

### 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)

## CEO's Statement

In another year bringing its full share of challenges for the Group, we have remained committed to our core development plans involving the diversification of our markets and our products. The value of these goals has been re-emphasised by the events of the year, with the SARS crisis in particular highlighting the potential vulnerability of businesses too greatly reliant on a single product or market. Hence, although the Group was unable to achieve the levels of profitability we would have liked over the year, our progress towards diversification remained on track, and by the end of the 2002-2003 financial year we had taken major steps towards becoming widely established in the Mainland China (the "PRC"). I believe that the Group is now exceptionally well-placed to take advantage of that rapidly maturing market, particularly with the recent CEPA arrangements giving new advantages to Hong Kong-based businesses operating in the PRC.

The Group has moved quickly in the China market because it believes in the importance of being a "first mover" in a market ripe for rapid expansion. By quickly setting up a network of outlets and supplemented by a comprehensive franchise programme, the Group is constructing a presence and a distribution network that later competitors will be hard-pressed to match. Further, by acting quickly at this stage we are helping to raise effective entry barriers against future competitors.

Closer to home, the Group's careful development of its series of Oasis Beauty centres is proving to be an astute move, as these centres continue to attract a strong clientele and lay claim to a genuine niche in the market. By providing a competitively-priced service while promoting  $\sim H_2O \cdot$  products at the same time, the Group is obtaining added value from these operations. The Group has now gained valuable experience in the beauty market, and the fruits of this experience can be seen in our recent venture into providing beauty treatment for men, a move which continues the pioneering trend of the original Oasis Beauty venture.

The 2002-2003 year brought more than its share of difficulties, impacting on retail and other sectors across the board. The sign of a healthy and forward-looking business is that it can ride short-term crises, working from a base of fundamental economic stability and developing strategies for coping with and indeed taking advantage of negative situations. I believe that over the past year the Group has shown itself to be just such a business. Moving quickly to limit the inevitable impact of recession and SARS, continuing in its pursuit of well-defined strategies of diversification, and innovating where appropriate to take advantage of shifts in public preferences, the Group has ridden out one of the toughest years on record. It stands now extremely well-placed to build on its achievements in the year to come, and is looking forward to a period of consolidation and growth.



The Group has moved quickly in  
**the China market** because it believes in  
the importance of being a **"first mover"**  
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Handwritten signature of YU Lai Si.

YU Lai Si  
Executive Director and Chief Executive Officer

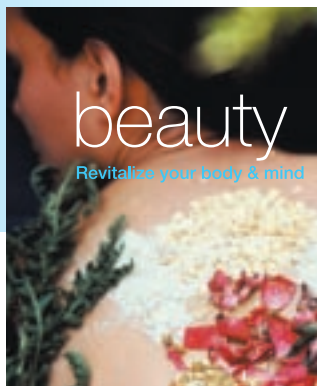
14th January 2004



In common with almost all other Hong Kong businesses over the past year, the Group has operated in a context of significant market constraints that have severely tested its performance. Continuing economic recession in Hong Kong was exacerbated by the SARS crisis in mid-year, creating a conjunction of events that shook public confidence besides reducing the amount of time people were willing to spend in crowded shopping environments. The unemployment rate continued to rise and reached a high of 8.0% in September 2003, and with the increase in the number of jobless and continuing uncertainty about employment prospects, consumers reined in their spending on many products and services they considered as non-essentials. These developments had a general impact over a wide range of sectors. From 1st April 2003 to 21st May 2003, more than forty listed companies announced profit warnings to their shareholders. These companies varied in size and sector, but some 25% of them operated in the retail sector, where the effects of the negative economic conditions were most acute.

The Group was not immune to these exceptional conditions. It also issued a profit warning to shareholders on 9th May 2003, alerting them to the likely impact of events on end-of-year results. Its forecast was indeed to be reflected in results, with the negative effect most noticeable in its second half-year results when SARS was at its height.

**Its two main investment focuses were both strategies of diversification: of the Group's markets on the one hand, and of its products on the other.**



The special challenges of the 2002-2003 year should, however, be put into a context of what the Group has planned to achieve in the longer term. The Group had earmarked the 2001-2002 year as a "Year of Investment", a period during which it worked to lay the groundwork of financial commitment to and detailed planning for diversification and expansion. Its two main investment focuses were both strategies of diversification: of the Group's markets on the one hand, and of its products on the other. Specifically, the Group was looking to open up the PRC market by establishing a strong retail presence in major cities across a short period of time. In terms of product diversification, at that time the Group sowed the seeds of its new "Oasis Beauty" concept, designed to tap into the profitable beauty treatment market.



To begin with, it has continued to aggressively roll out its ~H<sub>2</sub>O<sup>+</sup> retail outlets in the PRC. These outlets now number 44, nearly double the 23 in existence at the same time last year.

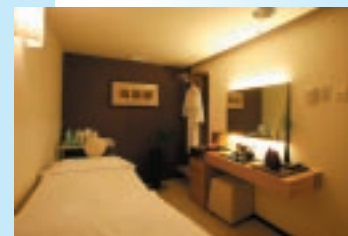
Within the constraints imposed by the economic situation across 2002-2003, the Group has taken a number of steps to move this diversification strategy forward. To begin with, it has continued to aggressively roll out its ~H<sub>2</sub>O<sup>+</sup> retail outlets in the PRC. These outlets now number 44, nearly double the 23 in existence at the same time last year. Operating in some 20 major cities across the PRC, ~H<sub>2</sub>O<sup>+</sup> retail outlets have quickly established themselves as an important addition to PRC's competitive skincare market. The Group has accompanied its roll-out programme with a wide range of advertising and public relation activities to promote brand awareness and build up brand loyalty. Besides using local celebrities to provide the "faces" for its ~H<sub>2</sub>O<sup>+</sup> products, the Group has conducted public relation events and advertised in local media, as well as conducting targeted direct mailings.



From just 4 Oasis Beauty Centres at last fiscal year end, the Group now operates 10. These include a unique new venture into skincare treatment for men, called "Oasis Beauty Homme".



Also as part of its product diversification strategy, the Group has continued expanding its Hong Kong network of Oasis Beauty centres, encouraged by the strong performance of these centres even in recent tough economic conditions. From just 4 Oasis Beauty Centres at last fiscal year end, the Group now operates 10. These include a unique new venture into skincare treatment for men, called "Oasis Beauty Homme", designed to capitalise on increased interest amongst today's men in health and appearance.



## Management Discussion and Analysis

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

#### Hong Kong and Macau

##### *Adapting for difficult times*

As outlined in some detail above, the Hong Kong retail environment has been under heavy pressure right across the year under review, and especially in the SARS-affected period from March to August 2003. Hong Kong remains the Group's core market, and as a result of these factors it experienced a drop in revenue income of approximately 30% compared with the previous year. Such a result was to some extent unavoidable given the severity of the problems that Hong Kong was labouring under across the year, and recent signs that Hong Kong has moved out of recession bode well for a steady improvement of the Group's Hong Kong results in the months to come. Nevertheless, the Group has been far from idle when it comes to responding to adversity. Seeing the falling trend for retail sales of ~H<sub>2</sub>O+ products, the Group continued to promote other revenue streams across the year, including its range of beauty services and a popular line of health drinks, as a successful means of boosting revenue.

#### Taiwan

##### *Brand strength proven*

With Taiwan too undergoing a serious SARS-related downturn, a similar retail environment to Hong Kong's affected the Taiwan market. The Group's revenue income from this market in the second half of the year came under heavy pressure, and profits fell. Nevertheless, the Group's fundamental brand strength held steady, allowing the Group to record year-end profitability despite its drop in income.

#### The PRC

##### *Solid foundations laid for further growth*

The Group continued its strategy of an ongoing and aggressive roll-out of new retail outlets in PRC. It moved from having 23 to having 44 such outlets operational over the course of the year. Last year, the Group was financing this expansion plan from its reserves; over the course of 2002-2003, however, the cash-flow situation in PRC was at a break even position, meaning that the PRC operations can now draw on their own funding for expansion.

Having gained a significant presence in some of PRC's foremost cities, the Group has now achieved wide coverage within the PRC. To extend its influence even further, but without over-committing resources, the Group is launching a franchise plan whereby independent retailers will have the option of handling ~H<sub>2</sub>O+ products in selected cities. 6 franchise outlets have been opened with the first one located in Kunming, commenced business in December 2003. The Group will monitor its franchise arrangements very carefully to ensure that its reputation is enhanced through its franchisee representation.

## SPA AND BEAUTY BUSINESSES

### Oasis Spa

The Group's medium- and high-end Oasis Spa operations, offering luxury beauty treatments, continued to be affected by the unfavourable environment. Having said this, the Oasis Spa business managed to maintain a profitable position across the year. The interim report noted a small profit at the end of March 2003, and this result was maintained even across the ensuing half year, with all its attendant SARS disruption. The Group is confident that, with an improving economy, its Oasis Spa centres will soon again be healthy contributors to its bottom line.

### Oasis Beauty

Oasis Beauty originated as a cautious business investment specially tailored to a tough business climate, and quickly attracted positive consumer attention. Its combination of low-cost and high-quality services was a pioneering one at the outset, and appealed strongly to mass market consumers, especially in a deflationary environment. Over the year under review, the Group has continued to take advantage of the evident success of its Oasis Beauty outlets, working to perfect the Oasis Beauty formula and achieve the best possible profit margins. At year end, a total of 9 Oasis Beauty outlets were operational, up from 4 at the same time last year. Together, these outlets contributed a healthy HK\$8.6 million to the Group's bottom line for the year ended 30th September 2003. The strong performance of Oasis Beauty across the difficult SARS period is cause for considerable optimism, particularly as the economy continues to improve and more and more consumers are willing to spend on health- and style-related products and services.

During the year, the Group also planned an ambitious expansion of its Oasis Beauty concept into men's health and beauty care. Having pioneered the successful Oasis Beauty concept for female consumers, the Group made an intensive study of the untapped men's market and identified a significant gap in the market for a similar service tailored for men. Again pioneering in a largely untrodden field, the Group is confident that it will come to be seen as a first mover in what it expects to be a potentially large market in the long run. The first of its men's outlets, called "Oasis Beauty Homme", was launched after year end, and now brings to 10 the total number of Oasis Beauty outlets operating. Carefully planned and sensitively marketed, the first Oasis Beauty Homme venture offers an ambience designed to appeal to male users, and the Group is confident that the male beauty concept has major growth potential in a city such as Hong Kong.

## PROSPECTS

Despite the trials of the year, the Group's longstanding policy of prudence and cautious investment has left it strongly positioned to exploit the economic comeback stirring in Hong Kong and around the region. Its cash reserves remain high as last year, with HK\$79 million on hand for investment purposes as required. It continues debt-free, and hence with few constraints on its financial decision-making. The Group intends to continue this policy of prudence in the foreseeable future; however, it also intends to put its cash reserves to more positive use while they are not required for business funding purposes.

### Strategies for enhancing profitability

Financial caution should not imply financial complacency, however. Rather, the Group is constantly searching for new ways to enhance its profitability by expanding its markets, diversifying its products and services, and reducing its exposure in areas of low profitability.

Some routes to increased profitability are the result of external political factors which will have positive effects on the Group in coming years. For example, China's WTO entry is leading progressively to a lowering of tariffs and taxes on imported goods, which impact on the Group's profitability in the PRC market. More recently, the CEPA agreement is resulting in preferential treatment on the Mainland for Hong Kong companies, and this too will result in positive effects for the Group's PRC operations.

## Management Discussion and Analysis

Primarily, however, the Group looks to itself for initiatives that will enhance efficiency, competitiveness and profitability. Across the year under review, the Group identified three major areas to which it expects to pay particular attention in the coming months. All three areas represent major potential sources of increased income, according to careful analysis of the market situation and new trends. The Group will be devoting great efforts to developing and promoting them in the forthcoming year.

The first of these areas is the Group's franchise operations in the PRC, built on the back of its rapidly developed chain of self-managed retail outlets in PRC's major cities. Having established these self-operated outlets in PRC's major cities, the Group sees franchise operations as a prudent and cost-effective means of expanding its market coverage into so-called "second tier" cities, those with smaller population bases or which are more remote. Not only does the franchise system offer low risks to the Group, it will help permeate brand awareness into the heartland of PRC, building a truly nationwide exposure for  $\sim\text{H}_2\text{O}^+$  products. The addition of franchised outlets should further boost sales and profitability. The Group is looking to have from 30 to 50 franchise outlets in operation by the end of the 2003-2004 year. At the same time as it puts its franchise operations into motion, the Group will continue to expand its self-managed retail outlets in PRC, albeit at a slower pace than in the past year now that it has established a substantial network presence in most of PRC's major cities. The Group expects to increase these self-managed outlets from the current 44 to 50. It will back up both sets of operations by extensive nationwide advertising campaigns, supplemented by special events such as the provision of beauty classes in shopping malls, designed to educate Chinese consumers on skincare products while simultaneously promoting  $\sim\text{H}_2\text{O}^+$  products.

Secondly, the Group aims to increase the percentage of revenue it receives from its beauty business, which with its higher gross margins has outperformed retail sales in recent times. Moves have already been made in this direction, in fact. In 2002, the Group's retail sales accounted for 85% of its revenue, and beauty services just 15%. In 2003, by contrast, this percentage has been adjusted to a 71-29 ratio, and as further Oasis Beauty outlets are opened the beauty services percentage should continue to rise. This strategic realignment is being made in response to the steady market demand for Oasis Beauty services, and also offers another promotional mode when it comes to  $\sim\text{H}_2\text{O}^+$  products since Oasis Beauty centres use these products extensively. Given the success of the enterprise to date, the Group is also actively exploring opportunities for taking its beauty business into the PRC market.

The third measure being actively explored by the Group for enhancing profitability is one of undertaking product diversification through the design, sourcing, testing and launching of self-developed  $\sim\text{H}_2\text{O}^+$  products. In this context, "self-developed" refers to the fact that the Group is proactively taking the lead in creating and sourcing new products specifically tailored for Asian markets, rather than simply marketing existing  $\sim\text{H}_2\text{O}^+$  products. It is thus moving to act as more than simply a distributor for its  $\sim\text{H}_2\text{O}^+$  supplier in the USA, by taking on also an advisory role. As a first step in this direction, in 2003 the Group launched its self-developed paper masks. The advantages of this move into self-developed products are multiple. To begin with, such products typically attract higher product margins than more conventional products. Also, these products have the potential for worldwide distribution through  $\sim\text{H}_2\text{O}^+$  networks around the globe, and hence could become very considerable profit earners for the Group.

### Other developments

The Group's achievements in maintaining profitability over the past two years of difficult economic conditions were such that in August 2003,  $\text{H}_2\text{O}^+$  Plus, L.P. awarded the Group  $\sim\text{H}_2\text{O}^+$  distributor rights to the Singapore market. The Group believes that the confidence shown by this decision was fully justified, and will be setting up initial outlets in Singapore over the coming year. The first outlet is scheduled to open in March 2004, and the Group targets to open a total of 7 such outlets in Singapore over the next three years.

## LOOKING TO THE FUTURE

Despite the particular challenges of the year under review, the Group is approaching the 2003-2004 year with a very positive outlook. Hong Kong's economy is showing strong evidence of a turnaround, with the retail index rising and unemployment falling from previous highs. The retail sector in particular is beginning to reap the benefits of the more optimistic economic outlook, and the Group expects to fully participate in this shift as evidenced in its performance in the 4th quarter of calendar 2003. Contributing to this will be the fact that cost-cutting measures implemented over the past year will take full effect in the year to come. For example, the extensive process of rental renegotiation which the Group carried out in the past year, at the very bottom of the property market fall, has now taken effect and is contributing significant savings.

In the coming year, the Group intends to utilise its cash reserves in a more efficient way, by investing a prudent percentage of these reserves in a portfolio of investments. This may involve purchase of retail property or careful investment in blue-chip companies; in line with the Group's longstanding policy of cautious investment, this move is one that will be undertaken with considerable care and consultation.

From a year in which many businesses suffered disastrous losses on the back of world and regional events and a depressed economy, the Group has emerged fundamentally unscathed and in a good position to take advantage of improved times ahead. Although returns inevitably fell during the year, the particular challenges of the year led to careful planning for diversification and cost-cutting which have preserved the Group's overall position of profitability and enabled it to maintain its debt-free position with strong cash reserves. With burgeoning growth in the PRC and a new distributorship deal for the Singapore market, the Group has shown its ongoing ability to adapt to circumstances and its resilience in the face of difficulties, and is well-placed to capitalise on growth in the immediate future.

## Directors' Profile

### DIRECTORS

#### *Executive Directors*

**Ms. YU Lai Si**, aged 42, 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 51, 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 51, 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 53, 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 48, 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 55, 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 50, 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.

## Directors' Report

The directors present their annual report and the audited consolidated accounts of the Company and its subsidiaries for the year ended 30th September 2003.

### 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 Mainland 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", "Oasis Beauty" and "Oasis Beauty Homme", which offer wide varieties of beauty and massage services. The Company and subsidiaries are hereinafter collectively referred to as the Group.

Details of the Company's principal subsidiaries at 30th September 2003 are set out in note 28 to the accounts.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30th September 2003 are set out in the consolidated profit and loss account on page 19.

The Directors recommended a final dividend of 1.0 HK cents per share for the year ended 30th September 2003 payable to shareholders whose names appear on the Register of Members of the Company at the close of business on 5th March 2004. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, such dividend will be payable on 9th March 2004.

### SHARE CAPITAL

Details of the Company's authorised and issued share capital as at 30th September 2003 are set out in note 20 to the accounts.

### RESERVES

Movements in the reserves of the Group and of the Company are set out in note 21 to the accounts.

### INVESTMENT PROPERTY

The Group revalued its investment property as at 30th September 2003 on an open market value basis. Details of which are set out in note 12 to the accounts.

### FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 12 to the accounts.

### FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 49.

## Directors' Report

### 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 86(3) of the Company's articles of association, Mr. Tam Chie Sang, Mr. Wong Lung Tak, Patrick and Mr. Wong Chun Nam, Duffy would retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 87(1) and (2) of the Company's articles of association, Ms. Yu Lai Si would retire by rotation at the forthcoming annual general meeting and, being eligible, offer herself 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.

## DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September 2003, the interests and short positions of the directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the percentage in the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571) (the "SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

### Long positions in shares and underlying shares of the Company

Name of director	The Company/ name of associated corporation	Capacity	Number and class of shares				Total	Percentage of issued share capital
			Personal interests	Corporate interests	Family interests	Other interests		
Yu Lai Si	The Company	Beneficial owner	77,666,880 ordinary	-	-	-	77,666,880 ordinary	24.1%
	Water Oasis Company Limited	Beneficial owner	330,000 non voting deferred	-	-	-	330,000 non voting deferred	-
Tam Chie Sang	The Company	Interest of a controlled corporation	-	-	-	77,666,880 ordinary <sup>(1)</sup>	77,666,880 ordinary	24.1%
	Water Oasis Company Limited	Beneficial owner and interest of spouse	165,000 non voting deferred	-	165,000 non voting deferred <sup>(2)</sup>	-	330,000 non voting deferred	-
Yu Lai Chu, Eileen	The Company	Interest of a controlled corporation	-	-	-	77,666,880 ordinary <sup>(1)</sup>	77,666,880 ordinary	24.1%
	Water Oasis Company Limited	Beneficial owner and interest of spouse	165,000 non voting deferred	-	165,000 non voting deferred <sup>(3)</sup>	-	330,000 non voting deferred	-
Yu Kam Shui, Erastus	The Company	Interest of spouse and interest of a controlled corporation	-	-	38,833,440 ordinary <sup>(5)</sup>	38,833,440 ordinary <sup>(4)</sup>	77,666,880 ordinary	24.1%
Lai Yin Ping	The Company	Interest of spouse and interest of a controlled corporation	-	-	38,833,440 ordinary <sup>(4)</sup>	38,833,440 ordinary <sup>(5)</sup>	77,666,880 ordinary	24.1%

#### 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 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) 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.

## Directors' Report

- (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 his spouse, 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.

Other than aforesaid and as disclosed under the section headed "SHARE OPTIONS" below, there were no long positions in the underlying shares and debentures or any short positions in the shares, underlying shares and debentures of the Company and its associated corporations, which were recorded in the register as required to be kept under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

As at 30th September 2003, save as disclosed therein, none of the directors, chief executives or any of their associates had any interests or short positions, whether beneficial or non-beneficial, in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 20 to the accounts.

Movements in the Company's share options during the year are as follows:

Category and name of participant	As at 1st October 2002	Granted during the year	Cancelled/ Lapsed during the year	As at 30th September 2003	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
<b>Directors</b>							
Yu Lai Si	3,000,000	–	–	3,000,000	30th August 2002	28th February 2003 – 29th August 2007	0.52
Tam Chie Sang	1,500,000	–	–	1,500,000	30th August 2002	28th February 2003 – 29th August 2007	0.52
Yu Lai Chu, Eileen	1,500,000	–	–	1,500,000	30th August 2002	28th February 2003 – 29th August 2007	0.52
Yu Kam Shui, Erastus	1,500,000	–	–	1,500,000	30th August 2002	28th February 2003 – 29th August 2007	0.52
Lai Yin Ping	1,500,000	–	–	1,500,000	30th August 2002	28th February 2003 – 29th August 2007	0.52
	<u>9,000,000</u>	<u>–</u>	<u>–</u>	<u>9,000,000</u>			

Category and name of participant	As at 1st October 2002	Granted during the year	Cancelled/ Lapsed during the year	As at 30th September 2003	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
<b>Supplier</b>							
H <sub>2</sub> O Plus, L.P.	3,264,000 <sup>(1)</sup>	976,000 <sup>(2)</sup>	–	4,240,000	<sup>(1)</sup> 11th March 2002 <sup>(2)</sup> 12th March 2003	<sup>(1)</sup> 11th March 2002 – 10th March 2012 <sup>(2)</sup> 12th March 2003 – 11th March 2013	<sup>(1)</sup> 1.18 <sup>(2)</sup> 0.54
	<u>3,264,000</u>	<u>976,000</u>	<u>–</u>	<u>4,240,000</u>			
<b>Employees</b> (In aggregate)							
	750,000	–	–	750,000	26th April 2002	26th October 2002 – 25th April 2007	1.67
	750,000	–	–	750,000	26th April 2002	26th April 2003 – 25th April 2007	1.67
	3,820,000	–	840,000	2,980,000	30th August 2002	28th February 2003 – 29th August 2007	0.52
	3,820,000	–	840,000	2,980,000	30th August 2002	31st August 2003 – 29th August 2007	0.52
	2,820,000	–	840,000	1,980,000	30th August 2002	29th February 2004 – 29th August 2007	0.52
	<u>11,960,000</u>	<u>–</u>	<u>2,520,000</u>	<u>9,440,000</u>			

No share options were exercised during the year ended 30th September 2003.

The directors do not consider it is appropriate to disclose a theoretical value of the share options of the Company granted because a number of factors crucial for the valuation are subjective and uncertain. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful, and would be misleading.

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.

## Directors' Report

### SUBSTANTIAL SHAREHOLDERS

As at 30th September 2003, the following persons had interests or short positions in the shares or underlying shares of the Company, as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholder	Capacity	Number of ordinary shares	Approximate percentage of voting power
Yu Lai Si	Beneficial owner	77,666,880 Long position	24.1%
Zinna Group Limited <sup>(1)</sup>	Interest of a controlled corporation	77,666,880 Long position	24.1%
Advance Favour Holdings Limited <sup>(2)</sup>	Interest of a controlled corporation	38,833,440 Long position	12.1%
Billion Well Holdings Limited <sup>(3)</sup>	Interest of a controlled corporation	38,833,440 Long position	12.1%

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 2003, 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 2003, distributable reserves of the Company amounted to approximately HK\$3,687,000.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30th September 2003, the Group employed 733 staff (2002: 523). 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 approximately 18 million 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 ended 30th September 2003, 4,500,000 ordinary shares of HK\$0.1 each of the Company were repurchased at prices ranging from HK\$0.68 to HK\$0.83 per share through the Stock Exchange. The repurchase involved a total cash outlay of approximately HK\$3.3 million.

Saved as disclosed above, none of the Company's subsidiaries purchased or sold any of the Company's listed securities during the year ended 30th September 2003.

## 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 2003 with the Code of Best Practice set out in Appendix 14 to the Listing Rules except that 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.

## 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 2003.

## 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 2004



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 19 to 48 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### 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 circumstances of the Company and the Group, 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 2003 and of the loss 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 2004

## Consolidated Profit and Loss Account

FOR THE YEAR ENDED 30TH SEPTEMBER

		2003	As restated 2002
	Note	HK\$'000	HK\$'000
Turnover	3	310,236	308,449
Other revenues	3	1,249	1,586
Cost of inventories sold		(79,710)	(82,993)
Staff costs	9	(84,768)	(70,410)
Depreciation		(13,786)	(10,051)
Other operating expenses		<u>(140,931)</u>	<u>(135,589)</u>
Operating (loss)/profit	4	(7,710)	10,992
Taxation	5	<u>(2,848)</u>	<u>(5,063)</u>
(Loss)/profit after taxation		(10,558)	5,929
Minority interests		<u>774</u>	<u>418</u>
(Loss)/profit attributable to shareholders	6	<u>(9,784)</u>	<u>6,347</u>
Dividends	7	<u>4,829</u>	<u>7,462</u>
(Loss)/earnings per share			
Basic	8	<u>(3.0) cents</u>	<u>2.1 cents</u>

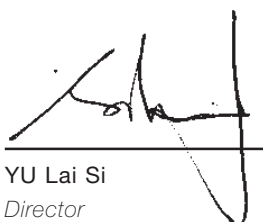
# Consolidated Balance Sheet

AS AT 30TH SEPTEMBER

	Note	2003 HK\$'000	As restated 2002 HK\$'000
Non-current assets			
Intangible assets	11	2,725	3,256
Fixed assets	12	32,481	30,778
Rental deposits		9,958	11,186
Other investment	14	452	2,013
		<u>45,616</u>	<u>47,233</u>
Current assets			
Inventories	15	32,906	36,901
Trading investments	16	220	237
Accounts receivable	17	23,039	19,531
Prepayments		10,727	14,136
Other deposits and receivables		2,715	8,294
Tax recoverable		2,318	2,055
Bank balances and cash		78,707	88,685
		<u>150,632</u>	<u>169,839</u>
Current liabilities			
Accounts payable	18	3,943	8,239
Accruals and other payables		24,677	26,374
Receipts in advance	19	24,249	20,340
Taxation payable		1,673	1,466
		<u>54,542</u>	<u>56,419</u>
Net current assets		<u>96,090</u>	<u>113,420</u>
Total assets less current liabilities		<u>141,706</u>	<u>160,653</u>
Financed by:			
Share capital	20	32,190	32,640
Reserves	21	108,145	126,447
Shareholders' funds		140,335	159,087
Minority interests		242	1,166
Non-current liabilities			
Pension obligations	22	450	400
Deferred taxation	23	679	—
		<u>141,706</u>	<u>160,653</u>



TAM Chie Sang  
Director



YU Lai Si  
Director

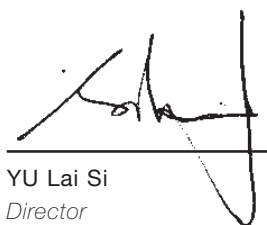
## Balance Sheet

AS AT 30TH SEPTEMBER

	Note	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Investment in subsidiaries	13	8,000	3,000
Current assets			
Amounts due from subsidiaries	13	44,948	51,222
Prepayments		962	1,490
Bank balances and cash		4,209	10,605
		50,119	63,317
Current liabilities			
Amounts due to subsidiaries	13	2,151	7,112
Accruals and other payables		593	833
		2,744	7,945
Net current assets		47,375	55,372
Total assets less current liabilities		55,375	58,372
Financed by:			
Share capital	20	32,190	32,640
Reserves	21	23,185	25,732
Shareholders' funds		55,375	58,372



TAM Chie Sang  
Director



YU Lai Si  
Director

## Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30TH SEPTEMBER

	2003 HK\$'000	2002 HK\$'000
Total equity as at beginning of the year, as previously reported	160,574	105,657
Effect of the adoption of SSAP 34	<u>(1,487)</u>	<u>(510)</u>
Total equity as at beginning of the year, as restated	<u>159,087</u>	<u>105,147</u>
(Loss)/profit attributable to shareholders, as restated	(9,784)	6,347
Proceeds from initial public offer	–	61,690
Initial public offer expenses	–	(10,100)
Repurchase of shares	(3,352)	–
Dividends	(4,829)	(4,243)
Exchange differences	<u>(787)</u>	<u>246</u>
Total equity as at end of the year	<u>140,335</u>	<u>159,087</u>

## Consolidated Cash Flow Statement

FOR THE YEAR ENDED 30TH SEPTEMBER

	Note	2003 HK\$'000	2002 HK\$'000
Operating activities			
Net cash inflow generated from operations	24(a)	15,299	14,377
Hong Kong profits tax paid		(67)	(17,880)
Overseas tax paid		(2,158)	(1,528)
		<u>13,074</u>	<u>(5,031)</u>
Net cash inflow/(outflow) from operating activities			
Investing activities			
Purchase of fixed assets		(16,158)	(13,965)
Proceeds from disposal of fixed assets		307	304
Interest received		651	936
Proceeds from disposal of other investment		1,630	–
Payment for license fees		(478)	(3,667)
Acquisition of further interest in a subsidiary		–	(1,000)
		<u>(14,048)</u>	<u>(17,392)</u>
Net cash outflow from investing activities			
Net cash outflow before financing		<u>(974)</u>	<u>(22,423)</u>
Financing activities	24(b)		
Issue of new shares		–	61,690
Initial public offer expenses		–	(10,100)
Repurchase of shares		(3,352)	–
Advance from a minority shareholder		–	284
Dividends paid to a minority shareholder of a subsidiary		(89)	(43)
Dividends paid		(4,829)	(4,243)
		<u>(8,270)</u>	<u>47,588</u>
Net cash (outflow)/inflow from financing			
(Decrease)/increase in cash and cash equivalents		<u>(9,244)</u>	<u>25,165</u>
Cash and cash equivalents at the beginning of the year		88,685	63,274
Effect of foreign exchange rate changes		<u>(734)</u>	<u>246</u>
Cash and cash equivalents at end of the year		<u>78,707</u>	<u>88,685</u>
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		<u>78,707</u>	<u>88,685</u>

# Notes to the Accounts

## 1. ORGANISATION AND PRINCIPAL ACTIVITIES

Water Oasis Group Limited (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. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 11th March 2002.

The Company is an investment holding company. Its subsidiaries are principally engaged in the distribution of skin-care products in Hong Kong, Macau, Taiwan and the Mainland China (the "PRC") and the operation of spa and beauty centers in Hong Kong.

## 2. PRINCIPAL ACCOUNTING POLICIES

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

### (a) Basis of preparation

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 (the "HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, an investment property and trading investments are stated at fair value.

In current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

The effect of adopting these new/revised SSAPs is set out in the accounting policies below.

The 2002 comparative figures presented herein have incorporated the effect on the adoption of new/revised SSAPs.

### (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 Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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 and any related accumulated exchange reserve.

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.

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

### (c) Intangible assets

Expenditure on acquiring licenses for sale of products in 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.

### (d) 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 annually. 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.

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.

### (e) 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 $\frac{1}{3}$ %
Machinery and equipment	20%
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.

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

#### (e) **Fixed assets** *(Continued)*

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.

#### (f) **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.

#### (g) **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.

#### (h) **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 impairment in value which is 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.

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

### (i) 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.

### (j) 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 and deposits held at call with banks.

### (k) 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.

### (l) Employee benefits

#### *(i) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. This represents a change in accounting policy as, in previous years, no provision was made for the liability.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### *(ii) Pension obligations*

The Group's subsidiaries in Hong Kong and the PRC participate in relevant defined contribution schemes, the assets of which are held separately from those of the Group in independently administered funds. Contributions are made to these schemes based on a certain percentage of the applicable payroll costs. The contributions are expensed as incurred.

The Group's subsidiary in Taiwan participates in a defined benefit pension plan in accordance with the local statutory regulations. Pension costs are assessed using the projected unit credit method. The pension obligation is measured as the present value of the estimated future cash outflows using discount rate based on the rate of return on high-quality fixed-income investments in Taiwan which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised over the average remaining service lives of employees. Past service costs are recognised as expenses on a straight-line basis over the average period until the benefits become vested. The contributions are charged to the profit and loss account in the period to which the contributions relate. This represents a change in accounting policy as, in previous years, pension costs were charged to the profit and loss accounts only based on the contribution payable in the year.

The above changes in accounting policies as stated in (i) and (ii) above have been applied retrospectively as prior year adjustments in the Group's accounts. In this connection, the Group's profit attributable to shareholders for the year ended 30th September 2002 was decreased by approximately HK\$977,000 and the retained profits as at 1st October 2001 was decreased by approximately HK\$510,000.

## Notes to the Accounts

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

#### (l) **Employee benefits** *(Continued)*

##### (iii) *Profit sharing and bonus plans*

The expected cost of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

#### (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.

#### (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 balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at average rates. Exchange differences are dealt with as a movement in reserves.

#### (p) **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 for products or as other income upon the coupon expiry date.

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

Operating lease rental income is recognised on a straight-line basis.

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

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

### (q) 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 reported based on the country/place in which the customers are located. Total assets and capital expenditure are reported where the assets are located.

## 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:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sales of goods	220,531	260,953
Rendering of services	89,705	47,496
	<u>310,236</u>	<u>308,449</u>
Other revenues		
Interest income	651	936
Gross rental income from an investment property	273	288
Income from expired gift coupons	135	307
Others	190	55
	<u>1,249</u>	<u>1,586</u>
Total revenues	<u>311,485</u>	<u>310,035</u>

## Notes to the Accounts

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

#### Primary reporting format – business segments

	Retailing		Services		Elimination		Group	
	As restated 2003	As restated 2002	As restated 2003	As restated 2002	As restated 2003	As restated 2002	As restated 2003	As restated 2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to external customers	220,531	260,953	89,705	47,496	–	–	310,236	308,449
Intersegment sales	4,032	697	–	–	(4,032)	(697)	–	–
Total	224,563	261,650	89,705	47,496	(4,032)	(697)	310,236	308,449
Segment results	1,727	30,277	23,960	12,869	–	–	25,687	43,146
Other revenues							1,249	1,586
Unallocated corporate expenses							(34,646)	(33,740)
Operating (loss)/profit							(7,710)	10,992
Taxation							(2,848)	(5,063)
(Loss)/profit after taxation							(10,558)	5,929
Minority interests							774	418
(Loss)/profit attributable to shareholders							(9,784)	6,347

	Retailing		Services		Group	
	As restated 2003	As restated 2002	As restated 2003	As restated 2002	As restated 2003	As restated 2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	98,928	103,478	27,461	27,135	126,389	130,613
Unallocated assets					69,859	86,459
Total assets					196,248	217,072
Segment liabilities	27,684	32,898	25,455	17,939	53,139	50,837
Unallocated liabilities (including minority interests)					2,774	7,148
Total liabilities					55,913	57,985
Depreciation	8,735	7,019	5,051	3,032	13,786	10,051
Amortisation	1,009	411	–	–	1,009	411
Capital expenditures	8,041	5,892	8,117	8,073	16,158	13,965

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

Secondary reporting format – geographical segments

	Turnover		Capital expenditures		Total assets	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong and Macau	190,772	210,769	10,113	9,456	57,529	68,265
PRC	50,323	8,469	5,326	2,783	40,138	28,594
Taiwan	69,141	89,211	719	1,726	28,722	33,754
	<u>310,236</u>	<u>308,449</u>	<u>16,158</u>	<u>13,965</u>	<u>126,389</u>	<u>130,613</u>
Unallocated assets					69,859	86,459
					<u>196,248</u>	<u>217,072</u>

### 4. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after crediting and charging the following:

	2003 HK\$'000	2002 HK\$'000
<b>Crediting</b>		
Gain on disposal of other investment	<u>69</u>	<u>–</u>
<b>Charging</b>		
Amortisation of intangible assets	1,009	411
Auditors' remuneration	823	677
Operating leases rental on land and buildings	45,918	46,571
Unrealised loss on trading investments	17	173
(Gain)/loss on disposal of fixed assets	(102)	156
Net exchange (gain)/losses	(89)	137
Revaluation deficit on an investment property	<u>350</u>	<u>949</u>

## Notes to the Accounts

### 5. TAXATION

	2003 HK\$'000	2002 HK\$'000
Current taxation		
Hong Kong profits tax	1,074	3,028
Overseas taxation	872	2,129
Under/(over) provision in prior years	223	(94)
Deferred taxation (Note 23)	679	–
	<u>2,848</u>	<u>5,063</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2002:16%) on the estimated assessable profit for the year after setting off available tax losses brought forward from prior years. 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.

### 6. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately HK\$5,184,000 (2002: HK\$8,025,000).

### 7. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim, paid, of 0.5 HK cents per ordinary share (2002: 1.3 HK cents)	1,610	4,243
Final, proposed on 14th January 2004, of 1.0 HK cents per ordinary share (2002: 1.0 HK cents)	<u>3,219</u>	<u>3,219</u>
	<u>4,829</u>	<u>7,462</u>

### 8. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of approximately HK\$9,784,000 (2002: profit attributable to shareholders of approximately HK\$6,347,000 as restated) and the weighted average number of 322,330,137 (2002: 301,674,082) ordinary shares in issue during the year.

No diluted (loss)/earnings per share is calculated for the years ended 30th September 2003 and 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. STAFF COSTS (including directors' emoluments)

	2003 HK\$'000	As restated 2002 HK\$'000
Wages and salaries	80,969	67,542
Pension costs-defined benefit plan (Note 22)	154	400
Pension costs-defined contribution plans	3,387	1,891
Unutilised annual leave	258	577
	<u>84,768</u>	<u>70,410</u>

## 10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' emoluments

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

	2003 HK\$'000	2002 HK\$'000
Fees	200	157
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits-in-kinds	8,617	8,672
Retirement benefit costs	60	55
	<u>8,877</u>	<u>8,884</u>

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

## Notes to the Accounts

### 10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

#### (a) Directors' emoluments *(Continued)*

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	
	2003	2002
Emolument bands		
HK\$ nil – HK\$1,000,000	5	5
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$4,500,000	–	–
HK\$4,500,001 – HK\$5,000,000	1	1
	<u>7</u>	<u>7</u>

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2002: three) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining one (2002: two) individuals during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, housing allowances, other allowances and benefits-in-kinds	1,381	2,168
Bonuses	–	602
Retirement benefit costs	12	12
	<u>1,393</u>	<u>2,782</u>

The emoluments of employees fell within the following bands:

	Number of Employees	
	2003	2002
Emolument bands		
HK\$ nil – HK\$1,000,000	–	–
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	–	1
	<u>1</u>	<u>2</u>

For the years ended 30th September 2003 and 2002, 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.

## 11. INTANGIBLE ASSETS

### Group

	License fees	
	2003	2002
	HK\$'000	HK\$'000
Beginning of year	3,256	–
Additions	478	3,667
Amortisation charge	(1,009)	(411)
End of year	<u>2,725</u>	<u>3,256</u>
End of year		
Cost	4,145	3,667
Accumulated amortisation	<u>(1,420)</u>	<u>(411)</u>
Net book amount	<u>2,725</u>	<u>3,256</u>

## 12. FIXED ASSETS

### Group

	Investment property HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Machinery and equipment HK\$'000	Office equipment, furniture and fixtures HK\$'000	Total HK\$'000
Cost or valuation							
As at 1st October 2002	5,950	29,160	3,503	3,444	6,447	4,845	53,349
Additions	–	11,055	–	984	3,522	597	16,158
Disposals	–	(1,321)	(246)	(14)	(399)	–	(1,980)
Revaluation	(350)	–	–	–	–	–	(350)
Exchange adjustment	–	(178)	(8)	–	(2)	(97)	(285)
As at 30th September 2003	<u>5,600</u>	<u>38,716</u>	<u>3,249</u>	<u>4,414</u>	<u>9,568</u>	<u>5,345</u>	<u>66,892</u>
Accumulated depreciation							
As at 1st October 2002	–	14,712	2,267	2,081	1,574	1,937	22,571
Charge for the year	–	9,703	721	848	1,495	1,019	13,786
Disposals	–	(1,321)	(246)	(3)	(205)	–	(1,775)
Exchange adjustment	–	(123)	(4)	–	–	(44)	(171)
As at 30th September 2003	<u>–</u>	<u>22,971</u>	<u>2,738</u>	<u>2,926</u>	<u>2,864</u>	<u>2,912</u>	<u>34,411</u>
Net book value							
As at 30th September 2003	<u>5,600</u>	<u>15,745</u>	<u>511</u>	<u>1,488</u>	<u>6,704</u>	<u>2,433</u>	<u>32,481</u>
As at 30th September 2002	<u>5,950</u>	<u>14,448</u>	<u>1,236</u>	<u>1,363</u>	<u>4,873</u>	<u>2,908</u>	<u>30,778</u>

## Notes to the Accounts

### 12. FIXED ASSETS *(Continued)*

The analyse of the cost or valuation as at 30th September 2003 and 2002 of the above assets are as follows:

	Investment property HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Machinery and equipment HK\$'000	Office equipment, furniture and fixtures HK\$'000	Total HK\$'000
<b>2003</b>							
At cost	–	38,716	3,249	4,414	9,568	5,345	61,292
At valuation	5,600	–	–	–	–	–	5,600
	<u>5,600</u>	<u>38,716</u>	<u>3,249</u>	<u>4,414</u>	<u>9,568</u>	<u>5,345</u>	<u>66,892</u>
<b>2002</b>							
At cost	–	29,160	3,503	3,444	6,447	4,845	47,399
At valuation	5,950	–	–	–	–	–	5,950
	<u>5,950</u>	<u>29,160</u>	<u>3,503</u>	<u>3,444</u>	<u>6,447</u>	<u>4,845</u>	<u>53,349</u>

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 2003 on the basis of their open market value by American Appraisal China Limited, an independent firm of chartered surveyors.

### 13. INVESTMENTS IN SUBSIDIARIES

#### Company

	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	3,000	3,000
Amount due from a subsidiary	<u>5,000</u>	<u>–</u>
	8,000	3,000
Amounts due from subsidiaries	44,948	51,222
Amounts due to subsidiaries	<u>(2,151)</u>	<u>(7,112)</u>
	<u>50,797</u>	<u>47,110</u>

Details of the principal subsidiaries are set out in Note 28.

The amount due from a subsidiary of HK\$5,000,000 (2002: Nil) is unsecured, non-interest bearing, and not repayable within one year.

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

#### 14. OTHER INVESTMENT

##### Group

Other investment represents investment in a capital guaranteed fund stated at cost. As at 30th September 2003, the market value of other investment was approximately HK\$462,000 (2002: HK\$2,055,000).

#### 15. INVENTORIES

##### Group

	2003 HK\$'000	2002 HK\$'000
Finished goods – merchandises	<u>32,906</u>	<u>36,901</u>

As at 30th September 2003 and 2002, all inventories were stated at cost.

#### 16. TRADING INVESTMENTS

##### Group

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

#### 17. ACCOUNTS RECEIVABLE

##### Group

Details of the ageing analysis are as follows:

	2003 HK\$'000	2002 HK\$'000
0 to 30 days	21,048	18,152
31 days to 60 days	729	875
61 days to 90 days	1,012	468
Over 90 days	<u>250</u>	<u>36</u>
	<u>23,039</u>	<u>19,531</u>

Credit terms generally range from 30 days to 90 days.

#### 18. ACCOUNTS PAYABLE

##### Group

Details of the ageing analysis are as follows:

	2003 HK\$'000	2002 HK\$'000
0 to 30 days	<u>3,943</u>	<u>8,239</u>

## Notes to the Accounts

### 19. 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.

### 20. SHARE CAPITAL

#### Company

	2003 HK\$'000	2002 HK\$'000
Authorised:		
1,000,000,000 (2002: 1,000,000,000) ordinary shares of HK\$0.1 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
321,900,000 (2002: 326,400,000) ordinary shares of HK\$0.1 each	<u>32,190</u>	<u>32,640</u>

Movement in issued and fully paid share capital of the Company is as follow:

	Issued and fully paid ordinary shares	
	No. of shares	HK\$'000
At 1st October 2002	326,400,000	32,640
Repurchase of shares (Note (a))	<u>(4,500,000)</u>	<u>(450)</u>
At 30th September 2003	<u>321,900,000</u>	<u>32,190</u>

Note:

- (a) A total of 4,500,000 ordinary shares of HK\$0.1 each of the Company were repurchased through the Stock Exchange at prices ranging from HK\$0.68 to HK\$0.83 per share for a total cash outlay of approximately HK\$3.3 million. The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares was transferred from retained profits to the capital redemption reserve and the premium paid on the repurchased shares was charged against the share premium account.

## 20. SHARE CAPITAL *(Continued)*

- (b) 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, promoter, 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 shall be the higher of the average of the closing prices of the share of the Company on the Stock Exchange 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.

Details of the movements in share options during the year are as follows:

Category	Date of grant	Exercise period	Exercise price per share HK\$	As at 1st October 2002	Granted	Cancelled/ Lapsed	As at 30th September 2003
Directors	30th August 2002	28th February 2003 – 29th August 2007	0.52	<u>9,000,000</u>	<u>–</u>	<u>–</u>	<u>9,000,000</u>
Supplier	11th March 2002	11th March 2002 – 10th March 2012	1.18	3,264,000	–	–	3,264,000
	12th March 2003	12th March 2003 – 11th March 2013	0.54	<u>–</u>	<u>976,000</u>	<u>–</u>	<u>976,000</u>
				<u>3,264,000</u>	<u>976,000</u>	<u>–</u>	<u>4,240,000</u>
Employees (in aggregate)	26th April 2002	26th October 2002 – 25th April 2007	1.67	750,000	–	–	750,000
	26th April 2002	26th April 2003 – 25th April 2007	1.67	750,000	–	–	750,000
	30th August 2002	28th February 2003 – 29th August 2007	0.52	3,820,000	–	840,000	2,980,000
	30th August 2002	31st August 2003 – 29th August 2007	0.52	3,820,000	–	840,000	2,980,000
	30th August 2002	29th February 2004 – 29th August 2007	0.52	<u>2,820,000</u>	<u>–</u>	<u>840,000</u>	<u>1,980,000</u>
				<u>11,960,000</u>	<u>–</u>	<u>2,520,000</u>	<u>9,440,000</u>

## Notes to the Accounts

### 21. RESERVES

#### Group

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	
At 1st October 2001 as previously reported	–	(666)	(25,694)	105,089	78,729	
Effect of the adoption of SSAP 34	–	–	–	(510)	(510)	
At 1st October 2001, as restated	–	(666)	(25,694)	104,579	78,219	
Profit attributable to shareholders, as restated	–	–	–	6,347	6,347	
Proceeds from initial public offer	55,978	–	–	–	55,978	
Initial public offer expenses	(10,100)	–	–	–	(10,100)	
Capitalisation issue	(23,928)	–	23,928	–	–	
2002 interim dividend	–	–	–	(4,243)	(4,243)	
Exchange differences	–	246	–	–	246	
At 30th September 2002	21,950	(420)	(1,766)	106,683	126,447	
Represented by:						
Reserves as restated	21,950	(420)	(1,766)	103,464	123,228	
Proposed final dividend	–	–	–	3,219	3,219	
	21,950	(420)	(1,766)	106,683	126,447	
	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st October 2002, as restated	21,950	(420)	(1,766)	–	106,683	126,447
Loss attributable to shareholders	–	–	–	–	(9,784)	(9,784)
2002 final dividend	–	–	–	–	(3,219)	(3,219)
Repurchase of shares (Note 20 (a))	(2,902)	–	–	450	(450)	(2,902)
2003 interim dividend	–	–	–	–	(1,610)	(1,610)
Exchange differences	–	(787)	–	–	–	(787)
At 30th September 2003	19,048	(1,207)	(1,766)	450	91,620	108,145
Represented by:						
Reserves	19,048	(1,207)	(1,766)	450	88,401	104,926
Proposed final dividend	–	–	–	–	3,219	3,219
	19,048	(1,207)	(1,766)	450	91,620	108,145

## 21. RESERVES (Continued)

Note:

- (a) Capital reserve represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the group reorganisation on 23rd January 2002 and the nominal value of the Company's shares issued in exchange thereof.

### Company

	Share premium HK\$'000	Capital redemption reserve 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	(23,928)	—	—	(23,928)
2002 interim dividend	—	—	(4,243)	(4,243)
	<u>21,950</u>	<u>—</u>	<u>3,782</u>	<u>25,732</u>
At 30th September 2002	21,950	—	3,782	25,732
Represented by:				
Reserves	21,950	—	563	22,513
Proposed final dividend	—	—	3,219	3,219
	<u>21,950</u>	<u>—</u>	<u>3,782</u>	<u>25,732</u>
At 1st October 2002	21,950	—	3,782	25,732
Profit for the year	—	—	5,184	5,184
2002 final dividend	—	—	(3,219)	(3,219)
Repurchase of shares	(2,902)	450	(450)	(2,902)
2003 interim dividend	—	—	(1,610)	(1,610)
	<u>19,048</u>	<u>450</u>	<u>3,687</u>	<u>23,185</u>
At 30th September 2003	19,048	450	3,687	23,185
Represented by:				
Reserves	19,048	450	468	19,966
Proposed final dividend	—	—	3,219	3,219
	<u>19,048</u>	<u>450</u>	<u>3,687</u>	<u>23,185</u>

## Notes to the Accounts

### 22. PENSION OBLIGATIONS

The pension obligations (included in accruals) represent the net liability of defined benefit plan in Taiwan. A subsidiary of the Group in Taiwan participates in a pension plan as stipulated by the local statutory regulations. The subsidiary has an obligation to ensure that there are sufficient funds in the defined benefit plan to pay the promised benefits to employees when they attain the age of retirement. The subsidiary currently contributes at a fixed percentage of the payroll incurred in accordance with the regulations.

Actuarial valuation has been performed on the pension liability as at 30th September 2003 and 30th September 2002 by an independent qualified actuary using projected unit credit method. The deficit between the pension asset and present value of the obligation as at 30th September 2003 is recognised in the profit and loss account in 2003. Prior year adjustment has been made to recognise the net deficit as at 30th September 2002 and the pension costs for that year.

The amounts recognised in the balance sheet are determined as follows:

	2003 HK\$'000	2002 HK\$'000
Present value of funded obligations	652	346
Fair value of plan assets	(104)	–
	<hr/>	<hr/>
Present value of unfunded obligations	548	346
Unrecognised actuarial (losses)/gains	(98)	54
	<hr/>	<hr/>
Liability in the balance sheet	<hr/> <b>450</b>	<hr/> <b>400</b>

The amounts recognised in the profit and loss account were as follows:

	2003 HK\$'000	2002 HK\$'000
Current service costs	142	174
Interest cost	13	10
Recognition of transitional liability	–	216
Net actuarial gain	(1)	–
	<hr/>	<hr/>
Expenses recognised in the profit and loss account (Note 9)	<hr/> <b>154</b>	<hr/> <b>400</b>

## 22. PENSION OBLIGATIONS *(Continued)*

Movement in the liability recognised in the balance sheet:

	2003 HK\$'000	2002 HK\$'000
Beginning of year	400	–
Total expense, included in staff costs (Note 9)	154	400
Contributions paid	(104)	–
	<u>450</u>	<u>400</u>
End of year	<u>450</u>	<u>400</u>

The principal actuarial assumptions used were as follows:

	2003 %	2002 %
Discount rate	3.25	4.00
Expected rate of return on plan assets	2.00	3.50
Expected rate of future salary increases	<u>2.50</u>	<u>3.00</u>

## 23. DEFERRED TAXATION

	2003 HK\$'000	2002 HK\$'000
Beginning of year	–	–
Charged to profit and loss account (Note 5)	<u>679</u>	<u>–</u>
End of year	<u>679</u>	<u>–</u>
Provided for in respect of:		
Accelerated depreciation allowances	<u>679</u>	<u>–</u>

No other potential deferred taxation has been provided in the accounts as the effect is not material to the Group.

## Notes to the Accounts

### 24. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of operating (loss)/profit to net cash inflow generated from operations

	2003 HK\$'000	As restated 2002 HK\$'000
Operating (loss)/profit	(7,710)	10,992
Depreciation	13,786	10,051
Amortisation of license fees	1,009	411
Interest income	(651)	(936)
Gain on disposal of other investment	(69)	–
Unrealised loss on trading investments	17	173
(Gain)/loss on disposal of fixed assets	(102)	156
Revaluation deficit on an investment property	350	949
Decrease/(increase) in inventories	3,995	(18,219)
Increase in accounts receivable	(3,508)	(11,085)
Decrease/(increase) in rental deposits, prepayments, other deposits and receivables	10,216	(6,387)
(Decrease)/increase in accounts payable	(4,296)	1,061
(Decrease)/increase in accruals and other payables	(1,697)	17,108
Increase in receipts in advance	3,909	9,703
Increase in pension obligations	50	400
Net cash inflow generated from operations	15,299	14,377

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

	Share capital including premium and capital reserve		Minority interests	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Beginning of year	52,824	1,234	1,166	2,610
Proceeds from initial public offer	–	61,690	–	–
Initial public offer expenses	–	(10,100)	–	–
Minority interests' in share of net losses	–	–	(774)	(418)
Advance from a minority shareholder	–	–	–	284
Dividends paid to a minority shareholder of a subsidiary	–	–	(89)	(43)
Acquisition of further interest in a subsidiary	–	–	–	(1,267)
Repurchase of shares	(3,352)	–	–	–
Effect of foreign exchange rate changes	–	–	(61)	–
End of year	49,472	52,824	242	1,166

## 25. COMMITMENTS

### (a) Capital commitments for fixed assets

	Group	
	2003	2002
	HK\$'000	HK\$'000
Contracted but not provided for	<u>–</u>	<u>315</u>

### (b) Commitments under operating leases

At 30th September 2003 and 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Not later than one year	34,421	34,766
Later than one year and not later than five years	<u>27,012</u>	<u>19,916</u>
	<u>61,433</u>	<u>54,682</u>

## 26. BANKING FACILITIES

As at 30th September 2003, the Group was granted banking facilities amounted to HK\$18,000,000 by a bank (2002: HK\$18,000,000) under guarantee provided by the Company.

## 27. RELATED PARTY TRANSACTIONS

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

	2003	2002
	HK\$'000	HK\$'000
Acquisition of further interest in a subsidiary (note (a))	<u>–</u>	<u>1,000</u>

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.

## Notes to the Accounts

### 28. 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
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

## 28. 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 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 retail outlet in Hong Kong
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

## Notes to the Accounts

### 28. 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 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
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

### 29. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 14th January 2004.

## Five-Year Financial Summary

	Year ended 30th September				
	2003 HK\$'000	As restated 2002 HK\$'000	As restated 2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
<b>RESULTS</b>					
Turnover	<u>310,236</u>	<u>308,449</u>	<u>285,998</u>	<u>237,611</u>	<u>131,711</u>
Operating (loss)/profit	(7,710)	10,992	59,995	71,395	63,782
Taxation	<u>(2,848)</u>	<u>(5,063)</u>	<u>(7,812)</u>	<u>(12,607)</u>	<u>(10,205)</u>
(Loss)/profit after taxation	(10,558)	5,929	52,183	58,788	53,577
Minority interests	<u>774</u>	<u>418</u>	<u>(683)</u>	<u>(724)</u>	<u>(536)</u>
(Loss)/profit attributable to shareholders	<u>(9,784)</u>	<u>6,347</u>	<u>51,500</u>	<u>58,064</u>	<u>53,041</u>
<b>BALANCE SHEETS</b>					
Total assets	196,248	217,072	148,327	140,398	66,075
Total liabilities	(55,671)	(56,819)	(40,570)	(51,639)	(17,774)
Minority interests	<u>(242)</u>	<u>(1,166)</u>	<u>(2,610)</u>	<u>(1,831)</u>	<u>(540)</u>
Net assets	<u>140,335</u>	<u>159,087</u>	<u>105,147</u>	<u>86,928</u>	<u>47,761</u>

*Note:* The figures for years 2001 and 2002 have been restated to reflect the adoption of the Statement of Standard Accounting Practice No. 34 "Employee Benefits" issued by the Hong Kong Society of Accountants. Figures for other years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.

## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting (the "AGM") of the Company will be held at Salon I & II, Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong on 5th March 2004 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated accounts and the reports of the directors and auditors of the Group for the year ended 30th September 2003.
2. To declare a final dividend in respect of the year ended 30th September 2003.
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 thought 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 (the "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 5th March 2004 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 2004

*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 2003 Annual Report.
- (4) The transfer books and register of members of the Company will be closed from 26th February 2004 to 5th March 2004, 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 transfer documents, accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Standard Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 25th February 2004.