

[CORPORATE PROFILE]

“Growth with Strategic Direction”

Operating thriving retail expanding to...

Water Oasis Group Limited is a skin-care and beauty group with exclusive distribution rights to the renowned ~H₂O+ brand skincare product range in the Greater China region and Singapore. The ~H₂O+ 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 ~H₂O+ products through its retail outlets in Hong Kong and Macau (17 outlets), Taiwan (15 outlets), China (a mix of 55 self-managed and 45 franchised outlets) and, Singapore (4 outlets).





China


Hong Kong
Macau
Taiwan

Singapore

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

In addition to its ~H₂O+ 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 ~H₂O+ products. In addition to the “Oasis Spa”, the Group also operates 12 “Oasis Beauty/Oasis Homme” and 3 “Aqua Beauty” centres, offering a wide range of competitively-priced beauty treatments targeting high, mid and mass markets.

In 2005, the Group established the Oasis Beauty School with the aim of grooming professionals for the industry as well as nurturing trained staff for the Group’s specialized needs.



[CEO'S STATEMENT]

China: The Group's Growth Driver

For the Water Oasis Group, the 2004/2005 fiscal year has involved a steady pursuit of certain clear goals. We have seen our presence in the China market begin to achieve the kind of consumer response we hoped for and expected when we first entered China in much less favorable conditions a few years ago. With China having become a major growth driver for the Group, we are now able to push ahead with new outlets and franchise arrangements. We are confident that we have built up strong brand awareness and won a wide array of new China customers looking for quality skincare and beauty products that are both prestigious and cost-competitive. Our successes to date in China have prompted us to begin looking at other options for utilizing our expertise there: this may include eventually opening China spa operations, for example, or setting up self-owned ~H₂O+ stores in major cities once we have obtained a valuable China retail license.

Diversification And Collaboration

Elsewhere in our longer-established markets we have continued our strategies of consolidation and diversification for the future. The former strategy has involved continuously reassessing the placing and patronage of our retail outlets and spa and beauty centres. We have continued to be willing to close down or relocate underperforming outlets where necessary, to make sure we adopt an optimal market coverage. At the same time, we have looked to secure a stable future and withstand shocks to individual sectors by continuing our diversification process. This involves taking steps to collaborate with partners with whom we hope to explore new possibilities in the spa and beauty sectors, and also rolling out new products — some of them self-developed — specially designed for the Asian markets.

A Blend Of Innovation And Careful Planning

We have successfully kept up the momentum of our China development while continuing to maintain a strong market presence in the more competitive markets of Hong Kong, Taiwan, Singapore and Macau. Once again, we feel that our careful expansion and expenditure planning has played an important part in the successes of the year. This will continue to be a fundamental basis of our decision-making in the year to come. Our strategy continues to be to safeguard and maximize investors' interests by adopting well-informed initiatives tempered by caution and financial prudence, a strategy we have implemented since the Group was first listed. We believe that this strategy will yield the best possible returns for investors in the year to come.



Yu Lai Si

Executive Director and Chief Executive Officer

13th January 2006

“Commitment to Diversity”



[MANAGEMENT DISCUSSION AND ANALYSIS]



This year highlighted the difference between the strategies for success required by the new China market, and those necessary in the older, more mature Asian markets of Hong Kong and Taiwan. The China market has continued to show strong potential and the Group has been involved in ongoing promotion and expansion plans there throughout the year. This has been a learning curve for the Group, but its cautious policies have helped it manage the process very well and it has prepared an excellent foundation for profit growth in the future. In Hong Kong, an improved market sentiment has been a welcome development, although this has been accompanied by rapidly rising rental prices that have somewhat offset the increase in consumer spending. The Group has demonstrated its commitment to consolidating its presence in Asia, as shown across the year by its opening of new stores in Macau and Singapore.



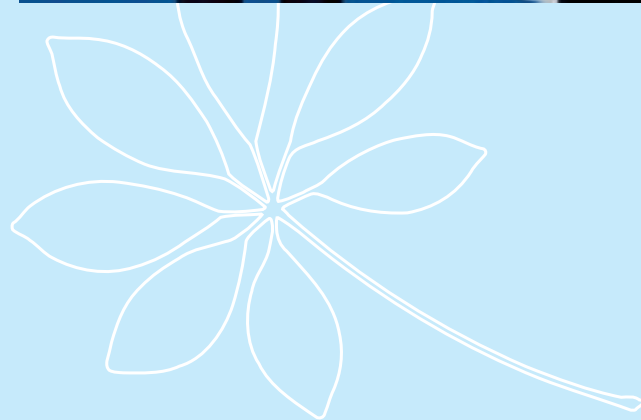
“Momentum to Greater Achievements”

~H₂O+ RETAIL BUSINESS

China: Continuous Rollout To Meet Positive Demand

The Group's activities in China achieved substantial success during the year under review, with the Group meeting its goals for retail expansion there. Brand awareness and consumer demand rose significantly across the year. The Group identified China as a key area for expansion some time ago and its steady commitment to this market, challenging though it has been at times, is now beginning to bear fruit. During the year, for example, the Group's China turnover increased by over 45%, partly aided by the ongoing rollout of its retail network. From a presence made up of 90 outlets in March 2005, the Group now has 100 outlets (including 55 self-managed and 45 franchised outlets) in place, with more than 10 in the immediate pipeline. The costs of rollout and promotion in this new market mean that, to date, profits from China have yet to become significant, but once the Group reaches its optimal level of exposure it expects these to make up a major percentage of its overall profits.

In summary, in less than four years since it began opening outlets in China, the Group has managed to promote and build up a sought-after international brand-name, and create an extensive network of sales outlets in many of China's top cities. One of the reasons behind this success is the extensive research the Group has conducted before opening new China outlets. The special care it has taken in selecting shop locations and choosing preferred franchisees has helped create a very solid, reliable and strategically-situated sales network for ~H₂O+ products across China.



Hong Kong: Fine-tuning A Successful Formula

The Group's Hong Kong retail operations benefited from an optimistic economic environment in the territory. Sales were stable across the year, and much of the Group's attention was focused on fine-tuning its sales network to maximize returns from this mature market. Some underperforming outlets were either closed down or relocated to areas with better customer traffic or lower rental costs.

To maximize returns from its highest-spending Hong Kong retail customers, in October 2005 the Group introduced a new Customer Relationship Management (CRM) program. Amongst other things the aim of the program is to encourage higher levels of spending, particularly amongst the Group's VIP customers, and it thus includes a number of new and revamped customer incentives which the Group believes will prove very popular.



Elsewhere In Asia: Steady, Controlled Retail Growth

Although China represents its main growth driver for the future, the Group is committed to retaining a strong presence in other Asian markets. This commitment has been reinforced by the continued steady performance of its existing outlets in Macau, Taiwan and Singapore over the year. Macau is experiencing an economic boom at the moment with the development of its gaming and leisure industries, and to meet increasing demand the Group opened its second retail outlet there. This new shop is situated in one of Macau's newest landmark's, Fisherman's Wharf, the first theme park and a tourist area core. The Taiwan market, meanwhile, has been solid, and there the Group has concentrated on guaranteeing reliable supplies and excellent service. In Singapore, the Group opened its fourth ~H2O+ retail store recently to further expand its market presence there.

“Strength of Promising Outlook”



SPA AND BEAUTY BUSINESSES

Growing Profit Contributors

From their original function as business diversification strategies, the Group's spa and beauty businesses have gone on to become major contributors to its overall turnover, accounting for over 30% of turnover in the year under review. As a result, these sectors are now important profit contributors to the Group, a situation that should increase in the future.





Diversifying To Reach A Wider Customer Base

Recognizing the value of these business segments, over the year the Group has explored new ways of expanding its involvement in the spa and beauty sectors. Currently, its Oasis Spa business targets high-end clientele, while Oasis Beauty is focused more on attracting mass market customers. Both these sectors have enjoyed steady business over the year, and during the year the Group adjusted its presence by expanding its Oasis Beauty outlet in Kowloon Bay. To fill a perceived gap between the higher and lower markets targeted by Oasis Spa and Oasis Beauty, in mid 2005 the Group launched a new concept, Aqua Beauty. Three Aqua Beauty outlets were opened initially, in Tsuen Wan, Shatin and Mongkok. Each outlet was set up in a building in which an Oasis Beauty outlet was already operating, as a way of minimizing start-up costs and allowing efficient resource sharing. Despite the short time since its opening, the Aqua Beauty operation has already attained a cashflow break-even position, boding extremely well for future growth. With the establishment of Aqua Beauty to complement its existing spa and beauty enterprises, the Group has now successfully diversified into the high, mid and mass markets for beauty services.



OASIS BEAUTY SCHOOL

A Source Of Future Expertise

The Oasis Beauty School is another venture introduced just this year. As reported in the interim report, the Oasis Beauty School was an initiative designed to increase the Group's diversification while helping develop a method for sourcing trained staff for the Group's specialized needs. Its first intake of students arrived in March 2005 and these students are already well-advanced in the year-long course. Planned as an efficient enterprise that would not require large start-up sums, the beauty school has already achieved a cashflow break-even position.

PROSPECTS

Multiple Options For China Growth

The Group is well-advanced in applying for its own China retail license, which will give it the option of running its own retail stores in China if desired and free it from its current total reliance on establishing partnerships with China-based retail chains or franchisees. Also in China, the Group is negotiating with China-based partners with the aim of setting up spa operations on the Mainland. This is a longer-term business strategy because even after negotiations are successfully completed, there will be a period required for the spas to be designed and built. Nevertheless, the Group believes this venture has strong prospects in today's affluent urban China environment.



In general, the Group is demonstrating its robust confidence in the future opportunities of the China market at two practical levels. Firstly, it is in the process of expanding its China team, adding to it extra staff in its bid to bolster the marketing and franchising divisions expected to see the strongest growth. Secondly, a significantly boosted budget — more than 40% higher than the marketing expenditure in 2004/2005 — will be in place to support the expanded workforce on the Mainland. The Group expects to achieve satisfactory performance that will well-justify the additional investments.



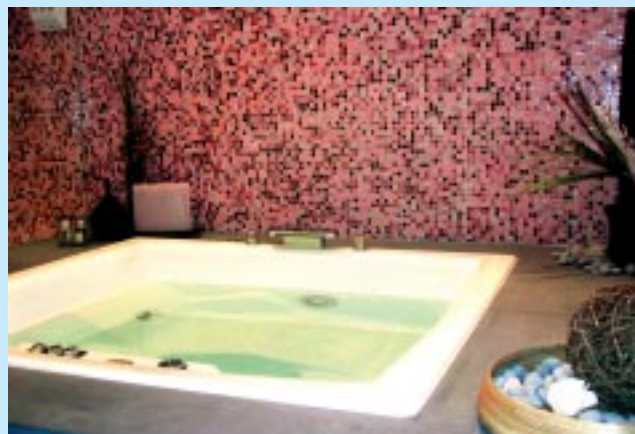
will involve introducing more new health food lines from Japan within 2006, as well as adding to its range of self-developed products which to date have proven widely successful and well-received. As mentioned in the interim report, the Group is also in the process of negotiating the rights to carry a new brand of skin care products. Negotiations are proceeding smoothly and the Group hopes to finalize the details of this new arrangement in the first half of the 2005/2006 fiscal year.

Further Product Diversification

As reported in the interim report, the Group has been undergoing discussions with H₂O Plus, L.P. of the United States with a view to launching a secondary line of ~H₂O + products in Asia. This development is progressing steadily and currently the new product range has reached the final stage of testing, after which it should be ready for launching in the first half of 2006. The products, of which there are a total of around twenty separate items, will be manufactured in the US and will retail on average at between one third and one half of the price levels of the current ~H₂O + range. The Group anticipates that this new range will attract a new customer base drawn by the quality US origin and the competitive pricing.

Besides this secondary line, the Group has plans to further diversify its range of products and services over the longer term, with the aim of developing a number of independent income streams that will help it lessen its financial reliance on any particular market sector. In terms of products, this

In a different direction, the Group is continuing to explore options in the private provision of health and beauty services. Two years ago the Group collaborated with property developer Cheung Kong in the setting up of a beauty centre in one of its upmarket housing developments. This enterprise was a successful one, and the Group has recently begun negotiations for a similar plan with another leading Hong Kong property developer. The idea is that the developer provides the space and infrastructure necessary, while the Group gets the operation running. This is a business model that has proven widely successful when it has been implemented, reporting high margins. The Group is confident that, with its experience and expertise in the industry and its prudent business regime, such a move would represent a promising new venture for future growth.



[DIRECTORS AND SENIOR MANAGEMENT]

DIRECTORS

Executive Directors

Ms. YU Lai Si, aged 44, 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 53, 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 53, 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 55, 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 50, 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 57, 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 52, 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 50, 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.

SENIOR MANAGEMENT

Mr. CHENG Chi Wai, Ellis, aged 41, is the Chief Financial Officer and Company Secretary of the Group. Mr. Cheng holds a bachelor's degree in accounting and is a fellow of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants as well as a chartered secretary. Mr. Cheng has more than 17 years' experience in auditing, financial control and corporate finance and previously worked in an international accounting firm and held key finance positions in several companies whose shares are listed on the Stock Exchange. Mr. Cheng joined the Group in 1999.

Ms. CHOW Wai Yan, Elsa, aged 32, is the Marketing Manager of the Group. Ms. Chow holds a bachelor of science degree and is responsible for overseeing marketing, advertising and promotion functions for the Group. Ms. Chow has more than 8 years of experience in these areas. Prior to joining the Group in May 2002, Ms. Chow worked for various reputable advertising agencies and had served a number of international FMCG corporate clients.

Mr. HO Fai Man, Patrick, aged 37, is the Deputy General Manager overseeing the Group's operations in China since 2002. Mr. Ho holds a bachelor's degree in accounting and is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. Mr. Ho has more than 13 years' experience in auditing, finance, accounting and business development areas in international accounting firm, multinational corporations and Hong Kong listed companies. Mr. Ho joined the Group in 2002.

Mr. WONG Wing Chuen, Eric, aged 48, is the General Manager of the Group's operation in Taiwan. Mr. Wong holds a diploma in business management. Prior to joining the Group in 2005, Mr. Wong spent 19 years in Hong Kong and Taiwan specializing merchandising function with a reputable multinational brands goods retailer and then expanded his exposure to diverse retail management in the recent 7 years including apparel, home furnishing and cosmetics in Taiwan.

Ms. LIP Miu Fan, Phoebe, aged 41, is the Manager overseeing the Group's spa and beauty centres' operations. Ms. Lip holds a diploma in beauty therapy and has more than 12 years' sales and management experience working for a number of well-known beauty and fitness chain centres. Ms. Lip joined the Group in 2000.

[DIRECTORS' REPORT]

The directors present their annual report and the audited consolidated accounts of the Company and its subsidiaries for the year ended 30th September 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its principal subsidiaries are engaged in the distribution of ~H₂O+ 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", "Aqua Beauty" and "Oasis Homme", which offer wide varieties of beauty and massage services. The Company and subsidiaries are hereinafter collectively referred to as the Group.

Details of the Company's principal subsidiaries at 30th September 2005 are set out in note 28 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30th September 2005 are set out in the consolidated profit and loss account on page 23.

The Directors recommended a final dividend of 3.0 HK cents per share for the year ended 30th September 2005 payable to shareholders whose names appear on the Register of Members of the Company at the close of business on 16th March 2006. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, such dividend will be payable on 28th March 2006.

SHARE CAPITAL

Details of the Company's authorised and issued share capital as at 30th September 2005 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 30th September 2005 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 58.

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

In accordance with Articles 87(1) and (2) of the Company's articles of association, Yu Lai Si and Lai Yin Ping would retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company considers that Wong Lung Tak, Patrick, J.P., Wong Chun Nam and 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.

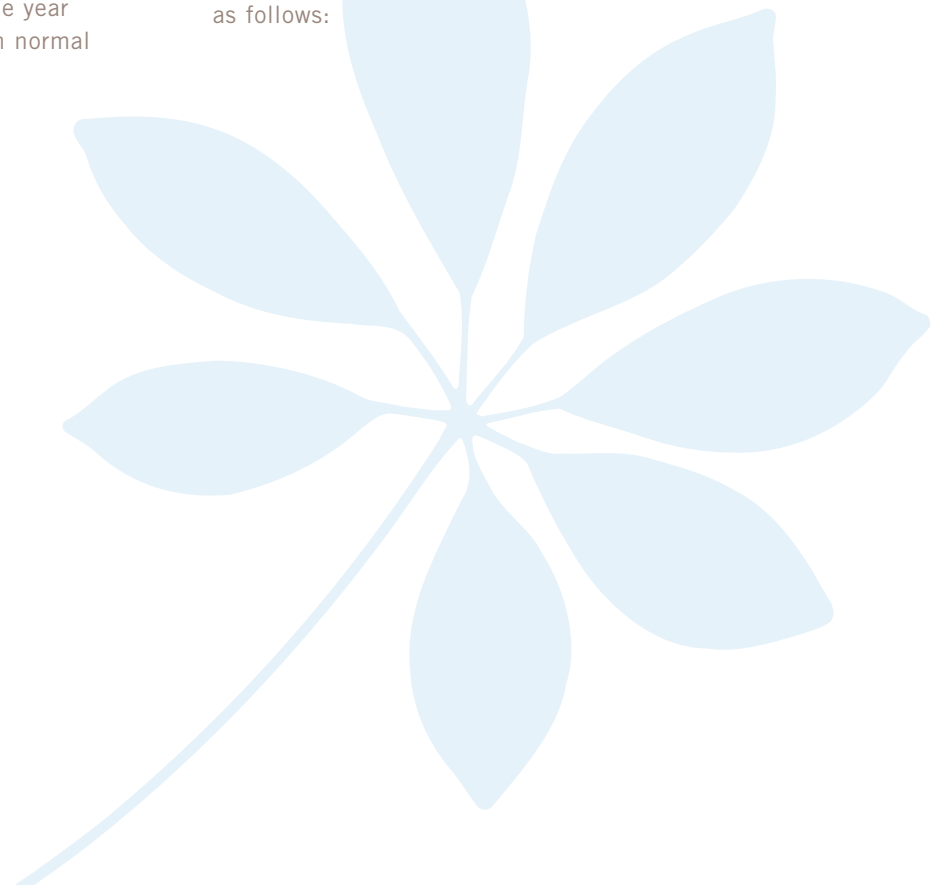
All directors of the Company, are subject to retirement by rotation as required by the Company's articles of association.

Each of the executive directors has entered into a service agreement with the Company. Each agreement is for a period of three years commencing on 1st October 2001 and shall continue thereafter until terminated by either party giving to the other not less than three calendar months' prior notice in writing.

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

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

As at 30th September 2005, 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 ⁽²⁾	77,666,880 ordinary ⁽¹⁾	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 ⁽²⁾	-	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 ⁽¹⁾	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 ⁽³⁾	-	330,000 non voting deferred	-

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.

Other than aforesaid and as disclosed under the section headed "SHARE OPTIONS" below, there were no long positions in the underlying shares and debentures or any

short positions in the shares, underlying shares and debentures of the Company and its associated corporations, which were recorded in the register as required to be kept under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

As at 30th September 2005, 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 st October 2004	Granted	Exercised	Cancelled/ Lapsed	Balance as at 30 th September 2005
Directors								
Yu Lai Si	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	3,000,000	-	-	-	3,000,000
Tam Chie Sang	30 th August 2002	28 th February 2003 – 29 th August 2007	0.52	1,500,000	-	-	-	1,500,000
	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	1,500,000	-	-	-	1,500,000
Yu Lai Chu, Eileen	30 th August 2002	28 th February 2003 – 29 th August 2007	0.52	600,000	-	-	-	600,000
	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	1,500,000	-	-	-	1,500,000
Yu Kam Shui, Erastus	30 th August 2002	28 th February 2003 – 29 th August 2007	0.52	1,500,000	-	-	-	1,500,000
	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	1,500,000	-	-	-	1,500,000
Lai Yin Ping	30 th August 2002	28 th February 2003 – 29 th August 2007	0.52	1,500,000	-	-	-	1,500,000
	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	1,500,000	-	-	-	1,500,000
Wong Lung Tak, Patrick, J.P.	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	600,000	-	-	-	600,000
Wong Chun Nam	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	600,000	-	-	-	600,000
				15,300,000	-	-	-	15,300,000
Supplier								
H ₂ O Plus, L.P.	11 th March 2002	11 th March 2002 – 10 th March 2012	1.18	3,264,000	-	-	-	3,264,000
	12 th March 2003	12 th March 2003 – 11 th March 2013	0.54	976,000	-	-	-	976,000
				4,240,000	-	-	-	4,240,000

Category and name of participant	Date of grant	Exercise period	Exercise price per share HK\$	Balance as at 1 st October 2004	Granted	Exercised	Cancelled/ Lapsed	Balance as at 30 th September 2005
Employees								
(In aggregate)								
	26 th April 2002	26 th October 2002 – 25 th April 2007	1.67	750,000	-	-	-	750,000
	26 th April 2002	26 th April 2003 – 25 th April 2007	1.67	750,000	-	-	-	750,000
	30 th August 2002	28 th February 2003 – 29 th August 2007	0.52	1,484,000	-	-	-	1,484,000
	30 th August 2002	31 st August 2003 – 29 th August 2007	0.52	2,560,000	-	-	-	2,560,000
	30 th August 2002	29 th February 2004 – 29 th August 2007	0.52	1,560,000	-	-	-	1,560,000
	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	1,160,000	-	-	-	1,160,000
	28 th January 2004	1 st November 2004 – 31 st January 2009	0.42	1,160,000	-	-	-	1,160,000
	28 th January 2004	2 nd May 2005 – 31 st January 2009	0.42	860,000	-	-	-	860,000
				10,284,000	-	-	-	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 30th September 2005, 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 ⁽¹⁾	Interest of a controlled corporation	77,666,880	22.7%
Advance Favour Holdings Limited ⁽²⁾	Interest of a controlled corporation	38,833,440	11.4%
Billion Well Holdings Limited ⁽³⁾	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 Lai Yin Ling, sister of Lai Yin Ping, a director of the Company.
- (3) Billion Well Holdings Limited is a British Virgin Islands company beneficially owned by Lai Yin Ling, sister of Lai Yin Ping, a director of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30th September 2005, the aggregate purchases attributable to the Group's five largest suppliers represented approximately 99% of the Group's purchase. Whereas the aggregate turnover attributable to the Group's five largest customers was less than 1% of the Group's turnover.

DISTRIBUTABLE RESERVES

As at 30th September 2005, distributable reserves of the Company amounted to approximately HK\$11,953,000.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th September 2005, the Group employed 1,030 staff (2004: 840). 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 30th September 2005, 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 MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. All directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the review period.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained during the financial period, the amount of public float as required under the Listing Rules.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied throughout the financial year ended 30th September 2005 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.

Effective for accounting period commencing on or after 1st January 2005, a new code on Corporate Governance Practices (the "New Code") shall be applicable. Appropriate actions are being taken by the Company to comply with the New Code.

AUDIT COMMITTEE

The Company's audit committee comprises Dr. Wong Lung Tak, Patrick, J.P., 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 in December 1997.

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and the audited consolidated accounts of the Group for the year ended 30th September 2005 with management and discussed with the independent auditors matters on auditing, internal control and financial reporting in respect of the annual report.

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, 13th January 2006

[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 23 to 57 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 30th September 2005 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, 13th January 2006

[CONSOLIDATED PROFIT AND LOSS ACCOUNT]

	Note	FOR THE YEAR ENDED 30 TH SEPTEMBER	
		2005 HK\$'000	2004 HK\$'000
Turnover	3	413,888	357,553
Cost of inventories sold		(99,048)	(93,449)
Gross profit		314,840	264,104
Other revenues	3	2,646	1,994
Gain arising from change in fair value of investment properties		23,763	1,300
Staff costs	9	(132,367)	(102,218)
Depreciation		(16,665)	(15,425)
Other operating expenses		(174,281)	(146,178)
Operating profit	4	17,936	3,577
Taxation	5	(4,653)	(1,678)
Profit after taxation		13,283	1,899
Minority interests		(521)	(205)
Profit attributable to shareholders	6	12,762	1,694
Dividends	7	22,237	3,422
Earnings per share			
Basic	8	3.7 HK cents	0.5 HK cents
Diluted	8	N/A	N/A

[CONSOLIDATED BALANCE SHEET]

		AS AT 30 TH SEPTEMBER	
	Note	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Intangible assets	11	1,264	1,922
Fixed assets	12	118,863	78,669
Rental deposits		13,063	12,121
Other investment	14	–	452
Deferred tax assets	24	2,753	4,266
		135,943	97,430
Current assets			
Inventories	15	35,150	31,057
Trading investments	16	65	6,772
Accounts receivable	17	31,751	25,172
Prepayments		15,676	11,932
Other deposits and receivables		4,950	6,273
Tax recoverable		182	2,326
Bank balances and cash		85,680	79,018
		173,454	162,550
Current liabilities			
Accounts payable	18	11,330	6,583
Accruals and other payables		46,741	28,306
Receipts in advance	19	72,345	44,885
Long-term bank loan – current portion	20	1,950	1,950
Taxation payable		1,496	3,639
		133,862	85,363
Net current assets			
		39,592	77,187
Total assets less current liabilities			
		175,535	174,617
Financed by:			
Share capital	21	34,212	34,212
Reserves	22	123,190	122,672
Shareholders' funds		157,402	156,884
Minority interests		209	(193)
Non-current liabilities			
Pension obligations	23	620	620
Long-term bank loan – non-current portion	20	14,787	16,737
Deferred tax liabilities	24	2,517	569
		175,535	174,617



TAM Chie Sang
Executive Director



YU Lai Si
Executive Director

[BALANCE SHEET]

		AS AT 30 TH SEPTEMBER	
	Note	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Investments in subsidiaries	13	3,000	8,000
Current assets			
Amounts due from subsidiaries	13	62,972	43,987
Prepayments		97	108
Other receivable		18	–
Bank balances and cash		10,409	24,236
		73,496	68,331
Current liabilities			
Amounts due to subsidiaries	13	2,202	7,203
Accruals and other payables		745	534
		2,947	7,737
Net current assets			
		70,549	60,594
Total assets less current liabilities			
		73,549	68,594
Financed by:			
Share capital	21	34,212	34,212
Reserves	22	39,337	34,382
Shareholders' funds		73,549	68,594



TAM Chie Sang
Executive Director



YU Lai Si
Executive Director

[CONSOLIDATED STATEMENT OF CHANGES IN EQUITY]

	FOR THE YEAR ENDED 30 TH SEPTEMBER	
	2005 HK\$'000	2004 HK\$'000
Total equity as at beginning of the year	156,884	143,651
Profit attributable to shareholders	12,762	1,694
Proceeds from placing of new shares	–	7,500
Expenses on placing of new shares	–	(305)
Exercise of share options	–	2,713
Dividends	(13,685)	(5,102)
Revaluation of investment properties	–	6,434
Exchange differences	1,441	299
Total equity as at end of the year	157,402	156,884



[CONSOLIDATED CASH FLOW STATEMENT]

FOR THE YEAR ENDED 30 TH SEPTEMBER			
	Note	2005 HK\$'000	2004 HK\$'000
Operating activities			
Net cash inflow generated from operations	25(a)	48,515	38,087
Interest paid		(597)	(140)
Hong Kong profits tax paid		(408)	–
Overseas tax paid		(852)	(660)
Net cash inflow from operating activities		46,658	37,287
Investing activities			
Purchase of intangible assets		(667)	(366)
Purchase of fixed assets		(33,067)	(54,190)
Proceeds from disposal of fixed assets		121	902
Interest received		316	340
Purchase of trading investments		(65)	(16,334)
Proceeds from disposal of trading investments		7,352	9,665
Proceeds from redemption of other investment		486	–
Net cash outflow from investing activities		(25,524)	(59,983)
Net cash inflow/(outflow) before financing		21,134	(22,696)
Financing activities			
	25(b)		
Addition of long-term bank loan		–	19,500
Repayment of long-term bank loan		(1,950)	(813)
Proceeds from placing of new shares		–	7,500
Expenses on placing of new shares		–	(305)
Proceeds from exercise of options		–	2,713
Repayment to a minority shareholder		–	(669)
Dividends paid to a minority shareholder of a subsidiary		(119)	(91)
Dividends paid		(13,685)	(5,102)
Net cash (outflow)/inflow from financing		(15,754)	22,733
Increase in cash and cash equivalents		5,380	37
Cash and cash equivalents at the beginning of the year		79,018	78,707
Effect of foreign exchange rate changes		1,282	274
Cash and cash equivalents at end of the year		85,680	79,018
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		85,680	79,018

[NOTES TO THE ACCOUNTS]

1. ORGANISATION AND PRINCIPAL ACTIVITIES

Water Oasis Group Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability on 27th September 2001 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 11th March 2002.

The Company is an investment holding company. Its subsidiaries are principally engaged in the distribution of skin-care products in Hong Kong, Macau, Taiwan, Singapore and China and the operation of spa and beauty centres 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 investment properties and trading investments are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKAS”) (collectively the “HKFRSs”) which are effective for accounting periods commencing on or after 1st January 2005. In current year, the Group early adopted HKAS 40 “Investment Property”.

In prior years, 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 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; and any subsequent increases are credited to operating profit up to the amount previously debited.

Pursuant to the fair value model of HKAS 40, which the Group has elected to apply, fair value changes in investment properties are to be recognised in the accounts during the year in which they arise. As a result of the adoption of this accounting standard, the Group’s operating profit for the current year has included approximately HK\$23.8 million as gain arising from change in fair value of investment properties.

The effect of adopting the new accounting standard was adjusted to the opening balance of investment properties revaluation reserve and retained profits of approximately HK\$6.4 million, respectively, as at 1st October 2004 in accordance with the transitional provisions of HKAS 40. Comparative information has not been restated. Certain comparative figures have been reclassified to conform to current year’s presentation.

The Group has not early adopted other new and revised HKFRSs in the accounts for the year ended 30th September 2005. The Group has already commenced an assessment of the impact of these new and revised HKFRSs and considered it as insignificant on the Group’s results of operation and financial position.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th September. Subsidiaries are those entities in which the 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.

(c) Intangible assets

Expenditure on acquiring licenses for sale of products in China 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

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies within the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are performed in accordance with guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Investment properties (continued)

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the accounts.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

Changes in fair values are recognised in 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 account.

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.

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.

(o) Translation of foreign currencies

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

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

(p) Revenue recognition

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(q) Segment reporting

In note 3 to the accounts, the Group had disclosed segment revenue and results as defined under Statement of Standard Accounting Practice 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 other related services. Revenues recognised during the year are as follows:

	2005 HK\$'000	2004 HK\$'000
Turnover		
Sales of goods	284,808	254,664
Rendering of services	129,080	102,889
	413,888	357,553
Other revenues		
Interest income	316	340
Gross rental income from investment properties	1,720	903
Income from expired gift coupons	284	493
Dividend income	64	58
Others	262	200
	2,646	1,994
Total revenues	416,534	359,547

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments

	Retailing		Services		Elimination		Group	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Sales to external customers	284,808	254,664	129,080	102,889	-	-	413,888	357,553
Inter-segment sales	15,088	7,110	-	-	(15,088)	(7,110)	-	-
Total	299,896	261,774	129,080	102,889	(15,088)	(7,110)	413,888	357,553
Segment results	15,394	19,205	13,990	12,307	-	-	29,384	31,512
Other revenues							2,646	1,994
Gain arising from change in fair value of investment properties							23,763	1,300
Unallocated corporate expenses							(37,857)	(31,229)
Operating profit							17,936	3,577
Taxation							(4,653)	(1,678)
Profit after taxation							13,283	1,899
Minority interests							(521)	(205)
Profit attributable to shareholders							12,762	1,694

	Retailing		Services		Group	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment assets	207,353	172,305	63,281	44,872	270,634	217,177
Unallocated assets					38,763	42,803
Total assets					309,397	259,980
Segment liabilities	65,710	50,120	82,388	50,975	148,098	101,095
Unallocated liabilities (including minority interests)					3,897	2,001
Total liabilities					151,995	103,096
Depreciation	9,169	8,678	7,496	6,747	16,665	15,425
Amortisation	1,325	1,169	-	-	1,325	1,169
Capital expenditures	22,576	47,222	10,491	6,968	33,067	54,190

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments

	Turnover		Capital expenditures		Total assets	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong and Macau	227,267	210,433	27,067	49,032	180,331	145,160
China	111,388	75,869	4,162	1,632	55,441	39,424
Taiwan	67,353	68,915	1,574	2,029	29,702	29,515
Singapore	7,880	2,336	264	1,497	5,160	3,078
	<u>413,888</u>	<u>357,553</u>	<u>33,067</u>	<u>54,190</u>	<u>270,634</u>	<u>217,177</u>
Unallocated assets					38,763	42,803
					<u>309,397</u>	<u>259,980</u>

4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2005 HK\$'000	2004 HK\$'000
Crediting		
Gain on disposal of fixed assets	–	566
Gain on redemption of other investment	34	–
Gain/(loss) on disposal of trading investments	580	(47)
Charging		
Amortisation of intangible assets	1,325	1,169
Auditors' remuneration	1,286	933
Operating leases rental on land and buildings	42,990	40,033
Unrealised loss on trading investments	–	70
Net exchange loss	315	466
Interest expense on long-term bank loan	597	140

5. TAXATION

	2005 HK\$'000	2004 HK\$'000
Current taxation		
Hong Kong profits tax	1,107	1,550
Overseas taxation	490	1,131
Over provision in prior years	(421)	(63)
Deferred taxation relating to the origination and reversal of temporary differences (Note 24)	3,477	(940)
	4,653	1,678

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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 before taxation differs from the theoretical amount that would arise using the taxation rate of the major business territory of the Group as follows:

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	17,936	3,577
Calculated at a taxation rate of 17.5% (2004: 17.5%)	3,139	626
Effect of different taxation rates in other countries	(327)	160
Income not subject to taxation	(51)	(398)
Expenses not deductible for taxation purposes	2,419	1,636
Utilisation of tax losses	(106)	(283)
Over provision in prior years	(421)	(63)
Taxation charge	4,653	1,678

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately HK\$18,640,000 (2004: HK\$8,413,000).

7. DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
Interim, paid, of 1.0 HK cents (2004: 0.5 HK cents) per ordinary share	3,421	1,711
Special, paid, of 2.5 HK cents (2004: nil) per ordinary share	8,553	–
Final, proposed on 13 th January 2006, of 3.0 HK cents (2004: 0.5 HK cents) per ordinary share	10,263	1,711
	22,237	3,422

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$12,762,000 (2004: HK\$1,694,000) and the weighted average number of 342,116,000 (2004: 333,845,271) ordinary shares in issue during the year.

No diluted earnings per share is calculated for the years ended 30th September 2005 and 2004 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)

	2005 HK\$'000	2004 HK\$'000
Wages and salaries	125,187	97,663
Pension costs-defined benefit plan (Note 23)	230	395
Pension costs-defined contribution plans	5,378	3,668
Unutilised annual leave	1,572	492
	132,367	102,218

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Name of directors	Basic salaries, housing allowances, other allowances and				Retirement benefit costs HK\$'000	2005 Total emoluments HK\$'000	2004 Total emoluments HK\$'000
	Fees HK\$'000	benefits-in-kinds HK\$'000	Bonuses HK\$'000				
Yu Lai Si	-	4,843	1,000	12	5,855	4,627	
Tam Chie Sang	-	897	250	12	1,159	909	
Yu Lai Chu, Eileen	-	897	250	12	1,159	909	
Yu Kam Shui, Erastus	-	1,334	250	12	1,596	1,286	
Lai Yin Ping	-	897	250	12	1,159	909	
Wong Lung Tak, Patrick, J.P. ⁽²⁾⁽³⁾	100	-	-	-	100	100	
Wong Chun Nam ⁽²⁾⁽³⁾	100	-	-	-	100	100	
Wong Chi Keung ⁽¹⁾⁽²⁾⁽³⁾	100	-	-	-	100	25	
Total for the year 2005	300	8,868	2,000	60	11,228		
Total for the year 2004	225	8,580	-	60		8,865	

(1) Wong Chi Keung was appointed as an independent non-executive director on 1st July 2004

(2) Independent non-executive directors

(3) Members of the Company's audit committee

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

(a) Directors' emoluments (continued)

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

The emoluments of the directors fell within the following bands:

	Number of directors	
	2005	2004
Emolument bands		
HK\$ nil – HK\$1,000,000	3	6
HK\$1,000,001 – HK\$2,000,000	4	1
HK\$2,000,001 – HK\$4,000,000	–	–
HK\$4,000,001 – HK\$5,000,000	–	1
HK\$5,000,001 – HK\$6,000,000	1	–
	8	8

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2004: four) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining one (2004: one) individual during the year are as follows:

	2005 HK\$'000	2004 HK\$'000
Basic salaries, housing allowances, other allowances and benefits-in-kinds	1,592	1,520
Bonuses	400	300
Retirement benefit costs	12	12
	2,004	1,832

The emoluments fell within the following bands:

	Number of individual	
	2005	2004
Emolument bands		
HK\$ nil – HK\$1,500,000	–	–
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	1	–
	1	1

For the years ended 30th September 2005 and 2004, no directors waived any emoluments and no emoluments have been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group as compensation for loss of office.

11. INTANGIBLE ASSETS

Group

	License fees	
	2005 HK\$'000	2004 HK\$'000
Beginning of year	1,922	2,725
Additions	667	366
Amortisation charge	(1,325)	(1,169)
End of year	1,264	1,922
End of year Cost	5,178	4,511
Accumulated amortisation	(3,914)	(2,589)
Net book amount	1,264	1,922

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 st October 2004	52,600	46,598	2,655	5,333	12,552	6,042	125,780
Additions	12,637	13,333	21	777	5,111	1,188	33,067
Disposals	-	(1,315)	(155)	(102)	(118)	(242)	(1,932)
Revaluation	23,763	-	-	-	-	-	23,763
Exchange adjustment	-	314	11	34	1	68	428
As at 30 th September 2005	89,000	58,930	2,532	6,042	17,546	7,056	181,106
Accumulated depreciation							
As at 1 st October 2004	-	32,944	1,683	3,871	4,848	3,765	47,111
Charge for the year	-	11,564	376	976	2,768	981	16,665
Disposals	-	(1,313)	(123)	(57)	(100)	(218)	(1,811)
Exchange adjustment	-	208	7	16	-	47	278
As at 30 th September 2005	-	43,403	1,943	4,806	7,516	4,575	62,243
Net book value							
As at 30 th September 2005	89,000	15,527	589	1,236	10,030	2,481	118,863
As at 30 th September 2004	52,600	13,654	972	1,462	7,704	2,277	78,669

12. FIXED ASSETS (continued)

An analysis of the cost or valuation as at 30th September 2005 and 2004 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
2005							
At cost	–	58,930	2,532	6,042	17,546	7,056	92,106
At valuation	89,000	–	–	–	–	–	89,000
	89,000	58,930	2,532	6,042	17,546	7,056	181,106
2004							
At cost	–	46,598	2,655	5,333	12,552	6,042	73,180
At valuation	52,600	–	–	–	–	–	52,600
	52,600	46,598	2,655	5,333	12,552	6,042	125,780

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

	2005 HK\$'000	2004 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	67,000	45,300
Leases of between 10 to 50 years	22,000	7,300
	89,000	52,600

The investment properties were revalued at 30th September 2005 on the basis of their open market values by Savills (Hong Kong) Limited, an independent firm of chartered surveyors.

At 30th September 2005, the net book value of an investment property of HK\$62,000,000 (2004: HK\$41,000,000) was pledged as security for the Group's long-term bank loan (Note 20).

13. INVESTMENTS IN SUBSIDIARIES

Company

	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	3,000	3,000
Amount due from a subsidiary	–	5,000
	3,000	8,000
Amounts due from subsidiaries	62,972	43,987
Amounts due to subsidiaries	(2,202)	(7,203)
	63,770	44,784

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

The amount due from a subsidiary was unsecured, non-interest bearing, and was fully repaid during the 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 represented investment in a capital guaranteed fund stated at cost. As at 30th September 2005, no other investment was held by the Group (2004: market value of other investment was approximately HK\$487,000).

15. INVENTORIES

Group

	2005 HK\$'000	2004 HK\$'000
Finished goods – merchandises	35,150	31,057

As at 30th September 2005 and 2004, all inventories were stated at cost.

16. TRADING INVESTMENTS

Group

	2005 HK\$'000	2004 HK\$'000
Equity securities: Listed in Hong Kong	65	6,772

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

17. ACCOUNTS RECEIVABLE

Group

Details of the aging analysis are as follows:

	2005 HK\$'000	2004 HK\$'000
0 to 30 days	27,349	22,277
31 days to 60 days	2,564	1,205
61 days to 90 days	527	1,610
Over 90 days	1,311	80
	31,751	25,172

Credit terms generally range from 30 days to 90 days.

18. ACCOUNTS PAYABLE

Group

Details of the aging analysis are as follows:

	2005 HK\$'000	2004 HK\$'000
0 to 30 days	11,330	6,583

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, skin-care and other related services.

20. LONG-TERM BANK LOAN

Group

	2005 HK\$'000	2004 HK\$'000
Total of long-term bank loan – secured	16,737	18,687
Current portion of long-term bank loan	(1,950)	(1,950)
	14,787	16,737

At 30th September 2005, the Group's long-term bank loan was repayable as follows:

	2005 HK\$'000	2004 HK\$'000
Within one year	1,950	1,950
In the second year	1,950	1,950
In the third to fifth year	5,850	5,850
After the fifth year	6,987	8,937
	16,737	18,687
Current portion of long-term bank loan	(1,950)	(1,950)
	14,787	16,737

The long-term bank loan was secured by an investment property of the Group (Note 12).

21. SHARE CAPITAL

Company

	2005 HK\$'000	2004 HK\$'000
Authorised: 1,000,000,000 (2004: 1,000,000,000) ordinary shares of HK\$0.1 each	100,000	100,000
Issued and fully paid: 342,116,000 (2004: 342,116,000) ordinary shares of HK\$0.1 each	34,212	34,212

The Company's share option scheme (the "Share Option Scheme") was adopted on 23rd January 2002. The purpose of the Share Option Scheme is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Pursuant to the Share Option Scheme, the Board of Directors may, on or before 22nd January 2012, at its discretion, offer to grant options at an option price of HK\$1.00 to any employees, directors (including executive directors, non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; any advisor (professional or otherwise) or consultant, distributors, suppliers, agents, customers, partners, joint venture partners, promoter, service provider to subscribe for shares of the Company, representing (when aggregated with options granted under any other scheme) initially not more than 10% of the shares in issue as at the date of the listing of the shares. The subscription price shall be the higher of the average of the closing prices of the share of the Company on the Stock Exchange for the five trading days immediately preceding the date of the offer of options and the nominal value of the shares. The maximum aggregate number of shares issued and to be issued on the exercise of options and in respect of which options may be granted under the Share Option Scheme may not exceed 30% of the total number of shares in issue from time to time excluding any shares issued on the exercise of options.

21. SHARE CAPITAL (continued)

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 st October 2004	Granted	Exercised	Cancelled/ Lapsed	As at 30 th September 2005
Directors	30 th August 2002	28 th February 2003 – 29 th August 2007	0.52	5,100,000	-	-	-	5,100,000
	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	10,200,000	-	-	-	10,200,000
				15,300,000	-	-	-	15,300,000
Supplier	11 th March 2002	11 th March 2002 – 10 th March 2012	1.18	3,264,000	-	-	-	3,264,000
	12 th March 2003	12 th March 2003 – 11 th March 2013	0.54	976,000	-	-	-	976,000
				4,240,000	-	-	-	4,240,000
Employees (in aggregate)	26 th April 2002	26 th October 2002 – 25 th April 2007	1.67	750,000	-	-	-	750,000
	26 th April 2002	26 th April 2003 – 25 th April 2007	1.67	750,000	-	-	-	750,000
	30 th August 2002	28 th February 2003 – 29 th August 2007	0.52	1,484,000	-	-	-	1,484,000
	30 th August 2002	31 st August 2003 – 29 th August 2007	0.52	2,560,000	-	-	-	2,560,000
	30 th August 2002	29 th February 2004 – 29 th August 2007	0.52	1,560,000	-	-	-	1,560,000
	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	1,160,000	-	-	-	1,160,000
	28 th January 2004	1 st November 2004 – 31 st January 2009	0.42	1,160,000	-	-	-	1,160,000
	28 th January 2004	2 nd May 2005 – 31 st January 2009	0.42	860,000	-	-	-	860,000
			10,284,000	-	-	-	10,284,000	

22. RESERVES

Group

	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 st October 2003	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 new 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 th 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
	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 st October 2004, as previously reported	26,934	(908)	(1,766)	450	6,434	91,528	122,672
Effect of the adoption of HKAS 40	–	–	–	–	(6,434)	6,434	–
At 1 st October 2004, as restated	26,934	(908)	(1,766)	450	–	97,962	122,672
Profit attributable to shareholders	–	–	–	–	–	12,762	12,762
2004 final dividend	–	–	–	–	–	(1,711)	(1,711)
2005 interim dividend	–	–	–	–	–	(11,974)	(11,974)
Exchange differences	–	1,441	–	–	–	–	1,441
At 30 th September 2005	26,934	533	(1,766)	450	–	97,039	123,190
Represented by:							
Reserves	26,934	533	(1,766)	450	–	86,776	112,927
Proposed final dividend	–	–	–	–	–	10,263	10,263
	26,934	533	(1,766)	450	–	97,039	123,190

Note:

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

22. RESERVES (continued)

Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 st October 2003	19,048	450	3,687	23,185
Profit for the year	–	–	8,413	8,413
Proceeds from placing of new shares	6,000	–	–	6,000
Expenses on placing of new 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)
At 30 th 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
	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 st October 2004	26,934	450	6,998	34,382
Profit for the year	–	–	18,640	18,640
2004 final dividend	–	–	(1,711)	(1,711)
2005 interim dividend	–	–	(11,974)	(11,974)
At 30 th September 2005	26,934	450	11,953	39,337
Represented by:				
Reserves	26,934	450	1,690	29,074
Proposed final dividend	–	–	10,263	10,263
	26,934	450	11,953	39,337

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 30th September 2005 and 2004 by an independent qualified actuary using projected unit credit method. The deficit between the pension asset and present value of the obligation as at 30th September 2005 is recognised in the profit and loss account in 2005.

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

	2005 HK\$'000	2004 HK\$'000
Present value of funded obligations	656	551
Fair value of plan assets	(581)	(334)
Present value of unfunded obligations	75	217
Unrecognised actuarial gains	545	403
Liability in the balance sheet	620	620

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

	2005 HK\$'000	2004 HK\$'000
Current service costs	250	373
Interest cost	22	22
Expected return on plan assets	(11)	(2)
Net actuarial gain	(31)	-
Loss on curtailments and settlements	-	2
Expenses recognised in the profit and loss account (Note 9)	230	395

23. PENSION OBLIGATIONS (continued)

Movement in the liability recognised in the balance sheet:

	2005 HK\$'000	2004 HK\$'000
Beginning of year	620	450
Total expense, included in staff costs (Note 9)	230	395
Contributions paid	(230)	(225)
End of year	620	620

The principal actuarial assumptions used were as follows:

	2005 %	2004 %
Discount rate	3.75	3.75
Expected rate of return on plan assets	2.75	2.75
Expected rate of future salary increases	2.50	2.50

24. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement in the deferred tax assets is as follows:

	2005 HK\$'000	2004 HK\$'000
Beginning of year	4,266	3,436
(Charged)/credited to profit and loss account	(1,529)	830
Exchange differences	16	-
End of year	2,753	4,266

The movement in the deferred tax liabilities is as follows:

	2005 HK\$'000	2004 HK\$'000
Beginning of year	(569)	(679)
(Charged)/credited to profit and loss account	(1,948)	110
End of year	(2,517)	(569)

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		Fair value gain		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of year	618	536	3,648	2,900	(569)	(679)	-	-	3,697	2,757
(Charged)/credited to profit & loss account	305	82	1,501	748	-	110	(5,283)	-	(3,477)	940
Exchange differences	3	-	13	-	-	-	-	-	16	-
End of year	926	618	5,162	3,648	(569)	(569)	(5,283)	-	236	3,697

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:

	2005 HK\$'000	2004 HK\$'000
Deferred tax assets	2,753	4,266
Deferred tax liabilities	(2,517)	(569)
	236	3,697

25. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2005 HK\$'000	2004 HK\$'000
Operating profit	17,936	3,577
Depreciation	16,665	15,425
Amortisation of intangible assets	1,325	1,169
Interest income	(316)	(340)
Interest paid	597	140
(Gain)/loss on disposal of trading investments	(580)	47
Unrealised loss on trading investments	–	70
Gain on redemption of other investment	(34)	–
Gain on disposal of fixed assets	–	(566)
Gain arising from change in fair value of investment properties	(23,763)	(1,300)
(Increase)/decrease in inventories	(4,093)	1,849
Increase in accounts receivable	(6,579)	(2,133)
Increase in rental deposits, prepayments, other deposits and receivables	(3,285)	(6,926)
Increase in accounts payable	4,747	2,640
Increase in accruals and other payables	18,435	3,629
Increase in receipts in advance	27,460	20,636
Increase in pension obligations	–	170
Net cash inflow generated from operations	48,515	38,087

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

	Long-term bank loan		Share capital including share premium and capital reserve		Minority interests	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Beginning of year	18,687	–	59,380	49,472	(193)	362
Addition of long-term bank loan	–	19,500	–	–	–	–
Repayment of long-term bank loan	(1,950)	(813)	–	–	–	–
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	–	–	–	–	521	205
Repayment to a minority shareholder	–	–	–	–	–	(669)
Dividends paid to a minority shareholder of a subsidiary	–	–	–	–	(119)	(91)
End of year	16,737	18,687	59,380	59,380	209	(193)

26. COMMITMENTS

Group

(a) Capital commitments for fixed assets

	2005 HK\$'000	2004 HK\$'000
Contracted but not provided for	230	9,744

The Company did not have any capital commitments at 30th September 2005 (2004: Nil).

(b) Commitments under operating leases

At 30th September 2005 and 2004, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2005 HK\$'000	2004 HK\$'000
Not later than one year	40,120	38,232
Later than one year and not later than five years	31,621	35,892
	71,741	74,124

The above lease commitments only include commitments for basic rentals, and do not include commitments for additional rental payable, if any, when the amounts determined by applying pre-determined percentages to turnover exceeds the basic rentals of the respective leases as it is not possible to determine in advance the amount of such additional rentals.

The Company did not have any operating leases commitments at 30th September 2005 (2004: Nil).

27. BANKING FACILITIES

As at 30th September 2005, the Group and its subsidiaries were granted banking facilities amounting to approximately HK\$37,000,000 by a bank (2004: HK\$37,000,000) 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
DIRECTLY HELD: Water Oasis Group (BVI) Limited	British Virgin Islands 16 th December 1999	Ordinary shares US\$30,000	100%	Investment holding in Hong Kong
INDIRECTLY HELD: Water Oasis Holdings Limited	British Virgin Islands 16 th December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Oasis Spa Holdings Limited	British Virgin Islands 16 th December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Oasis-Beauty.com Holdings Limited	British Virgin Islands 16 th December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Water Oasis (Labuan) Holdings Limited	Labuan, Malaysia 28 th June 2000	Ordinary shares US\$10,000	100%	Investment holding in Hong Kong
Water Oasis China (BVI) Limited	British Virgin Islands 12 th October 2000	Ordinary shares US\$1	100%	Investment holding in Hong Kong
OBS Company Limited	Hong Kong 26 th July 2000	Ordinary shares HK\$2	100%	Operating of skin-care and beauty training centre in Hong Kong
Water Oasis Company Limited	Hong Kong 6 th May 1998	Non-voting deferred shares HK\$1,000,000 Ordinary shares HK\$10,000	100%	Retail sales of skin-care products in Hong Kong

28. PARTICULARS OF SUBSIDIARIES (continued)

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
INDIRECTLY HELD: (continued)				
Oasis Spa Company Limited	Hong Kong 24 th 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 th December 1999	Ordinary shares HK\$10,000	100%	Inactive
水貝兒股份有限公司 (Water Babe Company Limited)	Taiwan 17 th September 1999	Common stock NT\$20,000,000	90%	Retail sales of skin-care products in Taiwan
Water Oasis (China) Holdings Limited	Samoa 5 th April 2000	Ordinary shares US\$101	90.1%	Investment holding in Hong Kong
Claire International Limited	Hong Kong 22 nd October 1999	Ordinary shares HK\$2	100%	Inactive
Oasis Advertising Agency Company Limited	Hong Kong 18 th October 2000	Ordinary shares HK\$2	100%	Inactive
Water Oasis (Macau) Company Limited	Macau 19 th July 2001	Ordinary shares MOP\$25,000	100%	Retail sales of skin-care products in Macau
Oasis Beauty Company Limited	Hong Kong 13 th March 2002	Ordinary shares HK\$1,000,000	100%	Operating of beauty salons and provision of other related services in Hong Kong

28. PARTICULARS OF SUBSIDIARIES (continued)

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
INDIRECTLY HELD: (continued)				
Aricon Investments Limited	British Virgin Islands 8 th March 2002	Ordinary shares US\$1	100%	Inactive
Master Advance Limited	Hong Kong 28 th 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 th 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 th October 2002	HK\$3,000,000	90.1%	Inactive
Water Oasis (Singapore) Pte. Limited	Singapore 6 th 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 13th January 2006.

[FIVE-YEAR FINANCIAL SUMMARY]

	Year ended 30 th September				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
RESULTS					
Turnover	413,888	357,553	310,236	308,449	285,998
Operating profit/(loss)	17,936	3,577	(7,710)	10,992	59,995
Taxation	(4,653)	(1,678)	(41)	(4,434)	(7,812)
Profit/(loss) after taxation	13,283	1,899	(7,751)	6,558	52,183
Minority interests	(521)	(205)	654	418	(683)
Profit/(loss) attributable to shareholders	12,762	1,694	(7,097)	6,976	51,500
BALANCE SHEETS					
Total assets	309,397	259,980	199,684	217,835	148,327
Total liabilities	(151,786)	(103,289)	(55,671)	(56,953)	(40,570)
Minority interests	(209)	193	(362)	(1,166)	(2,610)
Net assets	157,402	156,884	143,651	159,716	105,147



[CORPORATE INFORMATION 公司資料]

DIRECTORS**董事****Executive Directors****執行董事**

YU Lai Si

余麗絲

TAM Chie Sang

譚次生

YU Lai Chu, Eileen

余麗珠

YU Kam Shui, Erastus

余金水

LAI Yin Ping

黎燕屏

Independent Non-executive**Directors****獨立非執行董事**

WONG Lung Tak, Patrick, J.P.

黃龍德太平紳士

WONG Chun Nam

黃鎮南

WONG Chi Keung

黃志強

AUDIT COMMITTEE**審核委員會**

WONG Lung Tak, Patrick, J.P.

黃龍德太平紳士

WONG Chun Nam

黃鎮南

WONG Chi Keung

黃志強

COMPANY SECRETARY**公司秘書**

CHENG Chi Wai, Ellis FCCA, FCPA, FCIS, FCS

鄭志偉 FCCA, FCPA, FCIS, FCS

AUDITORS**核數師**

PricewaterhouseCoopers

羅兵咸永道會計師事務所

SOLICITORS**律師**

Richards Butler

齊伯禮律師行

PRINCIPAL BANKERS**主要往來銀行**

The Hongkong and Shanghai Banking

Corporation Limited

香港上海滙豐銀行有限公司

Hang Seng Bank Limited

恒生銀行有限公司

PRINCIPAL SHARE REGISTRAR**AND TRANSFER OFFICE****主要股份登記及過戶處**

Butterfield Bank (Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 705

Grand Cayman

Cayman Islands

British West Indies

HONG KONG BRANCH**TRANSFER OFFICE****股份過戶香港分處**

Standard Registrars Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

標準證券登記有限公司

香港灣仔

皇后大道東28號

金鐘匯中心26樓

REGISTERED OFFICE**註冊辦事處**

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Hutchins Drive

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Grand Cayman

Cayman Islands

British West Indies

HEAD OFFICE AND**PRINCIPAL PLACE OF BUSINESS****總辦事處及主要營業地點**18th Floor, World Trade Centre

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1161