	—	52,010	52,010
2000 final dividend	—	—	(8,910)	(8,910)
2001 interim dividend	—	—	(23,760)	(23,760)
Exchange differences	(611)	—	—	(611)
At 30th September 2001	(666)	(25,694)	105,089	78,729

## NOTES TO THE ACCOUNTS

## 20. RESERVES (Continued)

## Group (Continued)

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st October 2001	–	(666)	(25,694)	105,089	78,729
Profit attributable to shareholders	–	–	–	7,324	7,324
Proceeds from Initial Public Offer	55,978	–	–	–	55,978
Initial Public Offer expenses	(10,100)	–	–	–	(10,100)
Capitalisation issue (note 19)	(23,928)	–	23,928	–	–
2002 interim dividend	–	–	–	(4,243)	(4,243)
Exchange differences	–	246	–	–	246
	<u>21,950</u>	<u>(420)</u>	<u>(1,766)</u>	<u>108,170</u>	<u>127,934</u>
At 30th September 2002	<u>21,950</u>	<u>(420)</u>	<u>(1,766)</u>	<u>108,170</u>	<u>127,934</u>
Represented by:					
Reserves	21,950	(420)	(1,766)	104,951	124,715
Proposed final dividend	–	–	–	3,219	3,219
	<u>21,950</u>	<u>(420)</u>	<u>(1,766)</u>	<u>108,170</u>	<u>127,934</u>

The capital reserve of the Group represents the merger difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Reorganisation and the nominal value of the Company's shares issued in exchange therefor.

## Company

	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st October 2001	–	–	–
Profit for the year	–	8,025	8,025
Proceeds from Initial Public Offer	55,978	–	55,978
Initial Public Offer expenses	(10,100)	–	(10,100)
Capitalisation issue (note 19)	(23,928)	–	(23,928)
2002 interim dividend	–	(4,243)	(4,243)
	<u>21,950</u>	<u>3,782</u>	<u>25,732</u>
At 30th September 2002	<u>21,950</u>	<u>3,782</u>	<u>25,732</u>
Represented by:			
Reserves	21,950	563	22,513
Proposed final dividend	–	3,219	3,219
	<u>21,950</u>	<u>3,782</u>	<u>25,732</u>

## 21. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Reconciliation of operating profit to net cash inflow from operating activities

	2002 HK\$'000	2001 HK\$'000
Operating profit	11,969	60,505
Depreciation	10,051	7,882
Amortisation of license fees	411	–
Interest income	(936)	(2,782)
Gain on disposal of trading investments	–	(89)
Unrealised loss on trading investments	173	1,469
Loss on disposal of fixed assets	156	705
Revaluation on deficit on an investment property	949	–
Increase in inventories	(18,219)	(6,134)
Increase in accounts receivable	(11,085)	(172)
Increase in rental deposits, prepayments, other deposits and receivables	(6,387)	(12,452)
Decrease in loans to directors	–	7,901
Decrease in amounts due from shareholders	–	234
Decrease in amount due to a director	–	(438)
Increase in accounts payable	1,061	4,590
Increase/(decrease) in accruals and other payables	16,531	(10,670)
Increase in receipts in advance	9,703	1,788
	<u>14,377</u>	<u>52,337</u>
Net cash inflow from operating activities		

## (b) Analysis of changes in financing activities during the year

	Share capital including premium and capital reserve		Minority interests	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At 1st October	1,234	1,234	2,610	1,832
Proceeds from Initial Public Offer	61,690	–	–	–
Initial Public Offer expenses	(10,100)	–	–	–
Minority interests' in share of (losses)/profits	–	–	(418)	683
Dividends paid to minority shareholders	–	–	(43)	(330)
Advance from a minority shareholder	–	–	284	425
Acquisition of further interest in a subsidiary	–	–	(1,267)	–
	<u>52,824</u>	<u>1,234</u>	<u>1,166</u>	<u>2,610</u>
At 30th September				



## NOTES TO THE ACCOUNTS

**22. RETIREMENT BENEFIT COSTS**

The Group has participated in the mandatory provident fund (the "Fund") for its employees in Hong Kong since December 2000. Contributions to the scheme by the Group are calculated at 5% of employees' relevant income. The retirement benefit costs charged to profit and loss account included contributions paid and payable by the Group to the Fund. The assets of the Fund are held separately from those of the Group in an independently administered fund. Contributions were also made by the subsidiaries of the Company in the PRC and Taiwan which participate in employee pension schemes operated by the governments or authorised administrators of the respective country/place. Total contributions made by the Group during the year ended 30th September 2002 amounted to HK\$1,891,000 (year ended 30th September 2001 HK\$1,383,000).

**23. COMMITMENTS****(a) Capital commitments for property, plant and equipment**

	Group	
	2002	2001
	HK\$'000	HK\$'000
Contracted but not provided for	315	—

**(b) Commitments under operating leases**

At 30th September 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Not later than one year	34,766	35,712
Later than one year and not later than five years	19,916	31,035
	54,682	66,747

**24. BANK FACILITIES**

As at 30th September 2002, the Company and its subsidiaries were granted banking facilities amounted to HK\$18,000,000 by a bank (2001: Nil).

## 25. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	2002 HK\$'000	2001 HK\$'000
Acquisition of further interest in a subsidiary (note (a))	1,000	–
Purchase of an investment property from a director (note (b))	–	6,899

Note:

- (a) The Group acquired the remaining 1% interest in Water Oasis Company Limited ("WOCL") from two directors of the Company. Consideration paid was determined with reference to the net assets value of WOCL as at the transaction date.
- (b) The consideration for the purchase of the property was determined with reference to the then prevailing market price.

## 26. PARTICULARS OF SUBSIDIARIES

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
<i>Directly held:</i>				
Water Oasis Group (BVI) Limited	British Virgin Islands 16th December 1999	Ordinary shares US\$30,000	100%	Investment holding in Hong Kong
<i>Indirectly held:</i>				
Water Oasis Holdings Limited	British Virgin Islands 16th December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Oasis Spa Holdings Limited	British Virgin Islands 16th December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong

## NOTES TO THE ACCOUNTS

26. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
<i>Indirectly held (Continued):</i>				
Oasis-Beauty.com Holdings Limited	British Virgin Islands 16th December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Water Oasis (Labuan) Holdings Limited	Labuan, Malaysia 28th June 2000	Ordinary shares US\$10,000	100%	Investment holding in Hong Kong
Water Oasis China (BVI) Limited	British Virgin Islands 12th October 2000	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Water Oasis (China) Company Limited	Hong Kong 26th July 2000	Ordinary shares HK\$2	100%	Dormant
Water Oasis Company Limited	Hong Kong 6th May 1998	Non-voting deferred shares HK\$1,000,000 Ordinary shares HK\$10,000	100%	Retail sales of skin-care products in Hong Kong
Oasis Spa Company Limited	Hong Kong 24th December 1999	Ordinary shares HK\$1,000,000	100%	Operating of beauty salon, spa and other related services in Hong Kong
Oasis-Beauty.com Limited	Hong Kong 24th December 1999	Ordinary shares HK\$10,000	100%	Sale of skin-care products via the internet in Hong Kong

## 26. PARTICULARS OF SUBSIDIARIES (Continued)

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
<i>Indirectly held (Continued):</i>				
水貝兒股份有限公司 (Water Babe Company Limited)	Taiwan 17th September 1999	Common stock NT\$20,000,000	90%	Retail sales of skin-care products in Taiwan
Water Oasis (China) Holdings Limited	Samoa 5th April 2000	Ordinary shares US\$101	90.1%	Investment holding in Hong Kong
Claire International Limited	Hong Kong 22nd October 1999	Ordinary shares HK\$2	100%	Inactive
Oasis Advertising Agency Company Limited	Hong Kong 18th October 2000	Ordinary shares HK\$2	100%	Advertising agency in Hong Kong
Water Oasis (Macau) Company Limited	Macau 19th July 2001	Ordinary shares Mop\$25,000	100%	Retail sales of skin-care products in Macau
Oasis Beauty Company Limited	Hong Kong 13th March 2002	Ordinary shares HK\$1,000,000	100%	Operating of beauty salons and provision of other related services in Hong Kong
Aricon Investments Limited	British Virgin Islands 8th March 2002	Ordinary shares US\$1	100%	Inactive

## NOTES TO THE ACCOUNTS

26. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
<i>Indirectly held (Continued):</i>				
Master Advance Limited	Hong Kong 28th June 2002	Ordinary shares HK\$1,000,000	100%	Inactive
奥思美容品（上海） 有限公司	PRC 9th February 2002	US\$200,000	90.1%	Retail sales of skin-care products in the PRC
奥思美容品（深圳） 有限公司	PRC 10th October 2002	HK\$3,000,000	90.1%	Retail sales of skin-care products in the PRC

## 27. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 14th January 2003.

	Year ended 30th September			
	2002 HK\$'000	2001 HK\$'000	Restated 2000 HK\$'000	Restated 1999 HK\$'000
Turnover	<u>308,449</u>	<u>285,998</u>	<u>237,611</u>	<u>131,711</u>
Operating profit	11,969	60,505	71,395	63,782
Taxation	<u>(5,063)</u>	<u>(7,812)</u>	<u>(12,607)</u>	<u>(10,205)</u>
Profit after taxation	6,906	52,693	58,788	53,577
Minority interests	<u>418</u>	<u>(683)</u>	<u>(724)</u>	<u>(536)</u>
Profit attributable to shareholders	<u>7,324</u>	<u>52,010</u>	<u>58,064</u>	<u>53,041</u>

#### BALANCE SHEETS

Total assets	217,072	148,327	140,398	66,075
Total liabilities	(55,332)	(40,060)	(51,639)	(17,774)
Minority interests	<u>(1,166)</u>	<u>(2,610)</u>	<u>(1,831)</u>	<u>(540)</u>
Net assets	<u>160,574</u>	<u>105,657</u>	<u>86,928</u>	<u>47,761</u>

Note: The Group was founded on 6th May 1998. The results, total assets and total liabilities of the Group for each of the four years ended 30th September 2002 have been prepared on a merger accounting basis as if the group structure, at that when the Reorganisation as referred to in note 1 to the accounts was completed, had been in existence throughout the years concerned.

In accordance with SSAP 9 (revised), the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively.



**NOTICE IS HEREBY GIVEN** that the Annual General Meeting ("AGM") of the Company will be held at Grand Ill, Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong on 11th March 2003 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditors of the Group for the year ended 30th September 2002.
2. To declare a final dividend in respect of the year ended 30th September 2002.
3. To re-elect the retiring directors and to fix the remuneration of the directors.
4. To re-appoint auditors of the Company and authorise the directors of the Company to fix their remuneration.
5. As special business, to consider and, if though fit, pass with or without amendments, the following resolutions, as Ordinary Resolutions:

### Ordinary Resolutions

**(A) "THAT:**

- (a) subject to paragraph (c) of this resolution, the exercise by the directors of the Company during the relevant period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorise the directors of the Company during the relevant period to make or grant offers, agreements and options which might require the exercise of such power after the end of the relevant period;
- (c) the aggregate nominal amount of share capital in the Company to be allotted or agreed conditionally or unconditionally to be allotted, whether pursuant to an option or otherwise, and issued by the directors of the Company pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a rights issue; (ii) any issue of shares in the Company under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to subscribe for shares in the Company; or (iii) any issue of shares in the Company as scrip dividend or similar arrangement providing for the allotment of shares in the Company in lieu of the whole or part of a dividend pursuant to the articles of association of the Company from time to time, shall not exceed 20% of the aggregate nominal amount of issued share capital of the Company at the date of passing this resolution and the said approval shall be limited accordingly; and
- (d) for the purpose of this resolution, "relevant period" means the period from the date of passing of this resolution until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of the Company following the passing of this resolution;

- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the laws of the Cayman Islands or the Company's articles of association to be held; and
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders in a general meeting of the Company.

"rights issue" means an offer of shares of the Company open for a period fixed by the directors of the Company to holders of shares of the Company whose names appear in the register of members of the Company on a fixed record date in proportion to their then holdings of such shares, subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdictions, or of the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company."

**(B) "THAT:**

- (a) subject to paragraph (b) of this resolution, the exercise by the directors of the Company during the relevant period of all the powers of the Company to purchase its fully-paid up shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with the Rules Governing the Listing of Securities on the Stock Exchange and all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of share capital in the Company to be purchased by the Company pursuant to paragraph (a) of this resolution shall be no more than 10% of the aggregate nominal amount of the issued share capital of the Company at the date of passing this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and
- (c) for the purpose of this resolution, "relevant period" means the period from the date of passing of this resolution until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of the Company following the passing of this resolution;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the laws of the Cayman Islands or the Company's articles of association to be held; and
  - (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders in a general meeting of the Company."

→ Notice of **Annual General Meeting****(C) “THAT:**

conditional upon Ordinary Resolutions A and B set out in the notice convening the annual general meeting of the Company to be held on 11th March 2003 being duly passed, the general mandate granted to the directors of the Company pursuant to Ordinary Resolution A set out in this notice be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution B set out in this notice, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution.”

By order of the Board  
**CHENG Chi Wai**  
*Company Secretary*

Hong Kong, 14th January 2003

## Notes:

- (1) Any member entitled to attend and vote at the AGM is entitled to appoint another person as the member's proxy to attend and vote instead of the member. A proxy need not be a member of the Company. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the AGM if the member so wish.
- (2) To be valid, the form of proxy, the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority must be deposited with the secretary of the Company at the Company's principal place of business at 18/F., World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong not less than 48 hours before the time fixed for holding the AGM or adjourned meeting.
- (3) An explanatory statement containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against Ordinary Resolutions A to C set out in this notice will be sent to shareholders of the Company together with the 2002 Annual Report.
- (4) The transfer books and register of members of the Company will be closed from 5th March 2003 to 11th March 2003, both days inclusive. During such period, no shares transfers will be effected. In order to qualify for the proposed final dividend and attending the AGM, all transfers, accompanied by the relevant share certificates must be lodged with the Company's Registrars, Standard Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 4th March 2003.

# 2002 里程碑 MILESTONES

## APRIL 四月

First ~H<sub>2</sub>O+ retail outlet opened in the PRC

於中國開設首個 ~H<sub>2</sub>O+ 零售點



## MARCH 三月

Successful listing on the Stock Exchange of Hong Kong Limited

於香港聯合交易所有限公司成功上市



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## NOVEMBER 十一月

Launch of the exclusive "Citibank Oasis Visa Card"  
推出獨家的「Citibank Oasis Visa Card」

全新  
Citibank Oasis  
Visa Card  
幫心情做Facial



每簽賬HK\$3,000  
可享Oasis Beauty免費Facial！

申請熱線：8128 8800

辦公時間：星期一至五早上九時至晚上八時



成功申請，可獲贈價值HK\$880 ~H<sub>2</sub>O+ 禮品  
及HK\$1,200優惠券！

~H<sub>2</sub>O+ citibank



## JULY 七月

Launch of new business line  
"Oasis Beauty"

First Oasis Beauty Centre  
opened in Hong Kong

推出新業務水磨坊美容中心  
首家水磨坊美容中心於香港開幕



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## DECEMBER 十二月

First PRC ~H<sub>2</sub>O+ specialty store opened  
in Beijing, making it the twentieth-first  
~H<sub>2</sub>O+ retail outlet in the PRC

首間 ~H<sub>2</sub>O+ 專門店於北京開幕，令集團  
於中國的 ~H<sub>2</sub>O+ 零售點增加至二十一個