

## CONTENTS

3	Business Review
8	Condensed Consolidated Profit and Loss Account
9	Condensed Consolidated Balance Sheet
10	Condensed Consolidated Cash Flow Statement
11	Condensed Consolidated Statement of Changes in Equity
12	Notes to Condensed Consolidated Accounts
18	Interim Dividend and Closure of Register of Members
18	Liquidity and Financial Resources
19	Employees and Remuneration Policies
19	Audit Committee
19	Directors' Interests in Shares, Underlying Shares and Debentures
23	Share Options
25	Substantial Shareholders
26	Purchase, Sale and Redemption of Listed Securities
26	Code of Best Practice

The Board of Directors (the "Board") of Water Oasis Group Limited (the "Company") herein announces the unaudited consolidated results of the Company and its subsidiaries (collectively known as the "Group") for the six months ended 31st March, 2004. The unaudited consolidated results have been reviewed by the Company's Audit Committee.

Beginning from a low point in September 2003, the Group has worked well to build and consolidate profitability as the economy improves. For the six months ended 31st March, 2004, total turnover of the Group shows a 10% increase as compared to the same period last year, which in fact represents a 25% growth from the second half of 2003. During the period under review, contribution to operating profit from retail sale of skin-care products also indicates a strong period-to-period growth of over 120%.

Despite the fact that during the six months period ended 31st March, 2004, the Group implemented a new accounting method with the introduction of a new point-of-sale ("POS") system for its spa and beauty services that, in the short term, has resulted in a fall in recorded profit within these sectors, for the period under review, the Group still recorded turnover of HK\$182 million, while profit attributable to shareholders reached HK\$1.3 million.

Any comparison should be tempered by recognition of the significant and often turbulent forces affecting markets over the past twelve months. That period saw the highly negative impact of SARS which led to large falls in profitability for many retail companies in the period from April to September 2003, not excluding the Group. When compared to its September 2003 figures for turnover and profit, which reflect the seriously muted retail environment of the time, the Group's results at 31st March, 2004 indeed represent a solid turnaround and a powerful growth trajectory which has placed the Group back in a strong position now that the economy has stabilised.

The turnaround has been achieved through commitment to successful strategies which have included maintaining strong cash flows, pressing forward with expansion in China, and continuing to develop new products tailored for the region. For example, it has increased the number of its China outlets by 59% since March 2003, while in Hong Kong it has doubled the number of Oasis Beauty Centres in operation since a year ago. With its

China operations already self-financing and turning a profit, the Group is confident that new initiatives planned for the Mainland will further boost revenues in the future. These new initiatives include plans to transplant the Group's successful "Oasis Spa" and "Oasis Beauty" concepts to China, and plans to launch a new "second line" of skin-care and beauty products specially tailored for the China mass market.

## Dividend

The Board proposed an interim dividend of 0.5 HK cents for the six months ended 31st March, 2004 (2003: 0.5 HK cents).

## Business Review

### ~H<sub>2</sub>O+ Retail Business

#### HONG KONG

The Group's Hong Kong retail business found its feet in the six months under review, after enduring the full brunt of the SARS period. Although total turnover shows approximately 5% below that recorded for the comparison period of one year ago, it has shown a solid and steady rise since the September lows brought on by SARS. Compared with the second half of 2003, for example, the Group's interim figures indicate a 24% rise in turnover. Renegotiation of leases for many of the Group's Hong Kong premises took place last year before the property rebound, and the Group was thus able to achieve good rental rates, which have further helped profitability.

In addition, a more focused and efficient advertising strategy (including a series of roadshows and carefully targeted direct mailing campaigns) has been successful in targeting prime customers at the same time as reducing advertising costs. The Group has also continued to build on the favourable response to its product diversification strategies. It launched a new colour line of ~H<sub>2</sub>O+ cosmetic products in late April 2004, a range which has quickly proved popular. Later in the year, the Group also plans to launch further products under its popular "Oasis" series.

## CHINA

During the period, the Group has pressed on with its franchising programme and since December 2003 has established five franchisees on the Mainland with eight franchised outlets in seven large cities. The number of self-managed outlets grew to 43, representing a 34% growth over the number a year ago, which has helped to double the revenue earned from the territory. The Group has been very successful in rapidly expanding the number of its China outlets in a relatively short period of time, implementing an efficient programme for locating premium retail opportunities in major cities and quickly getting operations up and running. Its achievements in this respect have set the Group's brand apart from other skincare and cosmetics brands trying to establish themselves in the China market. This continued expansion of its varied operations in China has demonstrated the Group's commitment to delivering on the promises it made for growth at its listing in 2002.

A strong point of the Group's China developments is the fact that they are now fully self-financing, and no further cash investment from the Group should be required. As a prudent financial manager, the Group has always been averse to ventures requiring substantial start-up investment over a lengthy period. In the case of its China operations, the Group has been able to enter the Mainland market at low cost and in a manner that has allowed its operations to quickly become financially self-sufficient in terms of operating costs. As a result, the Group's China outlets have almost immediately achieved healthy returns on investment and are already contributing positive bottom lines to the Group's results, a fact which bodes extremely well for future growth in that market.

The Group has been active in promoting its products and services in China, providing residents with information about water-based skincare products and raising awareness of their benefits. With the recent liberalisation of travel for Mainland citizens to Hong Kong, the Group has also adopted innovative cross-border promotional strategies, taking advantage of the "Individual Travellers Scheme" to offer incentives for Mainland visitors to enjoy the Group's products and services in Hong Kong. Overall, expansion of the Group's activities in China through self-managed and franchised operations has resulted in a more economic scale of spending on the Mainland in areas such as advertising and distribution.

#### TAIWAN

In Taiwan, where the Group continues to operate 15 retail outlets, business has rebounded strongly since September last year. Although the number of outlets has remained the same, combined turnover in the six months under review has soared by nearly 48% by comparison with the second half of 2003. Its contribution to operating profit also increased by 29% over the figure for the same period last year.

#### SINGAPORE

As part of the Group's goal of diversifying its markets, it officially opened its first ever retail outlet in Singapore in late March 2004.

### **The Spa and Beauty Businesses**

The Group's service business, which includes its Oasis Spa and Oasis Beauty outlets, also dealt with and recovered from last year's challenges like the retail segment. Turnover outperformed by approximately 6% as that achieved in the comparable period a year ago. With the opening of two more Oasis Beauty Centres in Hong Kong, the Group brought their total number from just 6 a year ago to 12 at 31st March, 2004, a 100% growth rate over the year. The Group's increasing focus on the beauty service segment of its business is continuing to bring with it improved profit due to the higher profit margins that these services typically carry.

New developments for the Group's service business are leading to greater controls and efficiencies in its operations. When it first started its spa and beauty operations, the Group sold its packages to customers without imposing expiry dates, using this flexibility as a promotional strategy and an effective marketing tool. From an accounting perspective it adopted a statistical estimation basis for calculating revenue, a method which reflected actual usage reasonably well. With its spa and beauty business well-established and thriving, the Group decided from October 2003 to bring its operating practices into line with market norms by imposing expiry dates on all its spa and beauty packages. At the same time, it introduced a new POS system which was able to record revenue on an actual consumption basis, and ceased operating the previous statistical estimation system.

These two changes have had a temporary impact on reported profit figures from the spa and beauty sector in the period under review, although this impact is largely one of timing. The imposition of expiry dates and the replacement of a statistical estimation system with a consumption system means that the spa and beauty segment has necessarily recorded a drop in profit in the short term. The fall in profit is estimated to be around HK\$4 million in the period under review, but this decrease does not reflect any decline in customer usage or spending patterns in the sector. By contrast, increased profits are expected to be seen showing up in the system in the second half of the year, especially as the successful branding of these services continues to attract quality customers and enhance the Group's profitability.

Other advantages of the new POS system include improvements for customers. The system produces for each customer a detailed record of visits made and services used, all in a handy format. As customer numbers increase, the new software is also making it far simpler for the Group to handle and process increased traffic.

## Prospects

The Group's first half results mark a solid turnaround in its performance after the challenges of 2003. Through careful cost control measures, planned diversification, and the maintenance of a prudent financial regime, it has responded fast and proactively to the pressures of recent times. At the same time, it has pressed firmly ahead with new ventures that it believes hold strong potential, with its Mainland expansion in particular proceeding smoothly and rapidly and achieving considerable early success. These levels of prudence combined with an eye for emerging opportunities will continue to characterise the Group's operations in the future. For example, the Group intends to pursue ongoing rationalisation of its ~H<sub>2</sub>O+ retail outlets in Hong Kong, which may involve relocating less cost-effective outlets to high profile locations with heavy customer traffic.

Throughout the period under review, the Group has remained committed to its promises to develop the China market, a commitment which has resulted in a rapid increase in the number of outlets that the Group has opened there over the past twelve months. The Group has deliberately moved quickly

and effectively in China with the aim of establishing a firm early foothold in a market with great potential. It intends to continue its focused policy of building up a strong market presence on the Mainland through aggressive roll out of self-managed outlets and franchised operations. On the other hand, the Group plans to move one of its major Beijing outlets in October 2004 to even larger premises to incorporate the provision of beauty services, and this development will mark the very first of the Group's beauty service outlets in China. Other plans for expanding the range of beauty services offered in China are also being formulated, with a Sino-foreign joint venture for a spa in the planning stage. The target opening date for this enterprise is in the fourth quarter of 2004. Most of the planned developments within China will be backed up by the current operations, creating no drain on the Group's existing resources.

On a smaller scale, the Group is looking to expand its operations in the new Singapore market where initial response to the Group's presence has been very positive. It hopes to add a further 2 ~H<sub>2</sub>O+ retail outlets in Singapore by the end of 2004.

The Group is also currently considering the advantages of applying for a China retail licence under the CEPA arrangement. At the moment, the Group is able to utilise the retail licences of the outlets in China where its products are sold, but obtaining a retail licence under the CEPA scheme may prove an advantage for medium term growth in the territory.

At the level of products and services, diversification remains a keyword. The Group currently has a number of exciting new products undergoing the approval procedures from H<sub>2</sub>O Plus L.P. in the USA, and is continuing to explore self-developed products that may be specially suited for its markets. In addition, the Group is planning to launch a secondary product line under the ~H<sub>2</sub>O+ family specifically designed for the China market, one whose lower cost and more mass-market orientation should appeal to a wide range of new consumers there. This second line is designed to create a volume business for the Group which should significantly increase the Group's turnover. At the same time, distribution costs will be minimal, leading to higher profit margins. As the Hong Kong economy improves and China consumers continue to flex their new economic power, the Group is confident that its turnaround period will be followed by a new plateau of solid returns for investors and shareholders.

## Condensed Consolidated Profit and Loss Account

**Unaudited  
Six months ended  
31st March,**

		<b>2004</b>	Restated 2003
	Note	<b>HK\$'000</b>	HK\$'000
Turnover	2	<b>181,941</b>	165,130
Other revenues	2	<b>2,860</b>	656
Cost of inventories sold		<b>(49,780)</b>	(41,688)
Operating expenses		<b>(132,300)</b>	(120,024)
Operating profit	2, 3	<b>2,721</b>	4,074
Taxation	4	<b>(1,206)</b>	(2,231)
Profit after taxation		<b>1,515</b>	1,843
Minority interests		<b>(172)</b>	78
Profit attributable to shareholders		<b>1,343</b>	1,921
Dividends	5	<b>1,711</b>	1,610
Earnings per share			
– Basic	6	<b>0.4 cent</b>	0.6 cent
– Diluted	6	<b>N/A</b>	0.6 cent



## Condensed Consolidated Balance Sheet

		<b>Unaudited As at 31st March, 2004</b>	Restated As at 30th September, 2003
	Note	<b>HK\$'000</b>	HK\$'000
Non-current assets			
Intangible assets		<b>2,386</b>	2,725
Fixed assets	7	<b>37,741</b>	32,481
Rental deposits		<b>10,189</b>	9,958
Other investment		<b>452</b>	452
Deferred tax assets		<b>3,436</b>	3,436
		<b>54,204</b>	49,052
Current assets			
Inventories		<b>26,655</b>	32,906
Trading investments		<b>6,615</b>	220
Accounts receivable	8	<b>25,120</b>	23,039
Prepayments		<b>13,780</b>	10,727
Other deposits and receivables		<b>9,580</b>	2,715
Tax recoverable		<b>1,957</b>	2,318
Bank balances and cash		<b>82,764</b>	78,707
		<b>166,471</b>	150,632
Current liabilities			
Accounts payable	9	<b>6,234</b>	3,943
Accruals and other payables		<b>26,173</b>	24,677
Receipts in advance		<b>34,142</b>	24,249
Taxation payable		<b>2,207</b>	1,673
		<b>68,756</b>	54,542
Net current assets		<b>97,715</b>	96,090
Total assets less current liabilities		<b>151,919</b>	145,142
Financed by:			
Share capital	10	<b>33,912</b>	32,190
Reserves		<b>116,420</b>	111,461
Shareholders' funds		<b>150,332</b>	143,651
Minority interests		<b>458</b>	362
Non-current liabilities			
Pension obligations		<b>450</b>	450
Deferred tax liabilities		<b>679</b>	679
		<b>151,919</b>	145,142

## Condensed Consolidated Cash Flow Statement

Unaudited  
Six months ended  
31st March,

	2004	2003
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	<b>18,212</b>	(2,319)
Net cash outflow from investing activities	<b>(19,186)</b>	(4,673)
Net cash inflow/(outflow) from financing activities	<b>4,881</b>	(6,721)
Increase/(decrease) in cash and cash equivalents	<b>3,907</b>	(13,713)
Cash and cash equivalents at 1st October	<b>78,707</b>	88,685
Effect of foreign exchange rate changes	<b>150</b>	(787)
Cash and cash equivalents at 31st March	<b>82,764</b>	74,185
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>82,764</b>	74,185

## Condensed Consolidated Statement of Changes in Equity

### Unaudited

	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st October, 2002 as previously reported	32,640	21,950	(420)	(1,766)	-	108,170	160,574
Effect of the adoption of SSAP 12 (revised)	-	-	-	-	-	629	629
At 1st October, 2002 as restated	32,640	21,950	(420)	(1,766)	-	108,799	161,203
Profit attributable to shareholders	-	-	-	-	-	1,921	1,921
2002 final dividend	-	-	-	-	-	(3,219)	(3,219)
Repurchase of shares	(450)	(2,902)	-	-	450	(450)	(3,352)
Exchange differences	-	-	(787)	-	-	-	(787)
At 31st March, 2003	32,190	19,048	(1,207)	(1,766)	450	107,051	155,766

### Unaudited

	Share capital HK\$'000	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 1st October, 2003 as previously reported	32,190	19,048	(1,207)	(1,766)	450	-	91,620	140,335
Effect of the adoption of SSAP 12 (revised)	-	-	-	-	-	-	3,316	3,316
At 1st October, 2003 as restated	32,190	19,048	(1,207)	(1,766)	450	-	94,936	143,651
Profit attributable to shareholders	-	-	-	-	-	-	1,343	1,343
2003 final dividend	-	-	-	-	-	-	(3,391)	(3,391)
Proceeds from placing of new shares	1,500	6,000	-	-	-	-	-	7,500
Expenses on placing of new shares	-	(305)	-	-	-	-	-	(305)
Exercise of shares options	222	931	-	-	-	-	-	1,153
Revaluation of an investment property	-	-	-	-	-	201	-	201
Exchange differences	-	-	180	-	-	-	-	180
At 31st March, 2004	33,912	25,674	(1,027)	(1,766)	450	201	92,888	150,332

# Notes to Condensed Consolidated Accounts

## 1. Basis of preparation and principal accounting policies

These unaudited consolidated condensed interim accounts ("Interim Accounts") have been prepared in accordance with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Statement of Standard Accounting Practice ("SSAP") 25 (revised) "Interim financial reporting" issued by the Hong Kong Society of Accountants (the "HKSA").

The accounting policies and methods of computation used in the preparation of the Interim Accounts are consistent with those used in the annual accounts for the year ended 30th September, 2003 except for the adoption of the SSAP 12 (revised) "Income taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January, 2003.

The effect of adopting the revised accounting standard is set out below:

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 recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the Condensed Consolidated Statement of Changes in Equity, opening reserves at 1st October, 2002 and 2003 have been increased by approximately HK\$629,000 and HK\$3,316,000 respectively, which represent the unprovided net deferred tax assets. These changes had resulted in a decrease in the profit attributable to shareholders for the six months ended 31st March, 2003 by approximately HK\$246,000 and an increase in deferred tax assets at 30th September, 2003 by approximately HK\$3,436,000.

## 2. Segment information

The Group is principally engaged in the retail sales of skin-care products, provision of beauty-salon, spa and other related services. An analysis of the Group's turnover and contribution to operating profit for the period by business segments is as follows:

	Turnover		Contribution to operating profit	
	Six months ended 31st March,		Six months ended 31st March,	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Primary reporting format – business segments				
Retail sales of skin-care products	<b>136,636</b>	122,480	<b>10,727</b>	4,865
Provision of beauty-salon, spa and other related services	<b>45,305</b>	42,650	<b>4,642</b>	15,845
	<b>181,941</b>	165,130	<b>15,369</b>	20,710
Other revenues			<b>2,860</b>	656
Unallocated corporate expenses			<b>(15,508)</b>	(17,292)
Operating profit			<b>2,721</b>	4,074

The geographical analysis of the Group's turnover for the period is as follows:

	Turnover	
	Six months ended 31st March,	
	2004	2003
	HK\$'000	HK\$'000
Secondary reporting format – geographical segments		
Hong Kong and Macau	<b>100,506</b>	101,024
Taiwan	<b>38,109</b>	42,816
China	<b>42,997</b>	21,290
Singapore	<b>329</b>	–
	<b>181,941</b>	165,130

### 3. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 31st March,	
	2004	2003
	HK\$'000	HK\$'000
<b>Crediting</b>		
Gain on disposal of fixed assets	151	-
<b>Charging</b>		
Amortization of intangible assets	583	483
Depreciation	8,448	6,358
Loss on disposals of fixed assets	-	2
Loss on disposals of trading investments	61	-
Staff costs	47,304	41,225

### 4. Taxation

	Six months ended 31st March,	
	2004	Restated 2003
	HK\$'000	HK\$'000
Hong Kong profits tax	196	770
Overseas taxation	1,010	925
Under provision in prior years	-	290
Deferred taxation	-	246
	1,206	2,231

Hong Kong profits tax has been provided for the period at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit, after setting off available tax losses brought forward from prior year. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

## 5. Dividends

At the Board meeting held on 16th June, 2004, the directors declared an interim dividend of 0.5 HK cent per share (2003: 0.5 HK cent per share). This proposed interim dividend is not reflected as a dividend payable in the Interim Accounts, but will be reflected as an appropriation of retained profits for the year ending 30th September, 2004.

## 6. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately HK\$1,343,000 (2003: HK\$1,921,000, restated) and the weighted average number of 325,935,497 (2003: 322,762,637) ordinary shares in issue during the six months ended 31st March, 2004.

No diluted earnings per share is calculated for the period ended 31st March, 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 period and the potential ordinary shares would have no dilutive effect.

The calculation of the diluted earnings per share for the period ended 31st March, 2003 is based on 322,913,587 ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 150,950 ordinary shares, deemed to be issued at no consideration based on the assumption that all outstanding share options granted had been exercised at the beginning of the period or at the date of grant of the options, if later.

## 7. Fixed assets

During the period ended 31st March 2004, the Group incurred capital expenditure of approximately HK\$12,000,000. No significant disposal of fixed assets was made during the period.

## 8. Accounts receivable

Details of the ageing analysis are as follows:

	<b>As at 31st March,</b>	As at 30th September,
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
0 to 30 days	<b>23,877</b>	21,048
31 days to 60 days	<b>834</b>	729
61 days to 90 days	<b>315</b>	1,012
Over 90 days	<b>94</b>	250
	<b>25,120</b>	23,039

Credit terms generally range from 30 days to 90 days.

## 9. Accounts payable

Details of the ageing analysis are as follows:

	<b>As at 31st March, 2004</b>	As at 30th September, 2003
	<b>HK\$'000</b>	HK\$'000
0 to 30 days	<b>6,234</b>	3,943

## 10. Share capital

	<b>Authorised ordinary shares of HK\$0.1 each</b>	
	No. of shares	HK\$'000
At 31st March, 2004	1,000,000,000	100,000
	<b>Issued and fully paid ordinary shares of HK\$0.1 each</b>	
	No. of shares	HK\$'000
At 1st October, 2003	321,900,000	32,190
Placing of new shares	15,000,000	1,500
Issue of new shares pursuant to the Company's Share Option Scheme	2,216,000	222
At 31st March, 2004	339,116,000	33,912

During the period, 15,000,000 ordinary shares of HK\$0.1 each were issued at HK\$0.5 per share through a private placing to independent third parties. Proceeds from the placing were fully used up for general working capital purposes.

During the same period, a total of 2,216,000 ordinary shares of HK\$0.1 each were also issued at the applicable option prices pursuant to the Company's share option scheme adopted on 23rd January, 2002 (the "Share Option Scheme").



## 11. Commitments

- (a) Capital commitments for fixed assets

	<b>As at 31st March, 2004</b>	As at 30th September, 2003
	<b>HK\$'000</b>	HK\$'000
Contracted but not provided for	<b>30,780</b>	–

The commitments mainly represent the purchase of certain retail properties of which the completion date was beyond 31st March, 2004.

- (b) Commitments under operating leases

The Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<b>As at 31st March, 2004</b>	As at 30th September, 2003
	<b>HK\$'000</b>	HK\$'000
Not later than one year	<b>33,909</b>	34,421
Later than one year and not later than five years	<b>21,110</b>	27,012
	<b>55,019</b>	61,433

## 12. Contingent liabilities

The Group had no material contingent liabilities as at 31st March, 2004 (30th September, 2003: Nil).

## Interim Dividend and Closure of Register of Members

The directors have declared an interim dividend of 0.5 HK cent per share for the six months ended 31st March, 2004 payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on 9th July, 2004. The Register of Members will be closed from 7th July, 2004 to 9th July, 2004, both days inclusive, during which period no transfer of shares will be registered. To qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Standard Registrars Limited of G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 6th July, 2004. The relevant dividend warrants will be dispatched to shareholders on 15th July, 2004.

## Liquidity and Financial Resources

At 31st March, 2004, the Group had net current assets of HK\$98 million (30th September, 2003: HK\$96 million).

The Group generally finances its operation with internally generated resources. As at 31st March, 2004, the Group had cash reserves of approximately HK\$83 million and with no indebtedness. Such cash reserves are principally placed on interest-bearing bank deposits.

During the period, the Group entered into foreign exchange forward contracts to reduce exposure to foreign exchange risks. The Group continues to follow the practice of prudent cash management.

## Employees and Remuneration Policies

As at 31st March, 2004, the Group employed 773 staff (30th September, 2003: 733). Salaries of employees are maintained at competitive levels while discretionary bonus and share options may also be granted to the eligible employees based on the Group's and the individual's performance. Other employee benefits include provident fund, insurance and medical cover, educational allowances and training programs.

## Audit Committee

The Audit Committee has reviewed with Management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters which included a review of the Interim Accounts for the six months ended 31st March, 2004.

## Directors' Interests in Shares, Underlying Shares and Debentures

As at 31st March, 2004, the interests and short positions of each director and chief executive of the Company in the Company's shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) 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 the directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) 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		Number and class of shares				Percentage of issued share capital	
	Capacity	Personal interests	Corporate interests	Family interests	Other interests	Total	share capital	
Yu Lai Si	The Company	Beneficial owner	77,666,880 ordinary	-	-	-	77,666,880 ordinary	22.9%
	Water Oasis Company Limited	Beneficial owner	330,000 non voting deferred	-	-	-	330,000 non voting deferred	
Tam Chie Sang	The Company	Interest of a controlled corporation and interest of spouse	-	-	900,000 ordinary <sup>(2)</sup>	77,666,880 ordinary <sup>(1)</sup>	78,566,880 ordinary	23.1%
	Water Oasis Company Limited	Beneficial owner and interest of spouse	165,000 non voting deferred	-	165,000 non voting deferred <sup>(2)</sup>	-	330,000 non voting deferred	
Yu Lai Chu, Eileen	The Company	Interest of a controlled corporation and beneficial owner	900,000 ordinary	-	-	77,666,880 ordinary <sup>(1)</sup>	78,566,880 ordinary	23.1%
	Water Oasis Company Limited	Beneficial owner and interest of spouse	165,000 non voting deferred	-	165,000 non voting deferred <sup>(2)</sup>	-	330,000 non voting deferred	

Name of director	The Company/ Name of associated corporation	Capacity	Number and class of shares				Percentage of issued share capital	
			Personal Interests	Corporate Interests	Family Interests	Other Interests	Total	share capital
Yu Kam Shui, Erastus	The Company	Interest of a controlled corporation	-	-	-	38,833,440 ordinary <sup>(4)</sup>	38,833,440 ordinary	11.4%
Lai Yin Ping	The Company	Interest of a controlled corporation	-	-	-	38,833,440 ordinary <sup>(5)</sup>	38,833,440 ordinary	11.4%

*Notes:*

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

## Long position in the underlying shares

<b>Name of Director</b>	<b>Name of company</b>	<b>Number of underlying shares</b>
Yu Lai Si	The Company	6,000,000
Tam Chie Sang	The Company	3,000,000
Yu Lai Chu, Eileen	The Company	2,100,000
Yu Kam Shui, Erastus	The Company	3,000,000
Lai Yin Ping	The Company	3,000,000
Wong Lung Tak, Patrick	The Company	600,000
Wong Chun Nam	The Company	600,000
		<b>18,300,000</b>

*Note:* The above interests are share options obtained pursuant to the Share Option Scheme of the Company.

Save as disclosed above, none of the director, chief executive or any of their associates had any interest or short position in the Company's shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

## Share Options

Movements of the options under the Share Option Scheme of the Company during the period are as follows:

Category and name of participant	Date of grant	Exercise period	Exercise price per share HK\$	Balance as at 1st October 2003	Granted during the period	Exercised during the period	Lapsed during the period	Balance as at 31st March, 2004
Directors								
Yu Lai Si	30th August, 2002	28th February, 2003 - 29th August, 2007	0.52	3,000,000	-	-	-	3,000,000
	28th January, 2004	3rd May, 2004 - 31st January, 2009	0.42	-	3,000,000	-	-	3,000,000
Tam Chie Sang	30th August, 2002	28th February, 2003 - 29th August, 2007	0.52	1,500,000	-	-	-	1,500,000
	28th January, 2004	3rd May, 2004 - 31st January, 2009	0.42	-	1,500,000	-	-	1,500,000
Yu Lai Chu, Eileen	30th August, 2002	28th February, 2003 - 29th August, 2007	0.52	1,500,000	-	900,000	-	600,000
	28th January, 2004	3rd May, 2004 - 31st January, 2009	0.42	-	1,500,000	-	-	1,500,000
Yu Kam Shui, Erasmus	30th August, 2002	28th February, 2003 - 29th August, 2007	0.52	1,500,000	-	-	-	1,500,000
	28th January, 2004	3rd May, 2004 - 31st January, 2009	0.42	-	1,500,000	-	-	1,500,000
Lai Yin Ping	30th August, 2002	28th February, 2003 - 29th August, 2007	0.52	1,500,000	-	-	-	1,500,000
	28th January, 2004	3rd May, 2004 - 31st January, 2009	0.42	-	1,500,000	-	-	1,500,000
Wong Lung Tak, Patrick	28th January, 2004	3rd May, 2004 - 31st January, 2009	0.42	-	600,000	-	-	600,000
Wong Chun Nam	28th January, 2004	3rd May, 2004 - 31st January, 2009	0.42	-	600,000	-	-	600,000
				9,000,000	10,200,000	900,000	-	18,300,000

Category and name of participant	Date of grant	Exercise period	Exercise price per share HK\$	Balance as at 1st October 2003	Granted during the period	Exercised during the period	Lapsed during the period	Balance as at 31st March, 2004
Supplier H <sub>2</sub> O Plus, L.P.	11th March, 2002	11th March, 2002 - 10th March, 2012	1.18	3,264,000	-	-	-	3,264,000
	12th March, 2003	12th March, 2003 - 11th March, 2013	0.54	976,000	-	-	-	976,000
				4,240,000	-	-	-	4,240,000
Employees (in aggregate)	26th April, 2002	26th October, 2002 - 25th April, 2007	1.67	750,000	-	-	-	750,000
	26th April, 2002	26th April, 2003 - 25th April, 2007	1.67	750,000	-	-	-	750,000
	30th August, 2002	28th February, 2003 - 29th August, 2007	0.52	2,980,000	-	1,196,000	300,000	1,484,000
	30th August, 2002	31st August, 2003 - 29th August, 2007	0.52	2,980,000	-	120,000	300,000	2,560,000
	30th August, 2002	29th February, 2004 - 29th August, 2007	0.52	1,980,000	-	-	300,000	1,680,000
	28th January, 2004	3rd May, 2004 - 31st January, 2009	0.42	-	1,220,000	-	-	1,220,000
	28th January, 2004	1st November, 2004 - 31st January, 2009	0.42	-	1,220,000	-	-	1,220,000
	28th January, 2004	2nd May, 2005 - 31st January, 2009	0.42	-	920,000	-	-	920,000
				9,440,000	3,360,000	1,316,000	900,000	10,584,000

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.



## Substantial Shareholders

As at 31st March, 2004, the following persons, other than a director or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, or, who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

### Long position in the shares

Name of shareholder	Capacity	Number of shares	Approximate percentage of voting power
Zinna Group Limited <sup>(1)</sup>	Interest of a controlled corporation	77,666,880	22.9%
Advance Favour Holdings Limited <sup>(2)</sup>	Interest of a controlled corporation	38,833,440	11.4%
Billion Well Holdings Limited <sup>(3)</sup>	Interest of a controlled corporation	38,833,440	11.4%

#### Notes:

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

Save as disclosed above, there is no other interest recorded in the register that is required to be kept under section 336 of the SFO as having an interest in 5% or more of the issued share capital of the Company as at 31st March, 2004.

## Purchase, Sale and Redemption of Listed Securities

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

## Code of Best Practice

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules at any time during the six months ended 31st March, 2004 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.

By order of the Board  
**Yu Lai Si**  
Executive Director  
and Chief Executive Officer

Hong Kong, 16th June, 2004