

## CORPORATE PROFILE

Water Oasis Group Limited is a skin-care and beauty group with exclusive distribution rights to the renowned ~H<sub>2</sub>O+ brand skincare product range in the Greater China region and Singapore. The ~H<sub>2</sub>O+ range has wide appeal for both men and women due to its water-based, oil free formula, and the health benefits resulting from its marine-based skin care ingredients. The Group's main business derives from the retail sales of ~H<sub>2</sub>O+ products through its retail outlets in Hong Kong and Macau (18 outlets), Taiwan (16 outlets), China (a mix of 51 self-managed and 24 franchised outlets in 37 cities) and, more recently, Singapore (3 outlets).

Water Oasis was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited in March 2002.

In addition to its ~H<sub>2</sub>O+ retail sales outlets, the Group also operates 2 spa centres in Hong Kong under the "Oasis Spa" brand name. These spa centres provide beauty and slimming treatments, hydro bath and massage services, utilizing the full range of ~H<sub>2</sub>O+ products. The Group also operates 12 "Oasis Beauty" and "Oasis Beauty Homme" centres, offering a range of competitively-priced beauty treatments aimed at mass market consumers.



**+** Operating thriving retail, beauty and spa operations across China, Hong Kong, Taiwan, Macau and Singapore

# CORPORATE INFORMATION

## 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  
 WONG Chi Keung

## AUDIT COMMITTEE

WONG Lung Tak, Patrick, J.P.  
 WONG Chun Nam  
 WONG Chi Keung

## COMPANY SECRETARY

CHENG Chi Wai, FCCA, FCPA, FCIS, FCS

## 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

Butterfield Bank (Cayman) Limited  
 (Formerly: 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)

## ACCLAIMED RECOGNITION

**YAHOO! EMOTIVE BRAND AWARDS**  
(Cosmetics and skincare category)  
**BEST SPA OF THE YEAR 2004**

### HONG KONG

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

Oasis Spa



organizer: Yahoo!



organizer: *Cosmopolitan*

**BEST BODY SCRUB**

### CHINA

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

"Sea Salt Skin Smoother"



organizer: *Cosmopolitan*

**ANNUAL TOP 10 HYDRATION**  
**ANNUAL TOP 10 REPAIR & SERUM**

### TAIWAN

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

"Oasis 24 Hydrating Booster"

"Face Oasis™  
Hydrating Treatment"



organizer: *Marie Claire*

**MOST OUTSTANDING  
RETAIL OUTLET**

### SINGAPORE

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



organizer: *Suntec City*

## CEO'S STATEMENT

### + Solid turnaround with strong growth momentum

#### SOLID TURNAROUND

After a period in 2003 when the Group was affected by a strongly negative market brought on by SARS and exacerbated by ailing regional economies, the past year has represented a solid turnaround situation. At the end of it we are able once again to report robust growth in some areas of the Group's operations, and solid achievements in others. Besides the general improvement of the economy in the Group's traditional markets of Hong Kong and Taiwan, we have benefited from our early commitment to entering the China market, a commitment to which we stood fast even when conditions were at their most unfavourable. Now, with the China economy booming and consumers there more affluent and sophisticated in their tastes than ever, our expansion strategy looks to have been the right one. On top of this, we have benefited from our implementation of cost-control measures and an ongoing awareness of cost-effective and economical operational strategies. For the future, we expect China's economic growth and Hong Kong's resurgent economy to continue, providing us with ideal conditions for further boosting our bottom line.

#### CHINA AS MAJOR GROWTH DRIVER

In the fiscal 2003/2004, the Group's booming new China market presents a picture of significant growth potential and opportunity. Not surprisingly, the Group has been very active in expanding its presence in China, through the ongoing opening of self-owned and franchised stores, and we are currently exploring other ventures that can help us further penetrate into the consciousness of China consumers. The Group's strategy in China has always involved prudence however, and will continue to do so. Our retail locations are chosen with care, and start-up costs are kept low, with the aim of making each new China outlet self-financing in the shortest possible time. As a result, despite the relatively short time that the Group has been operating in China and the large number of outlets opened there, the Group has quickly achieved a break-even cash-flow figure that places us on an extremely strong footing for future growth. As the number of outlets increases, large-scale advertising is becoming more cost-effective and this will be an important aspect of our China growth strategy in 2005. I expect to see significant achievements from our China operations in

the medium term, including the more intangible benefit arising from being an early player in the market and establishing "first mover" brand recognition.

#### HIGH RESPONSIVENESS IN EXISTING MARKETS

By contrast, the Group's older and more established market base of Hong Kong and Taiwan has required a different set of strategies to keep sales strong, and this has been achieved in part by paying special attention to the best presentation and positioning of retail outlets. In Hong Kong, for example, we have tapped into the massive new retail magnet of Mongkok's Langham Place by opening a store nearby. In our flagship Causeway Bay store, we have experimented with fresh new design, décor and colour schemes, offering our customers a range of value-added services as part of their shopping experience at ~H<sub>2</sub>O+ outlets. Now that the Group has achieved wide market coverage and a strong, stable and loyal customer base, this kind of responsiveness and readiness to adapt will be important in the drive for expanding sales and keeping the Group's brand profile high. I believe we have shown our ability to compete successfully in these markets under many different conditions, and are in a good position to achieve highly in the coming year.

The old and the new: these may move at very different paces but fundamentally the Group's strategy remains consistent across the board. Through a combination of innovation and prudence, we are committed to taking hold of the best opportunities available to us and managing them in a way that both protects and maximises investors' interests. Our rapid return to profitability after the tough 2002/2003 year shows that this strategy is an effective one. I expect to see it reap further fruits in the year to come.



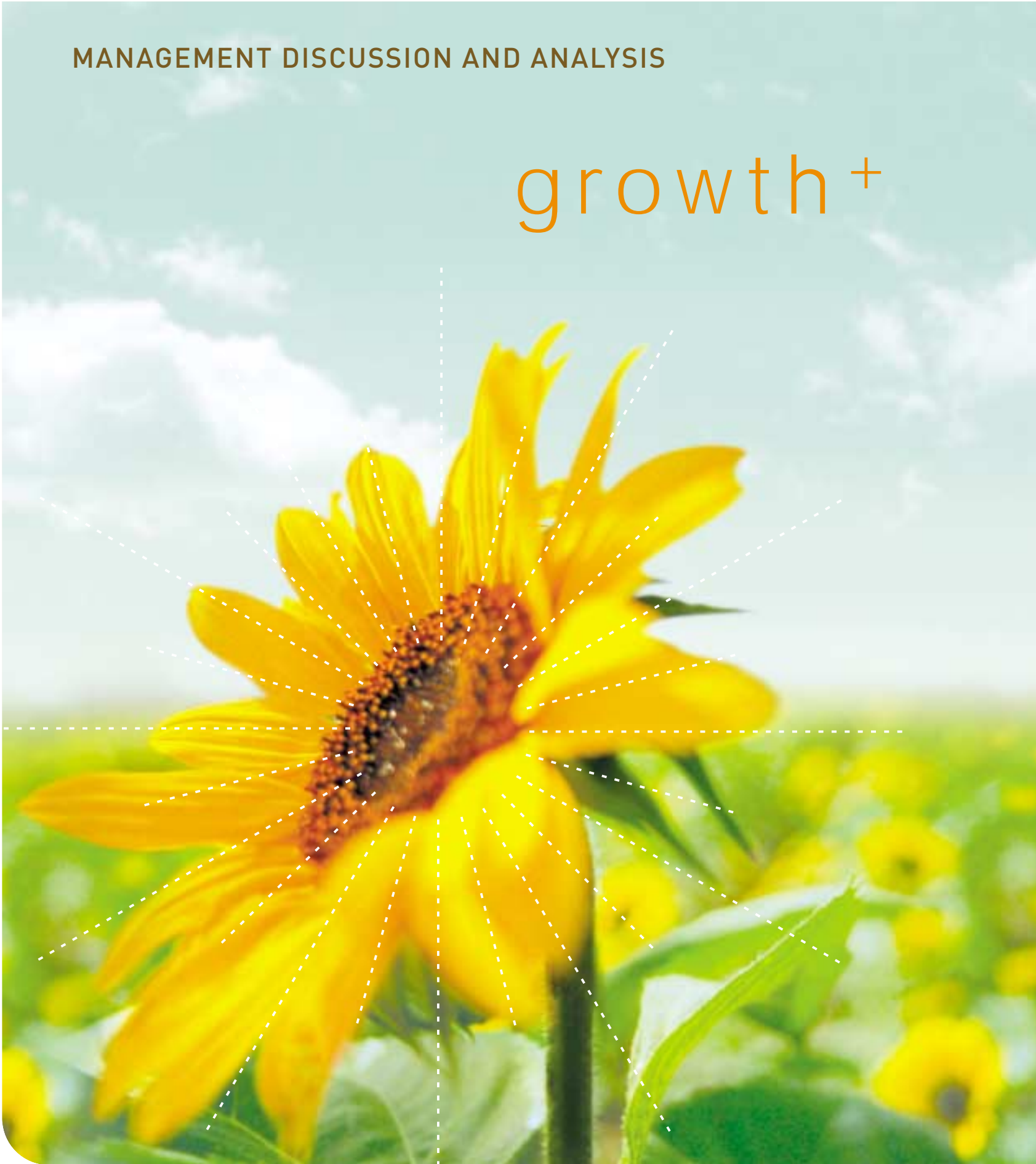
YU Lai Si

Executive Director and Chief Executive Officer

19<sup>th</sup> January 2005

# MANAGEMENT DISCUSSION AND ANALYSIS

growth<sup>+</sup>



## + Profitability driven by underlying operational strengths

### RETURN TO PROFITABILITY

The retailing of ~H<sub>2</sub>O+ products and the provision of beauty services continued to be the Group's two core areas of operation in the fiscal 2003/2004. By comparison with the loss reported by the Group for the last financial year, this year saw the Group put on a strong showing and return to profitability. Perhaps even more important than its positive bottom line figure, however, is the evidence of robust growth shown by the more than 186% growth in EBITDA figures, with amount exceeding HK\$20 million, which the Group considers to be the most appropriate indicators of the underlying realities of its operations. These figures reflect not only the Group's strong growth momentum, particularly in the China market, but also the effectiveness of the cost control measures it successfully implemented throughout the year.

### ~H<sub>2</sub>O+ BRAND

#### STRONG RETAIL SALES EXPANSION LED BY THE CHINA MARKET

Over the year, the Group continued to expand the number of its ~H<sub>2</sub>O+ retail outlets in operation. By now it is operating 112 such outlets, up from 76 at the beginning of the year, and representing a 47% growth in the total number. In terms of geographical distribution, 17 of these outlets are located in Hong Kong, 1 in Macau, and 16 in Taiwan. Taiwan performance was particularly strong during the year, resulting in final profits that were almost double those of last year. The award organised by *Marie Claire* magazine proved that ~H<sub>2</sub>O+ products were well received in the Taiwan market, the "Face Oasis™ Hydrating Treatment" was rated as one of "Annual Top 10 Hydration" while the "Oasis 24 Hydrating Booster" was "Annual Top 10 Repair & Serum".



## MANAGEMENT DISCUSSION AND ANALYSIS

# Achieving effective market penetration

In addition, the Group's new operation in Singapore is also progressing well, with 3 outlets up and running there and another 2 planned for opening in the coming six months. The Group's first Singapore ~H<sub>2</sub>O+ outlet located in Suntec City was elected the "Most Outstanding Retail Outlet" among a total of 270 participating retail stores in the Suntec Awards 2004. The award goes to the retail store that provides excellent service, has staff with the best attitude and attentiveness and the best product knowledge, delivers innovative marketing and promotional activities, creative window and in-store displays, store concept, good value for money and provides a memorable shopping experience.

The major growth in sales outlets came, naturally enough, in China, which now has 51 self-managed ~H<sub>2</sub>O+ outlets in major cities and a further 24 franchised operations in other strategic areas. The Group's franchising strategy has proved particularly successful over the year, prompting the Group to consider further expansion through this method.

### CHINA: STRATEGIES FOR LARGE-SCALE EXPANSION

The Group has seen ongoing growth in its China operations across the year, and has continued to increase the number of outlets in major cities around the country. Sales continue to grow as the ~H<sub>2</sub>O+ brand becomes more and more familiar to China-based consumers. The recent "Trends Cosmo Beauty Awards 2004" organised by *Cosmopolitan* magazine selected the "Sea Salt Skin Smoother" as the "Best Body Scrub", hence showed the popularity of ~H<sub>2</sub>O+ products in China.

As it establishes itself in China, the Group is looking for new ways to effectively penetrate the market, taking into account the latest retailing trends. Of particular importance for the Group's expansion strategies has been the success of its franchise arrangements within China. The Group has worked hard to ensure that its franchise partners operate high quality retail operations which effectively represent the ~H<sub>2</sub>O+ brand. As a result, motivated franchise partners are bringing ~H<sub>2</sub>O+ products to new areas of China, accumulating profits for the Group while minimizing risks. The Group's mix of self-managed and franchised outlets across major China cities has proved to be an excellent formula for growth.

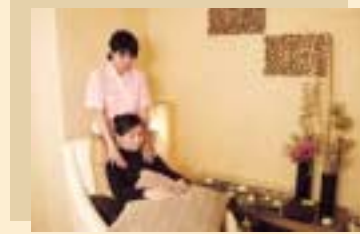
The Group is also strategically planning to introduce its Oasis Spa operation model into the China market through on-going proactive negotiations and concrete plans will be established once dominant issues straightened out.



## HONG KONG: FOCUS ON STORE LOCATIONS AND DESIGN

The year saw an ongoing rationalization of outlets around Hong Kong to ensure the Group continues to get the best value from each one of its retail stores. One of its strategies was to reduce the number of department store outlets in Hong Kong from 4 to 2, since experience has shown that the ratio of rental costs to sales in these environments is not as favourable as that achieved in the Group's standalone stores in Hong Kong. One retail store in Mongkok was relocated, so that the Group is now represented in the vicinity of Mongkok's prestigious and popular new Langham Place shopping area. In Causeway Bay, meanwhile, the Group added a new shop in Percival Street to supplement its existing branch nearby in Russell Street. This was done with an eye on reducing rental exposure in the popular Times Square vicinity. The second outlet also gives the Group the option of giving up its old store if upcoming lease renewal rates prove unfavourable.

The Group's high-profile Percival Street retail store has been the first to experience a design makeover which, depending on feedback, may eventually be extended across the Group's other outlets. In a departure from the cool blue and white colour scheme that has characterised its retail store decor up till now, the Group has adopted a new theme for the store that emphasizes harmonious natural materials and which carries elegant resonances of both traditional Japanese and Thai design. Sales staff also offer customers value-added hospitality services when they enter the store, helping create a natural and highly relaxing atmosphere.

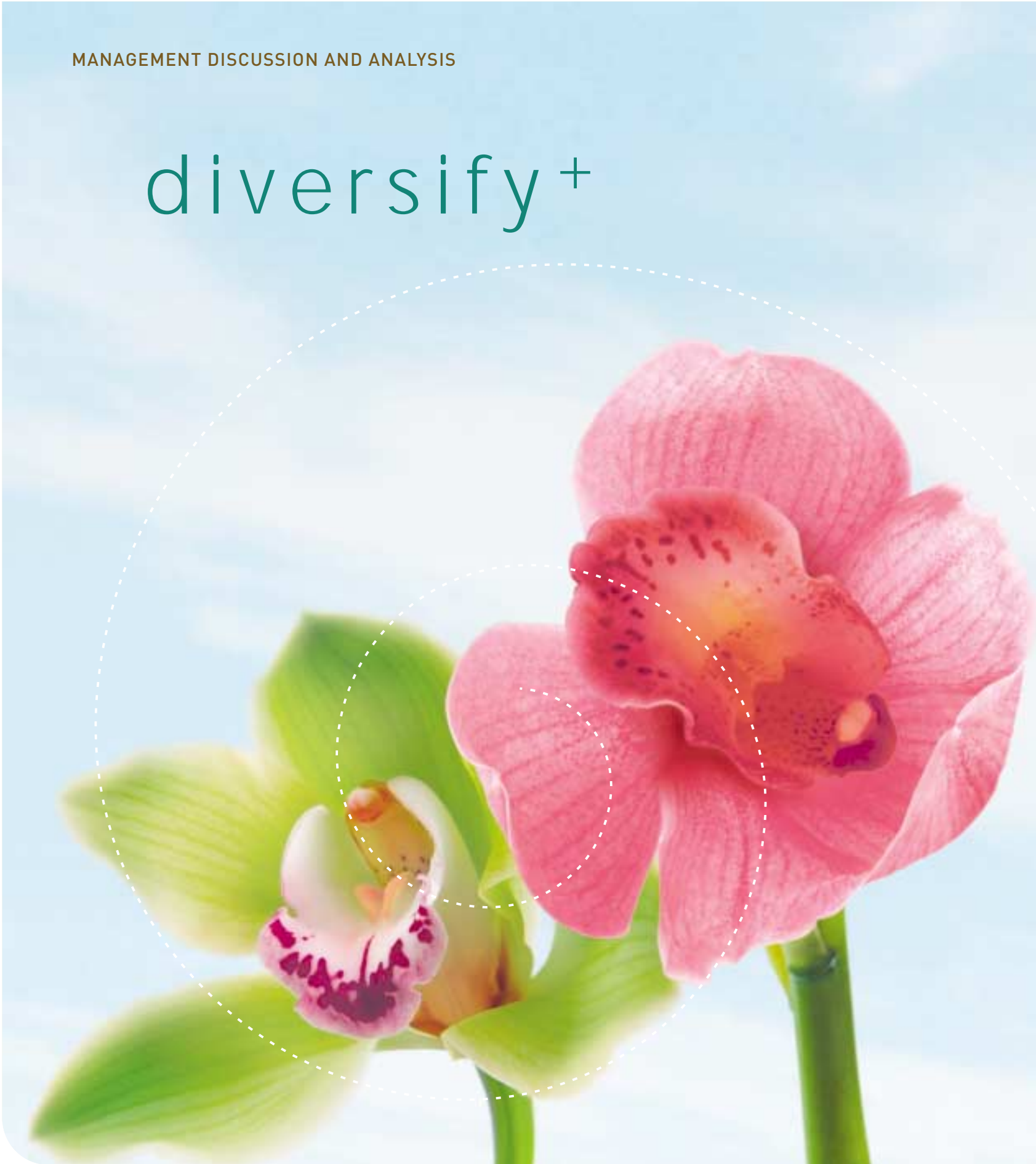


A sophisticated new style  
in ~H<sub>2</sub>O+ retail shopping



MANAGEMENT DISCUSSION AND ANALYSIS

# diversify<sup>+</sup>



## + Successful beauty operations

### THE SPA AND BEAUTY BUSINESSES

#### STEADY RETURNS FROM BEAUTY OPERATIONS

The Group's Oasis Beauty centres achieved a profitable bottom line for the year, and were steady contributors to growth. Over the year, the number of Oasis Beauty centres in Hong Kong went from 9 to 12. 3 new centres were opened in Causeway Bay, Tseung Kwan O and Kowloon West. The expansion in centres did cause a slight drop in profits due to the ensuing dilution of the customer base, but margins remain high and the venture is performing well overall.

The Oasis Spa operation posted a loss this year, part of the reason for which was the newly introduced accounting system that was described in the interim report. The Group expects that once the implications of the new accounting system have worked their way through, Oasis Spa will once again move into profitability. The Oasis Spa operation is meanwhile keeping a high profile and maintaining a reputation for quality, as was seen when it was recently named "Best Spa of the Year 2004" by *Cosmopolitan* magazine.

#### AN ASTUTE INVESTMENT DECISION

Taking advantage of low property prices in the Hong Kong market earlier in 2004, the Group purchased a retail shop in Causeway Bay for approximately HK\$35 million. The purchase was primarily for investment purposes, although it represents also a fallback position if rental negotiations for the Group's two current Causeway Bay premises should pose problems in the future. The shop is currently being rented out to tenants. Recent market conditions suggest the value of the property has already risen significantly, which gives the Group considerable planning flexibility, including the option of selling the property and profiting from the gains.

MANAGEMENT DISCUSSION AND ANALYSIS

# multiply<sup>+</sup>



## FUTURE DEVELOPMENT

### CHINA: GROWTH THROUGH EXPANSION AND ADVERTISING

The Group expects further growth in its China operations over the coming year. It intends to add another 10 self-managed outlets to its portfolio, while at the same time extending the number of franchised outlets to between 50 and 70. Beauty services have now also begun being offered in the Group's Beijing store, the first step of transplanting the Group's beauty operations into the China market.

The rise in the number of China outlets also allows the Group to revisit its advertising spend and look into the feasibility of conducting larger-scale advertising campaigns on the Mainland in 2005, which should boost its profitability further.



+ Rapid retail  
expansion in China

## MANAGEMENT DISCUSSION AND ANALYSIS

### Creating a new breed of beauty professionals

#### HONG KONG AND TAIWAN: MAINTAINING A STABLE, PROFITABLE RETAIL NETWORK

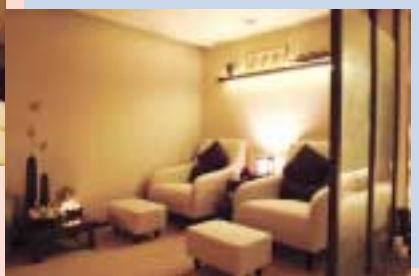
The Group considers itself currently to be operating the optimum number of retail stores in both the Hong Kong and Taiwan markets given market conditions, and is thus not planning any major expansion in its retail outlets for the immediate future except for plans to open 1 new Hong Kong store in a concept mall located in Kwun Tong.

To avoid dilution of the market, the Group also plans to keep its Oasis Beauty and Oasis Spa centres at their existing numbers. It is, however, considering opening a further Oasis Beauty centre in Kowloon to take advantage of the rejuvenation of the shopping environment there. It also is considering plans to expand the size of its Causeway Bay Oasis Spa centre to meet demand for treatment rooms particularly in peak periods.

#### OASIS BEAUTY SCHOOL

This year, the Group has planned and begun to implement a new venture, provisionally called the "Oasis Beauty School" (the "School"). Designed to operate as a profitable and self-financing training school for beauty professionals, it is also expected to provide the Group with a ready supply of skilled talent for its own beauty centres. The Group is linking up with international beauty bodies to provide certifications for its courses.

The Group has approached this venture cautiously from the outset, determined that costs should be minimised as far as possible. To this end, the School will initially be housed within the Group's existing Causeway Bay headquarters, using some 3,000 square feet of office space that is currently under-utilized. This means there will be no additional rental costs associated with the operation, and the only set-up costs will be those of renovating the section of the premises to be used as the School.





The Group has employed an experienced consultant to advise on the project and oversee initial setup. Progress has been smooth, and the School is now well on track for opening in around March or April 2005.

#### SOUND MANAGEMENT POLICIES EXTENDING INTO THE FUTURE

Overall, the Group is expecting sales in the established markets of Hong Kong and Taiwan to remain steady in the coming year, while in China it is predicting a substantial sales growth rate, spurred partly by growth in the Group's retail presence, partly by increased advertising, and partly by the continued prosperity and rising affluence of consumers there.

The Group will continue working hard to maintain its momentum, introducing new ventures in its traditional market and planning carefully for expansion in China. Its strategy has always been one of adopting caution while maintaining the full confidence of its shareholders. It continues to hold a healthy balance of around HK\$79 million in cash. New investments are adopted prudently, and must not be cost-intensive or involve much cash outflow. By these measures, the Group is maintaining the reputation for sound management that has seen it handle fluctuations in the market confidently and effectively over recent years.



Building on  
 rising prosperity  
 across the region



## DIRECTORS' PROFILE

### DIRECTORS

#### EXECUTIVE DIRECTORS

**Ms. YU Lai Si**, aged 43, 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 52, 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 became 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 52, 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 Ms. Yu Lai Si and Mr. Yu Kam Shui, Erastus and is the wife of Mr. Tam Chie Sang.

**Mr. YU Kam Shui, Erastus**, aged 54, 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 49, 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 56, 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**, aged 51, 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.

**Dr. WONG Chi Keung**, aged 49, is an independent non-executive Director. Dr. Wong holds a doctorate degree in business and is a member of the Hong Kong Institute of Housing and Chartered Institute of Housing and a fellow of the Hong Kong Institute of Real Estate Administration. He is also a member of the Chinese People's Political Consultative Conference, Nanning City, Guangxi, the People's Republic of China, and adviser to Hong Kong Auxiliary Medical Services. Dr. Wong has also held various senior executive positions with some of Hong Kong's leading property companies.

## DIRECTORS' REPORT

The directors present their annual report and the audited consolidated accounts of the Company and its subsidiaries for the year ended 30<sup>th</sup> September 2004.

### 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, China and Singapore. 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 30<sup>th</sup> September 2004 are set out in note 28 to the accounts.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30<sup>th</sup> September 2004 are set out in the consolidated profit and loss account on page 26.

The Directors recommended a final dividend of 0.5 HK cents per share for the year ended 30<sup>th</sup> September 2004 payable to shareholders whose names appear on the Register of Members of the Company at the close of business on 10<sup>th</sup> March 2005. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, such dividend will be payable on 22<sup>nd</sup> March 2005.

### SHARE CAPITAL

Details of the Company's authorised and issued share capital as at 30<sup>th</sup> September 2004 are set out in note 21 to the accounts.

### RESERVES

Movements in the reserves of the Group and of the Company are set out in note 22 to the accounts.

### INVESTMENT PROPERTIES

The Group revalued its investment properties as at 30<sup>th</sup> September 2004 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 60.

### 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  
WONG Chi Keung (appointed on 1<sup>st</sup> July 2004)

In accordance with Article 86(3) of the Company's articles of association, Dr. Wong Chi Keung would retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

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

## DIRECTORS' REPORT

The Company considers that Dr. Wong Lung Tak, Patrick, Mr. Wong Chun Nam and Dr. Wong Chi Keung are independent pursuant to the criteria set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and that confirmations of independence have been received from each of them.

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 1<sup>st</sup> 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.

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 30<sup>th</sup> September 2004, the interests or 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 Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

## LONG POSITION IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

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	80,666,880 ordinary	-	-	-	80,666,880 ordinary	23.6%
	Water Oasis Company Limited	Beneficial owner	330,000 non voting deferred	-	-	-	330,000 non voting deferred	-
Tam Chie Sang	The Company	Interest of spouse and interest of a controlled corporation	-	-	900,000 ordinary <sup>(2)</sup>	77,666,880 ordinary <sup>(1)</sup>	78,566,880 ordinary	23.0%
	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	Beneficial owner and interest of a controlled corporation	900,000 ordinary	-	-	77,666,880 ordinary <sup>(1)</sup>	78,566,880 ordinary	23.0%
	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 a controlled corporation	-	-	-	38,833,440 ordinary <sup>(4)</sup>	38,833,440 ordinary	11.4%
Lai Yin Ping	The Company	Interest of a controlled corporation	-	-	-	38,833,440 ordinary <sup>(5)</sup>	38,833,440 ordinary	11.4%

## Notes:

- (1) These shares are registered in the name of Zinna Group Limited. All voting rights over Zinna Group Limited are held by Royalion Worldwide Limited, which is wholly owned by Hitchin Trading Limited as trustee of Hitchin Unit Trust which in turn is ultimately held by Trident Trust Company (Cayman) Limited, which forms part of the discretionary trust set up by Tam Chie Sang and Yu Lai Chu, Eileen. Trident Trust Company (Cayman) Limited is the trustee of the discretionary trust, the beneficiaries of which are the family members of Tam Chie Sang and Yu Lai Chu, Eileen.
- (2) These shares are registered in the name of Yu Lai Chu, Eileen, the wife of Tam Chie Sang.
- (3) These shares are registered in the name of Tam Chie Sang, the husband of Yu Lai Chu, Eileen.
- (4) These shares are registered in the name of Advance Favour Holdings Limited, a British Virgin Islands company beneficially owned by Yu Kam Shui, Erastus.
- (5) These shares are registered in the name of Billion Well Holdings Limited, a British Virgin Islands company beneficially owned by Lai Yin Ping.

## DIRECTORS' REPORT

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 30<sup>th</sup> September 2004, 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 21 to the accounts.

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

Category and name of participant	Date of grant	Exercise period	Exercise price per share HK\$	Balance as at 1 <sup>st</sup> October 2003	Granted	Exercised	Cancelled/ Lapsed	Balance as at 30 <sup>th</sup> September 2004
<b>Directors</b>								
Yu Lai Si	30 <sup>th</sup> August 2002	28 <sup>th</sup> February 2003 – 29 <sup>th</sup> August 2007	0.52	3,000,000	-	3,000,000	-	-
	28 <sup>th</sup> January 2004	3 <sup>rd</sup> May 2004 – 31 <sup>st</sup> January 2009	0.42	-	3,000,000	-	-	3,000,000
Tam Chie Sang	30 <sup>th</sup> August 2002	28 <sup>th</sup> February 2003 – 29 <sup>th</sup> August 2007	0.52	1,500,000	-	-	-	1,500,000
	28 <sup>th</sup> January 2004	3 <sup>rd</sup> May 2004 – 31 <sup>st</sup> January 2009	0.42	-	1,500,000	-	-	1,500,000
Yu Lai Chu, Eileen	30 <sup>th</sup> August 2002	28 <sup>th</sup> February 2003 – 29 <sup>th</sup> August 2007	0.52	1,500,000	-	900,000	-	600,000
	28 <sup>th</sup> January 2004	3 <sup>rd</sup> May 2004 – 31 <sup>st</sup> January 2009	0.42	-	1,500,000	-	-	1,500,000

Category and name of participant	Date of grant	Exercise period	Exercise price per share HK\$	Balance as at 1 <sup>st</sup> October 2003	Granted	Exercised	Cancelled/ Lapsed	Balance as at 30 <sup>th</sup> September 2004
<b>Directors</b> (Continued)								
Yu Kam Shui, Erastus	30 <sup>th</sup> August 2002	28 <sup>th</sup> February 2003 – 29 <sup>th</sup> August 2007	0.52	1,500,000	-	-	-	1,500,000
	28 <sup>th</sup> January 2004	3 <sup>rd</sup> May 2004 – 31 <sup>st</sup> January 2009	0.42	-	1,500,000	-	-	1,500,000
Lai Yin Ping	30 <sup>th</sup> August 2002	28 <sup>th</sup> February 2003 – 29 <sup>th</sup> August 2007	0.52	1,500,000	-	-	-	1,500,000
	28 <sup>th</sup> January 2004	3 <sup>rd</sup> May 2004 – 31 <sup>st</sup> January 2009	0.42	-	1,500,000	-	-	1,500,000
Wong Lung Tak, Patrick	28 <sup>th</sup> January 2004	3 <sup>rd</sup> May 2004 – 31 <sup>st</sup> January 2009	0.42	-	600,000	-	-	600,000
Wong Chun Nam	28 <sup>th</sup> January 2004	3 <sup>rd</sup> May 2004 – 31 <sup>st</sup> January 2009	0.42	-	600,000	-	-	600,000
				<u>9,000,000</u>	<u>10,200,000</u>	<u>3,900,000</u>	<u>-</u>	<u>15,300,000</u>
<b>Supplier</b>								
H <sub>2</sub> O Plus, L.P.	11 <sup>th</sup> March 2002	11 <sup>th</sup> March 2002 – 10 <sup>th</sup> March 2012	1.18	3,264,000	-	-	-	3,264,000
	12 <sup>th</sup> March 2003	12 <sup>th</sup> March 2003 – 11 <sup>th</sup> March 2013	0.54	976,000	-	-	-	976,000
				<u>4,240,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,240,000</u>



## DIRECTORS' REPORT

Category and name of participant	Date of grant	Exercise period	Exercise price per share HK\$	Balance as at 1 <sup>st</sup> October 2003	Granted	Exercised	Cancelled/ Lapsed	Balance as at 30 <sup>th</sup> September 2004
<b>Employees</b> (In aggregate)								
	26 <sup>th</sup> April 2002	26 <sup>th</sup> October 2002 – 25 <sup>th</sup> April 2007	1.67	750,000	-	-	-	750,000
	26 <sup>th</sup> April 2002	26 <sup>th</sup> April 2003 – 25 <sup>th</sup> April 2007	1.67	750,000	-	-	-	750,000
	30 <sup>th</sup> August 2002	28 <sup>th</sup> February 2003 – 29 <sup>th</sup> August 2007	0.52	2,980,000	-	1,196,000	300,000	1,484,000
	30 <sup>th</sup> August 2002	31 <sup>st</sup> August 2003 – 29 <sup>th</sup> August 2007	0.52	2,980,000	-	120,000	300,000	2,560,000
	30 <sup>th</sup> August 2002	29 <sup>th</sup> February 2004 – 29 <sup>th</sup> August 2007	0.52	1,980,000	-	-	420,000	1,560,000
	28 <sup>th</sup> January 2004	3 <sup>rd</sup> May 2004 – 31 <sup>st</sup> January 2009	0.42	-	1,220,000	-	60,000	1,160,000
	28 <sup>th</sup> January 2004	1 <sup>st</sup> November 2004 – 31 <sup>st</sup> January 2009	0.42	-	1,220,000	-	60,000	1,160,000
	28 <sup>th</sup> January 2004	2 <sup>nd</sup> May 2005 – 31 <sup>st</sup> January 2009	0.42	-	920,000	-	60,000	860,000
				9,440,000	3,360,000	1,316,000	1,200,000	10,284,000

In general, the employees may exercise one-third of each of their respective share options within six months, twelve months and eighteen months from the date of grant.

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.

## SUBSTANTIAL SHAREHOLDERS

As at 30<sup>th</sup> September 2004, the following persons, other than a director or chief executive of the Company, had an interest or short position 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, or, who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

## LONG POSITION IN THE SHARES

Name of Shareholder	Capacity	Number of ordinary shares	Approximate percentage of voting power
Zinna Group Limited <sup>(1)</sup>	Interest of a controlled corporation	77,666,880	22.7%
Advance Favour Holdings Limited <sup>(2)</sup>	Interest of a controlled corporation	38,833,440	11.4%
Billion Well Holdings Limited <sup>(3)</sup>	Interest of a controlled corporation	38,833,440	11.4%

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 the discretionary trust set up by Tam Chie Sang and Yu Lai Chu, Eileen. Trident Trust Company (Cayman) Limited is the trustee of the discretionary trust, the beneficiaries of which are the family members of Tam Chie Sang and Yu Lai Chu, Eileen.

(2) Advance Favour Holdings Limited is a British Virgin Islands company beneficially owned by Yu Kam Shui, Erastus.

(3) Billion Well Holdings Limited is a British Virgin Islands company beneficially owned by Lai Yin Ping.

## 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 30<sup>th</sup> September 2004, 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 30<sup>th</sup> September 2004, distributable reserves of the Company amounted to approximately HK\$6,998,000.

## DIRECTORS' REPORT

### EMPLOYEES AND REMUNERATION POLICIES

As at 30<sup>th</sup> September 2004, the Group employed 840 staff (2003: 733). 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 26 million shares in the Company in aggregate had been granted to certain directors and employees pursuant to the Company's share option scheme. Exercise prices of which ranges from HK\$0.42 to HK\$1.67.

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

During the year ended 30<sup>th</sup> September 2004, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

### 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 30<sup>th</sup> September 2004 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 Dr. Wong Lung Tak, Patrick, Mr. Wong Chun Nam and Dr. Wong Chi Keung 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 Institute of Certified Public Accountants (formerly named as 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 30<sup>th</sup> September 2004.

### 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, 19<sup>th</sup> January 2005

# AUDITORS' REPORT



羅兵咸永道會計師事務所

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

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

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

We have audited the accounts on pages 26 to 59 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 Institute of Certified Public 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 30<sup>th</sup> September 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 19<sup>th</sup> January 2005

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30<sup>TH</sup> SEPTEMBER

	Note	2004 HK\$'000	As restated 2003 HK\$'000
Turnover	3	357,553	310,236
Other revenues	3	1,994	1,249
Cost of inventories sold		(93,449)	(79,710)
Staff costs	9	(102,218)	(84,768)
Depreciation		(15,425)	(13,786)
Other operating expenses		(144,878)	(140,931)
Operating profit/(loss)	4	3,577	(7,710)
Taxation	5	(1,678)	(41)
Profit/(loss) after taxation		1,899	(7,751)
Minority interests		(205)	654
Profit/(loss) attributable to shareholders	6	1,694	(7,097)
Dividends	7	3,422	5,001
Earnings/(loss) per share			
Basic	8	0.5 cents	(2.2) cents

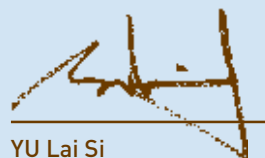
# CONSOLIDATED BALANCE SHEET

AS AT 30<sup>TH</sup> SEPTEMBER

	Note	2004 HK\$'000	As restated 2003 HK\$'000
<b>Non-current assets</b>			
Intangible assets	11	1,922	2,725
Fixed assets	12	78,669	32,481
Rental deposits		12,121	9,958
Other investment	14	452	452
Deferred tax assets	24	4,266	3,436
		<b>97,430</b>	<b>49,052</b>
<b>Current assets</b>			
Inventories	15	31,057	32,906
Trading investments	16	6,772	220
Accounts receivable	17	25,172	23,039
Prepayments		11,932	10,727
Other deposits and receivables		6,273	2,715
Tax recoverable		2,326	2,318
Bank balances and cash		79,018	78,707
		<b>162,550</b>	<b>150,632</b>
<b>Current liabilities</b>			
Accounts payable	18	6,583	3,943
Accruals and other payables		28,306	24,677
Receipts in advance	19	44,885	24,249
Long-term bank loan – current portion	20	1,950	–
Taxation payable		3,639	1,673
		<b>85,363</b>	<b>54,542</b>
		<b>77,187</b>	<b>96,090</b>
<b>Net current assets</b>			
<b>Total assets less current liabilities</b>		<b>174,617</b>	<b>145,142</b>
Financed by:			
Share capital	21	34,212	32,190
Reserves	22	122,672	111,461
Shareholders' funds		<b>156,884</b>	<b>143,651</b>
Minority interests		(193)	362
<b>Non-current liabilities</b>			
Pension obligations	23	620	450
Long-term bank loan – non-current portion	20	16,737	–
Deferred tax liabilities	24	569	679
		<b>174,617</b>	<b>145,142</b>



TAM Chie Sang  
Executive Director



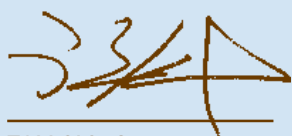
YU Lai Si  
Executive Director



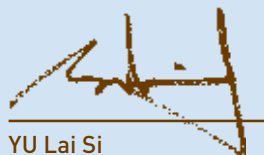
# BALANCE SHEET

AS AT 30<sup>TH</sup> SEPTEMBER

	Note	2004 HK\$'000	2003 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	13	8,000	8,000
<b>Current assets</b>			
Amounts due from subsidiaries	13	43,987	44,948
Prepayments		108	962
Bank balances and cash		24,236	4,209
		68,331	50,119
<b>Current liabilities</b>			
Amounts due to subsidiaries	13	7,203	2,151
Accruals and other payables		534	593
		7,737	2,744
<b>Net current assets</b>			
		60,594	47,375
<b>Total assets less current liabilities</b>			
		68,594	55,375
Financed by:			
Share capital	21	34,212	32,190
Reserves	22	34,382	23,185
Shareholders' funds		68,594	55,375



TAM Chie Sang  
Executive Director



YU Lai Si  
Executive Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30<sup>TH</sup> SEPTEMBER

	Note	2004 HK\$'000	2003 HK\$'000
Total equity as at beginning of the year, as previously reported		140,335	159,087
Effect of the adoption of SSAP 12	2(n)	3,316	629
Total equity as at beginning of the year, as restated		143,651	159,716
Profit/(loss) attributable to shareholders, as restated		1,694	(7,097)
Proceeds from placing of new shares		7,500	-
Expenses on placing of new shares		(305)	-
Exercise of share options		2,713	-
Repurchase of shares		-	(3,352)
Dividends		(5,102)	(4,829)
Revaluation of investment properties		6,434	-
Exchange differences		299	(787)
Total equity as at end of the year		156,884	143,651

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30<sup>TH</sup> SEPTEMBER

	Note	2004 HK\$'000	2003 HK\$'000
<b>Operating activities</b>			
Net cash inflow generated from operations	25(a)	38,087	15,299
Interest paid		(140)	-
Hong Kong profits tax paid		-	(67)
Overseas tax paid		(660)	(2,158)
Net cash inflow from operating activities		37,287	13,074
<b>Investing activities</b>			
Purchase of intangible assets		(366)	(478)
Purchase of fixed assets		(54,190)	(16,158)
Proceeds from disposal of fixed assets		902	307
Interest received		340	651
Purchase of trading investments		(16,334)	-
Proceeds from disposal of trading investments		9,665	-
Proceeds from disposal of other investment		-	1,630
Net cash outflow from investing activities		(59,983)	(14,048)
Net cash outflow before financing		(22,696)	(974)
<b>Financing activities</b>			
Addition of long-term bank loan	25(b)	19,500	-
Repayment of long-term bank loan		(813)	-
Proceeds from placing of new shares		7,500	-
Expenses on placing of new shares		(305)	-
Proceeds from exercise of options		2,713	-
Repurchase of shares		-	(3,352)
Repayment to a minority shareholder		(669)	-
Dividends paid to a minority shareholder of a subsidiary		(91)	(89)
Dividends paid		(5,102)	(4,829)
Net cash inflow/(outflow) from financing		22,733	(8,270)
Increase/(decrease) in cash and cash equivalents		37	(9,244)
Cash and cash equivalents at the beginning of the year		78,707	88,685
Effect of foreign exchange rate changes		274	(734)
<b>Cash and cash equivalents at end of the year</b>		<b>79,018</b>	<b>78,707</b>
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		79,018	78,707

## 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 27<sup>th</sup> 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 11<sup>th</sup> 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, Singapore and China 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 Institute of Certified Public Accountants (the "HKICPA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties and trading investments are stated at fair value.

In current year, the Group adopted the Statements of Standard Accounting Practice ("SSAP") 12 (revised) "Income Taxes" issued by the HKICPA which is effective for accounting periods commencing on or after 1<sup>st</sup> January 2003. The change to the Group's accounting policy and the effect of adopting this revised SSAP is set out below.

The 2003 comparative figures presented herein have incorporated the effect on the adoption of SSAP 12 (revised).

#### (b) BASIS OF CONSOLIDATION

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30<sup>th</sup> 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.

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.

## NOTES TO THE ACCOUNTS

### 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.

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.

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

### (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.

### (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 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.

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (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.

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 China 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.

##### (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.



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

### (n) DEFERRED TAXATION

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 22 to the accounts, opening retained earnings at 1<sup>st</sup> October 2002 and 2003 have been increased by HK\$629,000 and HK\$3,316,000 respectively which represent the unprovided net deferred tax assets. This change has resulted in an increase in deferred tax assets at 30<sup>th</sup> September 2003 by HK\$3,436,000. The loss attributable to shareholders and the share of net losses by minority interest for the year ended 30<sup>th</sup> September 2003 have been reduced by HK\$2,687,000 and HK\$120,000 respectively.

### (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.

## NOTES TO THE ACCOUNTS

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

#### (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.

#### (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. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to fixed assets.

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:

	2004 HK\$'000	2003 HK\$'000
<b>Turnover</b>		
Sales of goods	256,396	220,531
Rendering of services	101,157	89,705
	357,553	310,236
<b>Other revenues</b>		
Interest income	340	651
Gross rental income from investment properties	903	273
Income from expired gift coupons	493	135
Dividend income	58	-
Others	200	190
	1,994	1,249
<b>Total revenues</b>	359,547	311,485

## NOTES TO THE ACCOUNTS

**3. TURNOVER, REVENUE AND SEGMENT INFORMATION** (continued)  
**PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS**

	Retailing		Services		Elimination		Group	
	2004 HK\$'000	As restated 2003 HK\$'000	2004 HK\$'000	As restated 2003 HK\$'000	2004 HK\$'000	As restated 2003 HK\$'000	2004 HK\$'000	As restated 2003 HK\$'000
Sales to external customers	254,664	220,531	102,889	89,705	-	-	357,553	310,236
Inter-segment sales	7,110	4,032	-	-	(7,110)	(4,032)	-	-
<b>Total</b>	<b>261,774</b>	<b>224,563</b>	<b>102,889</b>	<b>89,705</b>	<b>(7,110)</b>	<b>(4,032)</b>	<b>357,553</b>	<b>310,236</b>
Segment results	19,205	1,727	12,307	23,960	-	-	31,512	25,687
Other revenues							1,994	1,249
Unallocated corporate expenses							(29,929)	(34,646)
Operating profit/(loss)							3,577	(7,710)
Taxation							(1,678)	(41)
Profit/(loss) after taxation							1,899	(7,751)
Minority interests							(205)	654
Profit/(loss) attributable to shareholders							1,694	(7,097)

	Retailing		Services		Group	
	2004 HK\$'000	As restated 2003 HK\$'000	2004 HK\$'000	As restated 2003 HK\$'000	2004 HK\$'000	As restated 2003 HK\$'000
Segment assets	172,305	98,928	44,872	27,461	217,177	126,389
Unallocated assets					42,803	73,295
<b>Total assets</b>					<b>259,980</b>	<b>199,684</b>
Segment liabilities	50,120	27,684	50,975	25,455	101,095	53,139
Unallocated liabilities (including minority interests)					2,001	2,894
<b>Total liabilities</b>					<b>103,096</b>	<b>56,033</b>
Depreciation	8,678	8,735	6,747	5,051	15,425	13,786
Amortisation	1,169	1,009	-	-	1,169	1,009
Capital expenditures	47,222	8,041	6,968	8,117	54,190	16,158

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued) SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

	Turnover		Capital expenditures		Total assets	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	As restated 2003 HK\$'000
Hong Kong and Macau	210,433	190,772	49,032	10,113	145,160	57,529
China	75,869	50,323	1,632	5,326	39,424	40,138
Taiwan	68,915	69,141	2,029	719	29,515	28,722
Singapore	2,336	–	1,497	–	3,078	–
	<b>357,553</b>	<b>310,236</b>	<b>54,190</b>	<b>16,158</b>	<b>217,177</b>	<b>126,389</b>
Unallocated assets					42,803	73,295
					<b>259,980</b>	<b>199,684</b>

### 4. OPERATING PROFIT/(LOSS)

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

	2004 HK\$'000	2003 HK\$'000
<b>Crediting</b>		
Gain on disposal of fixed assets	566	102
Gain on disposal of other investment	–	69
Revaluation gain/(deficit) on investment properties	1,300	(350)
<b>Charging</b>		
Loss on disposal of trading investments	47	–
Amortisation of intangible assets	1,169	1,009
Auditors' remuneration	933	823
Operating leases rental on land and buildings	40,033	45,918
Unrealised loss on trading investments	70	17
Net exchange loss/(gain)	466	(89)
Interest expense on long-term bank loan	140	–

## NOTES TO THE ACCOUNTS

### 5. TAXATION

	2004 HK\$'000	As restated 2003 HK\$'000
Current taxation		
Hong Kong profits tax	1,550	1,074
Overseas taxation	1,131	872
(Over)/under provision in prior years	(63)	223
Deferred taxation relating to the origination and reversal of temporary differences (Note 24)	(940)	(2,128)
	1,678	41

Hong Kong profits tax has been provided at the rate of 17.5% (2003:17.5%) 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.

The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the taxation rate of the major business territory of the Group as follows:

	2004 HK\$'000	As restated 2003 HK\$'000
Profit/(loss) before taxation	3,577	(7,710)
Calculated at a taxation rate of 17.5% (2003: 17.5%)	626	(1,349)
Effect of different taxation rates in other countries	160	241
Income not subject to taxation	(398)	(125)
Expenses not deductible for taxation purposes	1,636	1,637
Utilisation of tax losses	(283)	(586)
(Over)/under provision in prior years	(63)	223
	1,678	41

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

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately HK\$8,413,000 (2003: HK\$5,184,000).

## 7. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim, paid, of 0.5 HK cents per ordinary share (2003: 0.5 HK cents)	1,711	1,610
Final, proposed on 19 <sup>th</sup> January 2005, of 0.5 HK cents per ordinary share (2003: 1.0 HK cents)	1,711	3,391
	<b>3,422</b>	<b>5,001</b>

## 8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the Group's profit attributable to shareholders of approximately HK\$1,694,000 (2003: loss attributable to shareholders of approximately HK\$7,097,000 as restated) and the weighted average number of 333,845,271 (2003: 322,330,137) ordinary shares in issue during the year.

No diluted earnings/(loss) per share is calculated for the years ended 30<sup>th</sup> September 2004 and 2003 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)

	2004 HK\$'000	2003 HK\$'000
Wages and salaries	97,663	80,969
Pension costs-defined benefit plan (Note 23)	395	154
Pension costs-defined contribution plans	3,668	3,387
Unutilised annual leave	492	258
	<b>102,218</b>	<b>84,768</b>



## NOTES TO THE ACCOUNTS

### 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:

	2004 HK\$'000	2003 HK\$'000
Fees	225	200
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits-in-kinds	8,580	8,617
Retirement benefit costs	60	60
	<u>8,865</u>	<u>8,877</u>

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

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

The emoluments of the directors fell within the following bands:

	Number of Directors	
	2004	2003
Emolument bands		
HK\$ nil – HK\$1,000,000	6	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>8</u>	<u>7</u>

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

### (b) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include four (2003: four) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining one (2003: one) individual during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, housing allowances, other allowances and benefits-in-kinds	1,520	1,381
Bonuses	300	-
Retirement benefit costs	12	12
	1,832	1,393

The emoluments of the employee fell within the following band:

	Number of Employees	
	2004	2003
Emolument bands		
HK\$ nil – HK\$1,000,000	-	-
HK\$1,000,001 – HK\$1,500,000	-	1
HK\$1,500,001 – HK\$2,000,000	1	-
	1	1

For the years ended 30<sup>th</sup> September 2004 and 2003, 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.

## NOTES TO THE ACCOUNTS

11. INTANGIBLE ASSETS  
GROUP

	License fees	
	2004 HK\$'000	2003 HK\$'000
Beginning of year	2,725	3,256
Additions	366	478
Amortisation charge	(1,169)	(1,009)
End of year	1,922	2,725
End of year Cost	4,511	4,145
Accumulated amortisation	(2,589)	(1,420)
Net book amount	1,922	2,725

12. FIXED ASSETS  
GROUP

	Investment properties 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 1 <sup>st</sup> October 2003	5,600	38,716	3,249	4,414	9,568	5,345	66,892
Additions	39,266	8,572	916	923	3,493	1,020	54,190
Disposals	-	(741)	(1,513)	(4)	(510)	(362)	(3,130)
Revaluation	7,734	-	-	-	-	-	7,734
Exchange adjustment	-	51	3	-	1	39	94
As at 30 <sup>th</sup> September 2004	52,600	46,598	2,655	5,333	12,552	6,042	125,780
Accumulated depreciation							
As at 1 <sup>st</sup> October 2003	-	22,971	2,738	2,926	2,864	2,912	34,411
Charge for the year	-	10,655	456	947	2,257	1,110	15,425
Disposals	-	(725)	(1,513)	(2)	(273)	(281)	(2,794)
Exchange adjustment	-	43	2	-	-	24	69
As at 30 <sup>th</sup> September 2004	-	32,944	1,683	3,871	4,848	3,765	47,111
Net book value							
As at 30 <sup>th</sup> September 2004	52,600	13,654	972	1,462	7,704	2,277	78,669
As at 30 <sup>th</sup> September 2003	5,600	15,745	511	1,488	6,704	2,433	32,481

## 12. FIXED ASSETS (continued)

The analyse of the cost or valuation as at 30<sup>th</sup> September 2004 and 2003 of the above assets are as follows:

	Investment properties 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>2004</b>							
At cost	-	46,598	2,655	5,333	12,552	6,042	73,180
At valuation	52,600	-	-	-	-	-	52,600
	<u>52,600</u>	<u>46,598</u>	<u>2,655</u>	<u>5,333</u>	<u>12,552</u>	<u>6,042</u>	<u>125,780</u>
<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>

The Group's interests in investment properties at their net book values are analysed as follows:

	2004 HK\$'000	2003 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	45,300	-
Leases of between 10 to 50 years	7,300	5,600
	<u>52,600</u>	<u>5,600</u>

The investment properties were revalued at 30<sup>th</sup> September 2004 on the basis of their open market values by American Appraisal China Limited, an independent firm of chartered surveyors.

At 30<sup>th</sup> September 2004, the net book value of an investment property of HK\$41,000,000 was pledged as security for the Group's long-term bank loan (2003: Nil).

## NOTES TO THE ACCOUNTS

### 13. INVESTMENTS IN SUBSIDIARIES COMPANY

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	3,000	3,000
Amount due from a subsidiary	5,000	5,000
	8,000	8,000
Amounts due from subsidiaries	43,987	44,948
Amounts due to subsidiaries	(7,203)	(2,151)
	<b>44,784</b>	<b>50,797</b>

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

The amount due from a subsidiary of HK\$5,000,000 (2003: HK\$5,000,000) is unsecured, non-interest bearing, and is 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 30<sup>th</sup> September 2004, the market value of other investment was approximately HK\$487,000 (2003: HK\$462,000).

### 15. INVENTORIES GROUP

	2004 HK\$'000	2003 HK\$'000
Finished goods – merchandises	31,057	32,906

As at 30<sup>th</sup> September 2004 and 2003, all inventories were stated at cost.

## 16. TRADING INVESTMENTS GROUP

	2004 HK\$'000	2003 HK\$'000
Equity securities: Listed in Hong Kong	6,772	220

Trading investments are stated at market value at the balance sheet date.

## 17. ACCOUNTS RECEIVABLE GROUP

Details of the aging analysis are as follows:

	2004 HK\$'000	2003 HK\$'000
0 to 30 days	22,277	21,048
31 days to 60 days	1,205	729
61 days to 90 days	1,610	1,012
Over 90 days	80	250
	<u>25,172</u>	<u>23,039</u>

Credit terms generally range from 30 days to 90 days.

## 18. ACCOUNTS PAYABLE GROUP

Details of the aging analysis are as follows:

	2004 HK\$'000	2003 HK\$'000
0 to 30 days	6,583	3,943

## 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.

## NOTES TO THE ACCOUNTS

### 20. LONG-TERM BANK LOAN GROUP

	2004 HK\$'000	2003 HK\$'000
Total of long-term bank loan – secured	18,687	–
Current portion of long-term bank loan	(1,950)	–
	<u>16,737</u>	<u>–</u>

At 30<sup>th</sup> September 2004, the Group's long-term bank loan was repayable as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	1,950	–
In the second year	1,950	–
In the third to fifth year	5,850	–
After the fifth year	8,937	–
	<u>18,687</u>	<u>–</u>
Current portion of long-term bank loan	(1,950)	–
	<u>16,737</u>	<u>–</u>

The long-term bank loan was secured by an investment property of the Group.



## 21. SHARE CAPITAL COMPANY

	2004 HK\$'000	2003 HK\$'000
Authorised: 1,000,000,000 (2003: 1,000,000,000) ordinary shares of HK\$0.1 each	100,000	100,000
Issued and fully paid: 342,116,000 (2003: 321,900,000) ordinary shares of HK\$0.1 each	34,212	32,190

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 1 <sup>st</sup> October 2003	321,900,000	32,190
Placing of new shares (Note (a))	15,000,000	1,500
Issue of new shares pursuant to the Company's share option scheme (Note (b))	5,216,000	522
At 30 <sup>th</sup> September 2004	342,116,000	34,212

Note:

- (a) During the year, 15,000,000 ordinary shares of HK\$0.1 each were issued at HK\$0.5 per share through a private placing to independent third parties. Proceeds from the placing were fully used up for general working capital purposes.
- (b) During the year, a total of 5,216,000 ordinary shares of HK\$0.1 each were also issued at the applicable option prices pursuant to the Company's share option scheme adopted on 23<sup>rd</sup> January 2002.

## NOTES TO THE ACCOUNTS

### 21. SHARE CAPITAL (continued)

- (c) The Company's share option scheme (the "Share Option Scheme") was adopted on 23<sup>rd</sup> 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 22<sup>nd</sup> 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 1 <sup>st</sup> October 2003	Granted	Exercised	Cancelled/ Lapsed	As at 30 <sup>th</sup> September 2004
Directors	30 <sup>th</sup> August 2002	28 <sup>th</sup> February 2003 – 29 <sup>th</sup> August 2007	0.52	9,000,000	-	3,900,000	-	5,100,000
	28 <sup>th</sup> January 2004	3 <sup>rd</sup> May 2004 – 31 <sup>st</sup> January 2009	0.42	-	10,200,000	-	-	10,200,000
				9,000,000	10,200,000	3,900,000	-	15,300,000
Supplier	11 <sup>th</sup> March 2002	11 <sup>th</sup> March 2002 – 10 <sup>th</sup> March 2012	1.18	3,264,000	-	-	-	3,264,000
	12 <sup>th</sup> March 2003	12 <sup>th</sup> March 2003 – 11 <sup>th</sup> March 2013	0.54	976,000	-	-	-	976,000
				4,240,000	-	-	-	4,240,000
Employees (in aggregate)	26 <sup>th</sup> April 2002	26 <sup>th</sup> October 2002 – 25 <sup>th</sup> April 2007	1.67	750,000	-	-	-	750,000
	26 <sup>th</sup> April 2002	26 <sup>th</sup> April 2003 – 25 <sup>th</sup> April 2007	1.67	750,000	-	-	-	750,000
	30 <sup>th</sup> August 2002	28 <sup>th</sup> February 2003 – 29 <sup>th</sup> August 2007	0.52	2,980,000	-	1,196,000	300,000	1,484,000
	30 <sup>th</sup> August 2002	31 <sup>st</sup> August 2003 – 29 <sup>th</sup> August 2007	0.52	2,980,000	-	120,000	300,000	2,560,000
	30 <sup>th</sup> August 2002	29 <sup>th</sup> February 2004 – 29 <sup>th</sup> August 2007	0.52	1,980,000	-	-	420,000	1,560,000
	28 <sup>th</sup> January 2004	3 <sup>rd</sup> May 2004 – 31 <sup>st</sup> January 2009	0.42	-	1,220,000	-	60,000	1,160,000
	28 <sup>th</sup> January 2004	1 <sup>st</sup> November 2004 – 31 <sup>st</sup> January 2009	0.42	-	1,220,000	-	60,000	1,160,000
	28 <sup>th</sup> January 2004	2 <sup>nd</sup> May 2005 – 31 <sup>st</sup> January 2009	0.42	-	920,000	-	60,000	860,000
			9,440,000	3,360,000	1,316,000	1,200,000	10,284,000	

## 22. RESERVES GROUP

	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 1 <sup>st</sup> October 2002, as previously reported	21,950	(420)	(1,766)	-	106,683	126,447
Effect of adoption of SSAP 12	-	-	-	-	629	629
At 1 <sup>st</sup> October 2002, as restated	21,950	(420)	(1,766)	-	107,312	127,076
Loss attributable to shareholders, as restated	-	-	-	-	(7,097)	(7,097)
Repurchase of shares	(2,902)	-	-	450	(450)	(2,902)
2002 final dividend	-	-	-	-	(3,219)	(3,219)
2003 interim dividend	-	-	-	-	(1,610)	(1,610)
Exchange differences	-	(787)	-	-	-	(787)
At 30 <sup>th</sup> September 2003, as restated	19,048	(1,207)	(1,766)	450	94,936	111,461
Represented by:						
Reserves	19,048	(1,207)	(1,766)	450	91,545	108,070
Proposed final dividend	-	-	-	-	3,391	3,391
	19,048	(1,207)	(1,766)	450	94,936	111,461

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 <sup>st</sup> October 2003, as previously reported	19,048	(1,207)	(1,766)	450	-	91,620	108,145
Effect of adoption of SSAP 12	-	-	-	-	-	3,316	3,316
At 1 <sup>st</sup> October 2003, as restated	19,048	(1,207)	(1,766)	450	-	94,936	111,461
Profit attributable to shareholders	-	-	-	-	-	1,694	1,694
Proceeds from placing of new shares	6,000	-	-	-	-	-	6,000
Expenses on placing of shares	(305)	-	-	-	-	-	(305)
Exercise of share options	2,191	-	-	-	-	-	2,191
2003 final dividend	-	-	-	-	-	(3,391)	(3,391)
2004 interim dividend	-	-	-	-	-	(1,711)	(1,711)
Revaluation of investment properties	-	-	-	-	6,434	-	6,434
Exchange differences	-	299	-	-	-	-	299
At 30 <sup>th</sup> September 2004	26,934	(908)	(1,766)	450	6,434	91,528	122,672
Represented by:							
Reserves	26,934	(908)	(1,766)	450	6,434	89,817	120,961
Proposed final dividend	-	-	-	-	-	1,711	1,711
	26,934	(908)	(1,766)	450	6,434	91,528	122,672

## NOTES TO THE ACCOUNTS

### 22. 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 23<sup>rd</sup> 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 1 <sup>st</sup> October 2002	21,950	-	3,782	25,732
Profit for the year	-	-	5,184	5,184
Repurchase of shares	(2,902)	450	(450)	(2,902)
2002 final dividend	-	-	(3,219)	(3,219)
2003 interim dividend	-	-	(1,610)	(1,610)
At 30 <sup>th</sup> September 2003	19,048	450	3,687	23,185
Represented by:				
Reserves	19,048	450	296	19,794
Proposed final dividend	-	-	3,391	3,391
	19,048	450	3,687	23,185

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 <sup>st</sup> October 2003	19,048	450	3,687	23,185
Profit for the year	-	-	8,413	8,413
Proceeds from placing for new shares	6,000	-	-	6,000
Expenses on placing of new shares	(305)	-	-	(305)
Exercise of shares options	2,191	-	-	2,191
2003 final dividend	-	-	(3,391)	(3,391)
2004 interim dividend	-	-	(1,711)	(1,711)
At 30 <sup>th</sup> September 2004	26,934	450	6,998	34,382
Represented by:				
Reserves	26,934	450	5,287	32,671
Proposed final dividend	-	-	1,711	1,711
	26,934	450	6,998	34,382

## 23. PENSION OBLIGATIONS

The pension obligations 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 30<sup>th</sup> September 2004 and 2003 by an independent qualified actuary using projected unit credit method. The deficit between the pension asset and present value of the obligation as at 30<sup>th</sup> September 2004 is recognised in the profit and loss account in 2004.

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

	2004 HK\$'000	2003 HK\$'000
Present value of funded obligations	551	652
Fair value of plan assets	(334)	(104)
Present value of unfunded obligations	217	548
Unrecognised actuarial gains/(losses)	403	(98)
Liability in the balance sheet	<u>620</u>	<u>450</u>

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

	2004 HK\$'000	2003 HK\$'000
Current service costs	373	142
Interest cost	22	13
Expected return on plan assets	(2)	-
Net actuarial gain	-	(1)
Loss on curtailments and settlements	2	-
Expenses recognised in the profit and loss account (Note 9)	<u>395</u>	<u>154</u>

## NOTES TO THE ACCOUNTS

### 23. PENSION OBLIGATIONS (continued)

Movement in the liability recognised in the balance sheet:

	2004 HK\$'000	2003 HK\$'000
Beginning of year	450	400
Total expense, included in staff costs (Note 9)	395	154
Contributions paid	(225)	(104)
End of year	<u>620</u>	<u>450</u>

The principal actuarial assumptions used were as follows:

	2004 %	2003 %
Discount rate	3.75	3.25
Expected rate of return on plan assets	2.75	2.00
Expected rate of future salary increases	<u>2.50</u>	<u>2.50</u>

### 24. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement in the deferred tax assets is as follows:

	2004 HK\$'000	As restated 2003 HK\$'000
Beginning of year	3,436	763
Credited to profit and loss account	830	2,673
End of year	<u>4,266</u>	<u>3,436</u>

The movement in the deferred liabilities is as follows:

	2004 HK\$'000	As restated 2003 HK\$'000
Beginning of year	679	134
(Credited)/charged to profit and loss account	(110)	545
End of year	<u>569</u>	<u>679</u>

## 24. DEFERRED TAXATION (continued)

The movement in deferred tax assets/(liabilities) prior to offsetting of balances within the same taxation jurisdiction is as follows:

	Decelerated tax depreciation		Tax losses		Accelerated tax depreciation		Total	
	2004	As restated 2003	2004	As restated 2003	2004	As restated 2003	2004	As restated 2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of year	536	(231)	2,900	1,406	(679)	(546)	2,757	629
(Charged)/credited to profit & loss account	82	767	748	1,494	110	(133)	940	2,128
End of year	618	536	3,648	2,900	(569)	(679)	3,697	2,757

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004 HK\$'000	As restated 2003 HK\$'000
Deferred tax assets	4,266	3,436
Deferred tax liabilities	(569)	(679)
	3,697	2,757

## 25. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH INFLOW GENERATED FROM OPERATIONS

	2004 HK\$'000	As restated 2003 HK\$'000
Operating profit/(loss)	3,577	(7,710)
Depreciation	15,425	13,786
Amortisation of intangible assets	1,169	1,009
Interest income	(340)	(651)
Interest paid	140	-
Loss on disposal of trading investments	47	-
Unrealised loss on trading investments	70	17
Gain on disposal of other investment	-	(69)
Gain on disposal of fixed assets	(566)	(102)
Revaluation (gain)/deficit on investment properties	(1,300)	350
Decrease in inventories	1,849	3,995
Increase in accounts receivable	(2,133)	(3,508)
(Increase)/decrease in rental deposits, prepayments, other deposits and receivables	(6,926)	10,216
Increase/(decrease) in accounts payable	2,640	(4,296)
Increase/(decrease) in accruals and other payables	3,629	(1,697)
Increase in receipts in advance	20,636	3,909
Increase in pension obligations	170	50
Net cash inflow generated from operations	38,087	15,299

## NOTES TO THE ACCOUNTS

### 25. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) ANALYSIS OF CHANGES IN FINANCING ACTIVITIES DURING THE YEAR

	Long-term bank loan		Share capital including share premium and capital reserve		Minority interests	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	As restated 2003 HK\$'000
Beginning of year	-	-	49,472	52,824	362	1,166
Addition of long-term bank loan	19,500	-	-	-	-	-
Repayment of long-term bank loan	(813)	-	-	-	-	-
Effect of adoption of SSAP 12	-	-	-	-	-	120
Proceeds from placing of new shares	-	-	7,500	-	-	-
Expenses on placing of new shares	-	-	(305)	-	-	-
Proceeds from exercise of share options	-	-	2,713	-	-	-
Minority interests' in share of net profit/(loss)	-	-	-	-	205	(774)
Repayment to a minority shareholder	-	-	-	-	(669)	-
Dividends paid to a minority shareholder of a subsidiary	-	-	-	-	(91)	(89)
Repurchase of shares	-	-	-	(3,352)	-	-
Effect of foreign exchange rate changes	-	-	-	-	-	(61)
End of year	18,687	-	59,380	49,472	(193)	362

### 26. COMMITMENTS

#### GROUP

#### (a) CAPITAL COMMITMENTS FOR FIXED ASSETS

	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for	9,744	-

The Company did not have any capital commitments at 30<sup>th</sup> September 2004 (2003: Nil).

#### (b) COMMITMENTS UNDER OPERATING LEASES

At 30<sup>th</sup> September 2004 and 2003, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2004 HK\$'000	2003 HK\$'000
Not later than one year	38,232	34,421
Later than one year and not later than five years	35,892	27,012
	74,124	61,433

The Company did not have any operating leases commitments at 30<sup>th</sup> September 2004 (2003: Nil).



## 27. BANKING FACILITIES

As at 30<sup>th</sup> September 2004, the Group and its subsidiaries were granted banking facilities amounted to approximately HK\$37,000,000 by a bank (2003: HK\$18,000,000) under guarantee provided by the Company and secured by an investment property of the Group.

## 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
<b>DIRECTLY HELD:</b>				
Water Oasis Group (BVI) Limited	British Virgin Islands 16 <sup>th</sup> December 1999	Ordinary shares US\$30,000	100%	Investment holding in Hong Kong
<b>INDIRECTLY HELD:</b>				
Water Oasis Holdings Limited	British Virgin Islands 16 <sup>th</sup> December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Oasis Spa Holdings Limited	British Virgin Islands 16 <sup>th</sup> December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Oasis-Beauty.com Holdings Limited	British Virgin Islands 16 <sup>th</sup> December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Water Oasis (Labuan) Holdings Limited	Labuan, Malaysia 28 <sup>th</sup> June 2000	Ordinary shares US\$10,000	100%	Investment holding in Hong Kong
Water Oasis China (BVI) Limited	British Virgin Islands 12 <sup>th</sup> October 2000	Ordinary shares US\$1	100%	Investment holding in Hong Kong
OBS Company Limited (formerly known as Water Oasis (China) Company Limited)	Hong Kong 26 <sup>th</sup> July 2000	Ordinary shares HK\$2	100%	Dormant
Water Oasis Company Limited	Hong Kong 6 <sup>th</sup> 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

## 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
INDIRECTLY HELD (continued):				
Oasis Spa Company Limited	Hong Kong 24 <sup>th</sup> 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 24 <sup>th</sup> 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 17 <sup>th</sup> September 1999	Common stock NT\$20,000,000	90%	Retail sales of skin-care products in Taiwan
Water Oasis (China) Holdings Limited	Samoa 5 <sup>th</sup> April 2000	Ordinary shares US\$101	90.1%	Investment holding in Hong Kong
Claire International Limited	Hong Kong 22 <sup>nd</sup> October 1999	Ordinary shares HK\$2	100%	Inactive
Oasis Advertising Agency Company Limited	Hong Kong 18 <sup>th</sup> October 2000	Ordinary shares HK\$2	100%	Advertising agency in Hong Kong
Water Oasis (Macau) Company Limited	Macau 19 <sup>th</sup> July 2001	Ordinary shares MOP\$25,000	100%	Retail sales of skin-care products in Macau

## 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
INDIRECTLY HELD (continued):				
Oasis Beauty Company Limited	Hong Kong 13 <sup>th</sup> 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 8 <sup>th</sup> March 2002	Ordinary shares US\$1	100%	Inactive
Master Advance Limited	Hong Kong 28 <sup>th</sup> June 2002	Ordinary shares HK\$1,000,000	100%	Investment holding in Hong Kong
奥思美容品(上海)有限公司	China 9 <sup>th</sup> February 2002	US\$200,000	90.1%	Retail sales of skin-care products in China
奥思美容品(深圳)有限公司	China 10 <sup>th</sup> October 2002	HK\$3,000,000	90.1%	Retail sales of skin-care products in China
Water Oasis (Singapore) Pte. Limited	Singapore 6 <sup>th</sup> November 2003	Ordinary shares S\$300,000	100%	Retail sales of skin-care products in Singapore

## 29. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 19<sup>th</sup> January 2005.

## FIVE-YEAR FINANCIAL SUMMARY

	2004 HK\$'000	Year ended 30 <sup>th</sup> September			
		As restated 2003 HK\$'000	As restated 2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
<b>RESULTS</b>					
Turnover	357,553	310,236	308,449	285,998	237,611
Operating profit/(loss)	3,577	(7,710)	10,992	59,995	71,395
Taxation	(1,678)	(41)	(4,434)	(7,812)	(12,607)
Profit/(loss) after taxation	1,899	(7,751)	6,558	52,183	58,788
Minority interests	(205)	654	418	(683)	(724)
Profit/(loss) attributable to shareholders	1,694	(7,097)	6,976	51,500	58,064
<b>BALANCE SHEETS</b>					
Total assets	259,980	199,684	217,835	148,327	140,398
Total liabilities	(103,289)	(55,671)	(56,953)	(40,570)	(51,639)
Minority interests	193	(362)	(1,166)	(2,610)	(1,831)
Net assets	156,884	143,651	159,716	105,147	86,928

Note: The figures for years 2002 and 2003 have been restated to reflect the adoption of the Statements of Standard Accounting Practice No. 12 "Income Taxes" issued by the Hong Kong Institute of Certified Public Accountants. Figures for other years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.