

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

WATER OASIS GROUP LIMITED

奧思集團有限公司

stock code : 1161

# Capturing the essence of beauty

美的精髓 盡在掌握

# 2007

INTERIM REPORT 中期報告



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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 2007.

The unaudited consolidated results have been reviewed by the Company’s audit committee and the Company’s auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The auditor, on the basis of their review, concluded that nothing has come to their attention that causes them to believe that the condensed consolidated interim financial information (“Interim Financial Information”) is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”.

## RESULTS AND DIVIDEND

The Group recorded turnover of approximately HK\$278 million for the six months ended 31st March 2007, representing a growth of 14% as compared with the same period last year. Profit after taxation also increased by 53% to approximately HK\$10 million. An interim dividend of 4.0 HK cents per share and a special dividend of 1.0 HK cent per share have been declared and are payable to the equity holders.

## BUSINESS REVIEW

During the period under review, the Group experienced strong growth, especially in its various Mainland China businesses, and achieved positive returns. Its turnover maintained double-digit growth as compared with the same period last year. Sales from its Hong Kong beauty services operations grew by 4% when compared with the previous period’s figures. Its Mainland China operations, which included both ~H<sub>2</sub>O+ and Neutrogena outlets, achieved profit after tax that was a record high for the Group, and was more than double what was achieved for the same period last year. Even excluding gain arising from change in fair value of investment properties, profit attributable to equity holders achieved good growth as compared with the same period last year.

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

### Mainland China

In the six months since last Annual Result was published, expansion of the Group's ~H<sub>2</sub>O+ presence in Mainland China has continued apace. As at the end of May 2007, the Group had a total of 145 ~H<sub>2</sub>O+ outlets in operation in Mainland China. By comparison with the situation in May 2006, when 115 outlets were operating, the Group has successfully added an extra 30 outlets over the intervening 12-month period. This is growth reflecting both the strong market enthusiasm for ~H<sub>2</sub>O+ products and the increasing spending power of urban Mainland Chinese.

Given the success of the Group's Mainland China expansion programme, which has been pursued determinedly over the past few years, Mainland China will be the primary focus of the Group's plans for future growth and development.

### Hong Kong

~H<sub>2</sub>O+ sales in Hong Kong over the period remained similar to those of the same period last year, on the back of a stable and loyal customer base boosted by large numbers of Mainland China tourists to Hong Kong who purchase ~H<sub>2</sub>O+ products while visiting. The Group has, however, had to face the effects of rising rents and increasing labour costs on its Hong Kong results. With the Hong Kong property market once again on the rise and several ~H<sub>2</sub>O+ stores coming up for lease renewal during the year, the Group has been proactively introducing cost-controls measures to soften the impact of inevitable rent increases, and maintain its overall profitability. These measures have included strategies for making more efficient and cost-effective use of in-store space, as well as negotiation of longer-term rental deals for its most profitable stores, which should provide the Group with greater rental stability over a longer period.

The Group has also launched a variety of new products to further broaden its business. One new development that will shortly impact positively on ~H<sub>2</sub>O+ sales is the launch of a new ~H<sub>2</sub>O+ collagen health drink under the product name Collagen 8000. Launched in May 2007, this exciting product has been heavily promoted, and the Group is confident of its appeal to the market. Initially being sold in Hong Kong and Taiwan, the Group plans to extend sales to the Mainland China once the necessary authorisations have been obtained.

### Taiwan, Singapore

With political turmoil and uncertainty having a direct impact on the economic situation in Taiwan and hence on the retail environment there, the Group's Taiwan business has been only one of many that have experienced a downturn. As a result, the Group's focus has been on consolidating its business resources to ensure that its returns are in line with costs. In the period under review, this has involved reducing the number of its Taiwan outlets to 13.

Although the Group's Singapore operations are operating in a stable environment, its 3 Singapore outlets have yet to flourish. As a result, the Group's aim of balancing costs and returns may see some further consolidation in this market over the next few months.

## NEUTROGENA BUSINESS

Since its beginnings a year ago, the Group's Neutrogena distribution business has harnessed and combined the strengths of Neutrogena's famous brand manufacturer Johnson & Johnson and the Group's own distribution networks. Consequently, though still relatively young, the Group's Neutrogena business has been pushing ahead with great vigour. In addition, the first franchised Neutrogena store was successfully opened in December 2006.

By the end of May 2007, the number of Neutrogena outlets operating in Mainland China had increased to 53, comprising both self-managed and franchised stores, spread across a total of 21 large cities. These outlets are operated as counters inside existing, well-established department stores, a mode of operation that has proven its worth in the Mainland China environment.

Neutrogena expansion is continuing rapidly, with the Group expecting to have opened up to approximately more than 110 outlets by the end of this fiscal year in September. Rapid expansion should not be confused with haste, however, as the Group invests a great deal of effort to ensure that it locates reliable, high-quality retail outlet partners in which to site its Neutrogena counters. These efforts are designed to establish Neutrogena as a trustworthy and high-profile brand amongst Chinese consumers.

## SPA & BEAUTY BUSINESSES

The period under review saw the Group take the final steps toward setting up and launching its first Oasis Beauty outlet in Mainland China. The historic outlet was opened in Beijing in April 2007, in one of the city's most prestigious buildings, Beijing APM, which was developed by Sun Hung Kai Properties Group and is located in Beijing's prime shopping area, very near to Oriental Plaza. The Group expects that the outlet will need some time to establish itself and build up a solid customer base. Based on results over coming months, the Group will explore further opportunities of expanding by setting up further Oasis Beauty centres in other prime cities of Mainland China.

In Hong Kong, the Group's sales performance on spa and beauty businesses continued to perform well, together accounting for 27% of the Group's overall turnover for the period under review. At the end of May 2007, the Group was operating 2 Oasis Spa outlets in Hong Kong aimed at the high-end market, and a further 17 Oasis Beauty and Aqua Beauty outlets catering to mid-range clients. The market has responded well in the period under review, with both types of outlets achieving steadily increasing customer bases and ongoing growth in income from the beauty services they provide.

## OASIS BEAUTY SCHOOL

The Group continues to successfully run professionally accredited courses through its Oasis Beauty School, an operation that is boosting the Group's image and consolidating its reputation as a serious and committed beauty services provider operating at international levels of expertise and quality. The School is also benefiting the Group by providing it with an excellent channel through which it can recruit high potential staff.

## PROSPECTS

### **~H<sub>2</sub>O+ in Mainland China**

Expansion will continue in Mainland China over the next six months. The Group plans to have a total of more than 170 stores in operation by the end of the fiscal year 2007. Of these, more than 80 outlets will be self-managed, while the remaining will be run as franchises, a model which will provide the template for most future expansion.

### **Neutrogena**

The Group's Neutrogena business is showing exceptional promise, and to take advantage of this, the Group plans to increase the rate of its expansion in Mainland China over the coming months, to enlarge its geographical coverage, and to expand the range of its distribution networks. The Group's target is to be operating more than 110 stores, both self-managed and franchised, by the end of fiscal year 2007, using the franchise model to achieve rapid, low-risk expansion.

### **Sure Slim & Aqua Beauty**

The Group plans to make some adjustments to its spa and beauty operations in response to market trends and changes. The operations of the Group's Sure Slim and Aqua Beauty centres have been integrated under the management of its Oasis Beauty chain with the aim of achieving a higher level of synergy, providing added value to its Oasis Beauty facilities, and increasing capacity.

The Group has however retained the "Aqua Beauty" name as a way of differentiating a few outlets, which will provide services at a premium over those provided by Oasis Beauty, and will serve VIP customers and those with a long history of association with the Oasis Beauty brand.

## Oasis Beauty

The Group's spa and beauty operations will take a fresh step forward with the forthcoming opening of in-house spa facilities in newly developed well-known housing estates in Hong Kong. In mid-August 2007, the Group will be operating the spa centre at "The Sherwood", and towards the end of the year it will begin operating the spa at the new "Grand Waterfront" development. Both these well-known housing developments, each developed by the Henderson Land Group, are very extensive estates with a large potential customer pool.

From May 2007, the Group has been busy purchasing new and advanced beauty equipment directly from European manufacturers. It believes that this equipment is completely new in Hong Kong and will give the Group a further competitive edge in the beauty services market, setting it up to offer new services over the summer that are unique to the market. In addition, the Group is exploring into the businesses of medical beauty services and beauty services equipment distribution, believing that this can widen its beauty services spectrum.

In the longer term, the Group expects to build on the success of its new Oasis Beauty outlet in Beijing by opening further beauty centre outlets in similar tier-one cities in the Mainland China.

## Others

The Group has built its success over recent years on continually testing new ideas, new products, and new services, while all along building up strong, loyal customer bases for its core products and services. This is a strategy that it will continue with in the future. It is currently exploring new options and possibilities for growth and consolidation in the market, and aims to maintain the forward momentum it has built up through new projects and expansion strategies, which will be announced in due course.

The Group remains positive about the macro-economic environment for the coming six months, with both Hong Kong and the Mainland China currently enjoying robust and healthy retail and service sectors. Given its solid asset back-up and the fact that it has no bank loans or external financing arrangements, the Group is in an excellent position to respond quickly and flexibly to promising new business and investment opportunities that may arise. It plans to maintain its current high-dividend policy and, more generally, its commitment to looking for the best returns possible for its equity holders.



**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION  
TO THE BOARD OF DIRECTORS OF WATER OASIS GROUP LIMITED**

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

## INTRODUCTION

We have reviewed the interim financial information ("Interim Financial Information") set out on pages 8 to 22, which comprises the condensed consolidated interim balance sheet of Water Oasis Group Limited (the "Company") and its subsidiaries (together, the "Group") as at 31st March 2007 and the related condensed consolidated interim income statement, changes in equity and cash flows for the six-month period then ended. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on Interim Financial Information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this Interim Financial Information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this Interim Financial Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of Interim Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 18th June 2007

# CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

		Unaudited Six months ended 31st March	
	Notes	2007 HK\$'000	2006 HK\$'000
Turnover	4	<b>278,142</b>	243,583
Cost of inventories sold		<b>(67,125)</b>	(54,966)
Gross profit		<b>211,017</b>	188,617
Other income	4	<b>3,104</b>	1,647
Operating expenses		<b>(202,064)</b>	(181,549)
Operating profit	4, 5	<b>12,057</b>	8,715
Taxation	6	<b>(1,951)</b>	(2,115)
Profit after taxation		<b>10,106</b>	6,600
Attributable to:			
Equity holders of the Company		<b>9,359</b>	6,179
Minority interests		<b>747</b>	421
		<b>10,106</b>	6,600
Dividends	7	<b>17,454</b>	10,269
Earnings per share for profit attributable to the equity holders of the Company during the period			
– Basic	8	<b>2.7 HK cents</b>	1.8 HK cents
– Diluted	8	<b>2.7 HK cents</b>	1.8 HK cents

The notes on pages 12 to 22 form an integral part of this Interim Financial Information.

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Notes	<b>Unaudited As at 31st March 2007 HK\$'000</b>	Audited As at 30th September 2006 HK\$'000
Non-current assets			
Intangible assets	9	<b>414</b>	516
Investment properties		<b>28,000</b>	27,000
Property, plant and equipment	9	<b>27,010</b>	33,374
Rental deposits and prepayments	10	<b>14,516</b>	13,212
Deferred tax assets	15	<b>5,833</b>	5,025
		<b>75,773</b>	79,127
Current assets			
Inventories		<b>32,700</b>	45,343
Financial assets at fair value through profit and loss		<b>57,972</b>	9,615
Accounts receivable	11	<b>50,997</b>	39,732
Prepayments		<b>21,822</b>	17,865
Other deposits and receivables		<b>13,961</b>	7,320
Tax recoverable		<b>51</b>	232
Bank balances and cash		<b>110,797</b>	130,293
		<b>288,300</b>	250,400
Current liabilities			
Accounts payable	12	<b>4,427</b>	6,231
Accruals and other payables		<b>60,396</b>	63,189
Receipts in advance		<b>127,290</b>	103,604
Taxation payable		<b>5,906</b>	3,572
Dividend payable		<b>17,454</b>	–
		<b>215,473</b>	176,596
Net current assets		<b>72,827</b>	73,804
Total assets less current liabilities		<b>148,600</b>	152,931
Financed by:			
Share capital	13	<b>34,909</b>	34,242
Reserves		<b>111,512</b>	117,163
Total capital and reserves attributable to equity holders of the Company		<b>146,421</b>	151,405
Minority interests		<b>1,500</b>	847
Total equity		<b>147,921</b>	152,252
Non-current liabilities			
Pension obligations		<b>529</b>	529
Deferred tax liabilities	15	<b>150</b>	150
		<b>148,600</b>	152,931

The notes on pages 12 to 22 form an integral part of this Interim Financial Information.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Exchange reserve	Capital		Retained profits	Minority interests	Total
				reserve	redemption reserve			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st October 2005	34,212	26,934	533	(1,766)	450	97,039	209	157,611
Profit for the period	-	-	-	-	-	6,179	421	6,600
2005 final dividend	-	-	-	-	-	(10,263)	-	(10,263)
Dividend paid to a minority shareholder	-	-	-	-	-	-	(94)	(94)
Exchange differences	-	-	(562)	-	-	-	-	(562)
At 31st March 2006	34,212	26,934	(29)	(1,766)	450	92,955	536	153,292

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Exchange reserve	Capital		Retained profits	Minority interests	Total
				reserve	redemption reserve			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st October 2006	34,242	27,030	1,342	(1,766)	450	90,107	847	152,252
Profit for the period	-	-	-	-	-	9,359	747	10,106
Exercise of share options	667	2,475	-	-	-	-	-	3,142
2006 final dividend	-	-	-	-	-	(17,454)	-	(17,454)
Dividend paid to a minority shareholder	-	-	-	-	-	-	(94)	(94)
Exchange differences	-	-	(31)	-	-	-	-	(31)
At 31st March 2007	34,909	29,505	1,311	(1,766)	450	82,012	1,500	147,921

The notes on pages 12 to 22 form an integral part of this Interim Financial Information.

## CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Unaudited Six months ended 31st March	
	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Net cash inflow from operating activities	<b>28,581</b>	24,039
Net cash outflow from investing activities	<b>(51,094)</b>	(7,231)
Net cash inflow/(outflow) from financing activities	<b>3,142</b>	(17,196)
Decrease in cash and cash equivalents	<b>(19,371)</b>	(388)
Cash and cash equivalents at 1st October	<b>130,293</b>	85,680
Effect of foreign exchange rate changes	<b>(125)</b>	(536)
Cash and cash equivalents at 31st March	<b>110,797</b>	84,756
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>110,797</b>	84,756

The notes on pages 12 to 22 form an integral part of this Interim Financial Information.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## I. GENERAL INFORMATION

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. The address of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section to the Interim Report. 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 Mainland China and the operation of spa and beauty centres in Hong Kong and Mainland China.

This Interim Financial Information is presented in Hong Kong Dollars unless otherwise stated. This Interim Financial Information was approved for issue by the Board of Directors on 18th June 2007.

## 2. BASIS OF PREPARATION

This Interim Financial Information 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 HKAS 34 “Interim Financial Reporting” issued by the HKICPA.

The Interim Financial Information should be read in conjunction with the annual financial statements of the Group for the year ended 30th September 2006.

### 3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of the Interim Financial Information are consistent with those used in the annual financial statements for the year ended 30th September 2006 and the newly adopted accounting policies for the period ended 31st March 2007 are set out below:

The following new standards, amendments to standards and interpretations are mandatory and relevant for financial year ending 30th September 2007.

- Amendment to HKAS 19, 'Actuarial gains and losses, group plans and disclosures', effective for annual periods beginning on or after 1st January 2006. The Group decided to retain its former accounting policy regarding the recognition of actuarial gains and losses;
- Amendment to HKAS 39, 'The fair value option', effective for annual periods beginning on or after 1st January 2006. This amendment does not have any impact on the classification and valuation of the Group's financial instruments classified as at fair value through profit or loss prior to 1st January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;
- Amendment to HKAS 21, 'Net investment in a foreign operation', effective for annual periods beginning on or after 1st January 2006. This amendment does not have any significant financial impact to the Group;
- HK(IFRIC)-Int 8, 'Scope of HKFRS 2', effective for annual periods beginning on or after 1st May 2006. There is no significant financial impact to the Group;
- HK(IFRIC)-Int 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1st June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assess if embedded derivative should be separated using principles consistent with HK(IFRIC)-Int 9.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st October 2007 or later periods. The Group has already commenced an assessment of their impact when they become effective and does not expect this will result in substantial changes to the Group's principal accounting policies.

## 4. TURNOVER 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. An analysis of the Group's turnover and contribution to operating profit for the period by business segments is as follows:

### (a) Primary reporting format – business segments

	Retailing		Services		Elimination		Group	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Sales to external customers	<b>199,596</b>	167,930	<b>78,546</b>	75,653	-	-	<b>278,142</b>	243,583
Inter-segment sales	<b>13,347</b>	10,445	-	-	<b>(13,347)</b>	(10,445)	-	-
Total	<b>212,943</b>	178,375	<b>78,546</b>	75,653	<b>(13,347)</b>	(10,445)	<b>278,142</b>	243,583
Segment results	<b>22,742</b>	16,116	<b>5,908</b>	11,461	-	-	<b>28,650</b>	27,577
Other income							<b>3,104</b>	1,647
Unallocated corporate expenses							<b>(19,697)</b>	(20,509)
Operating profit							<b>12,057</b>	8,715

### (b) Secondary reporting format – geographical segments

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

	Turnover Six months ended 31st March	
	2007 HK\$'000	2006 HK\$'000
Hong Kong and Macau	<b>138,069</b>	133,285
Mainland China	<b>110,948</b>	71,466
Taiwan	<b>24,577</b>	34,232
Singapore	<b>4,548</b>	4,600
	<b>278,142</b>	243,583



## 5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 31st March	
	2007 HK\$'000	2006 HK\$'000
<b>Crediting</b>		
Interest income on bank deposit	861	379
Interest income on financial assets at fair value through profit and loss	1,395	–
Gain arising from change in fair value of investment properties	1,000	–
Gross rental income from investment properties	482	1,035
<b>Charging</b>		
Amortization of intangible assets	102	700
Depreciation	11,524	9,342
Loss on disposals of property, plant and equipment	–	71
Staff costs	86,755	74,899
Interest expenses on bank loan	–	421

## 6. TAXATION

	Six months ended 31st March	
	2007 HK\$'000	2006 HK\$'000
Hong Kong profits tax	1,048	1,106
Overseas taxation	1,711	1,162
Overprovision in prior years	–	(500)
Deferred taxation (Note 15)	(808)	347
	<b>1,951</b>	2,115

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the period, 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 period at the rates of taxation prevailing in the territories in which the Group operates.

## 7. DIVIDENDS

At the Board meeting held on 18th June 2007, the directors declared an interim dividend of 4.0 HK cents per share (2006: 2.0 HK cents per share) and a special dividend of 1.0 HK cent per share (2006: 1.0 HK cent per share) (collectively the "Interim Dividend"). This proposed Interim Dividend is not reflected as a dividend payable in the Interim Financial Information.

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of approximately HK\$9,359,000 (2006: HK\$6,179,000) and the weighted average number of 344,523,198 (2006: 342,116,000) ordinary shares in issue during the six months ended 31st March 2007.

The calculation of the diluted earnings per share for the period ended 31st March 2007 is based on profit attributable to equity holders of approximately HK\$9,359,000 (2006: HK\$6,179,000) and the weighted average number of 344,523,198 (2006: 342,116,000) ordinary shares in issue during the period plus the weighted average number of 4,885,015 (2006: nil) 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.

## 9. CAPITAL EXPENDITURE

During the period ended 31st March 2007, the Group incurred capital expenditure of approximately HK\$5,280,000 for property, plant and equipment (30th September 2006: HK\$24,189,000). No significant disposal of property, plant and equipment was made during the period.

## 10. RENTAL DEPOSITS AND PREPAYMENTS

Rental deposits are carried at amortized cost using the effective interest rate of 2% per annum. As at 31st March 2007, the carrying amounts of rental deposits approximate their fair values.

## 11. ACCOUNTS RECEIVABLE

Details of the ageing analysis are as follows:

	<b>As at 31st March 2007 HK\$'000</b>	As at 30th September 2006 HK\$'000
0 to 30 days	<b>42,025</b>	34,263
31 days to 60 days	<b>6,086</b>	4,431
61 days to 90 days	<b>1,073</b>	921
Over 90 days	<b>1,813</b>	117
	<b>50,997</b>	39,732

Credit terms generally range from 30 days to 90 days.

The fair value of accounts receivable approximates its carrying amount.

## 12. ACCOUNTS PAYABLE

Details of the ageing analysis are as follows:

	<b>As at 31st March 2007 HK\$'000</b>	As at 30th September 2006 HK\$'000
0 to 30 days	<b>4,427</b>	6,231

The fair value of accounts payable approximates its carrying amount.

### 13. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 30th September 2006 and 31st March 2007	1,000,000,000	100,000

	Issued and fully paid ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 1st October 2005	342,116,000	34,212
Issue of new shares pursuant to the Company's Share Option Scheme	300,000	30
At 30th September 2006	342,416,000	34,242
Issue of new shares pursuant to the Company's Share Option Scheme	6,670,000	667
At 31st March 2007	349,086,000	34,909

### 14. SHARE OPTIONS

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.

The movements in the number of share options granted, exercised and lapsed pursuant to the Share Option Scheme during the period were as follows:-

Category	Date of grant	Exercise period	Exercise price per share HK\$	As at 1st October 2006	Granted	Exercised	Cancelled/ Lapsed	As at 31st March 2007
Directors	30th August 2002	28th February 2003 – 29th August 2007	0.52	5,100,000	-	-	-	5,100,000
	28th January 2004	3rd May 2004 – 31st January 2009	0.42	10,200,000	-	1,200,000	-	9,000,000
				15,300,000	-	1,200,000	-	14,100,000
Supplier	11th March 2002	11th March 2002 – 10th March 2012	1.18	3,264,000	-	-	-	3,264,000
	12th March 2003	12th March 2003 – 11th March 2013	0.54	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	1,484,000	-	1,020,000	164,000	300,000
	30th August 2002	31st August 2003 – 29th August 2007	0.52	2,560,000	-	1,830,000	240,000	490,000
	30th August 2002	29th February 2004 – 29th August 2007	0.52	1,560,000	-	560,000	240,000	760,000
	28th January 2004	3rd May 2004 – 31st January 2009	0.42	960,000	-	720,000	80,000	160,000
	28th January 2004	1st November 2004 – 31st January 2009	0.42	1,060,000	-	820,000	80,000	160,000
	28th January 2004	2nd May 2005 – 31st January 2009	0.42	860,000	-	520,000	80,000	260,000
			9,984,000	-	5,470,000	884,000	3,630,000	

As at 31st March 2007, the weighted average exercise price of share options outstanding is HK\$0.65 per share (30th September 2006: HK\$0.61 per share).

Options exercised during the period ended 31st March 2007 resulted in 6,670,000 shares (30th September 2006: 300,000 shares) being issued at HK\$0.42 and HK\$0.52 (30th September 2006: HK\$0.42). The related weighted average share price at the time of exercise was HK\$0.73 per share (30th September 2006: HK\$0.52).

## 15. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2006: 17.5%).

The movement in deferred tax assets was as follows:

	<b>As at 31st March 2007 HK\$'000</b>	As at 30th September 2006 HK\$'000
Beginning of period/year	<b>5,025</b>	2,753
Credited to income statement	<b>808</b>	2,272
End of period/year	<b>5,833</b>	5,025

The movement in deferred tax liabilities was as follows:

	<b>As at 31st March 2007 HK\$'000</b>	As at 30th September 2006 HK\$'000
Beginning of period/year	<b>(150)</b>	(2,517)
Credited to income statement	-	2,367
End of period/year	<b>(150)</b>	(150)

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 condensed consolidated interim balance sheet:

	<b>As at 31st March 2007 HK\$'000</b>	As at 30th September 2006 HK\$'000
Deferred tax assets	<b>5,833</b>	5,025
Deferred tax liabilities	<b>(150)</b>	(150)
	<b>5,683</b>	4,875

## 16. COMMITMENTS

### (a) Capital commitments for property, plant and equipment

	<b>As at 31st March 2007 HK\$'000</b>	As at 30th September 2006 HK\$'000
Contracted but not provided for	<b>133</b>	–

### (b) Commitments under operating leases

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

	<b>As at 31st March 2007 HK\$'000</b>	As at 30th September 2006 HK\$'000
As lessors		
Rental receipts		
Not later than one year	<b>714</b>	964
Later than one year and not later than five years	<b>32</b>	264
	<b>746</b>	1,228

	<b>As at 31st March 2007 HK\$'000</b>	As at 30th September 2006 HK\$'000
As lessees		
Rental payments		
Not later than one year	<b>40,625</b>	40,628
Later than one year and not later than five years	<b>39,051</b>	22,707
	<b>79,676</b>	63,335

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

## 17. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31st March 2007 (30th September 2006: nil).

## 18. RELATED PARTY TRANSACTIONS

Key management personnel compensation:

	Six months ended 31st March	
	2007 HK\$'000	2006 HK\$'000
Basic salaries, housing allowances, other allowances and benefits-in-kinds	5,327	5,109
Bonuses	1,000	–
Retirement benefit costs	30	30
	<b>6,357</b>	5,139



## INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The directors have declared an interim dividend of 4.0 HK cents per share and a special dividend of 1.0 HK cent per share for the six months ended 31st March 2007 payable to the equity holders whose names appear on the Register of Members of the Company at the close of business on 11th July 2007. The Register of Members will be closed from 9th July 2007 to 11th July 2007, both days inclusive, during which period no transfer of shares will be registered. To qualify for the interim and special dividends 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 whose share registration public offices are located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 6th July 2007. The relevant dividend warrants will be dispatched to equity holders on 20th July 2007.

## LIQUIDITY AND FINANCIAL RESOURCES

At 31st March 2007, the Group had net current assets of approximately HK\$73 million (30th September 2006: HK\$74 million).

The Group generally finances its operations with internally generated resources. As at 31st March 2007, the Group had cash reserves of approximately HK\$111 million (30th September 2006: HK\$130 million) and with no indebtedness.

The Group continues to follow the practice of prudent cash management. During the period, the Group's management adopts a balanced approach on financial risk management with some of the cash reserves are placed in Structured Deposits which expects to contribute a higher return to the Group in addition to fixed bank deposits.

The Group has little exposure on foreign currency fluctuations as most of its assets, receipts and payments are principally denominated in the functional currency of the relevant territory and US dollars. The Group will continue to monitor its foreign exchange position and if necessary will hedge its foreign exchange exposure by entering forward foreign exchange contracts.

## HUMAN RESOURCES

As at 31st March 2007, the Group employed 1,287 staff (30th September 2006: 1,236). The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses and share options will also grant to eligible staff based on individual and Group performance. Other employee benefits include provident fund, insurance and medical cover, educational allowances and training programs. Options to subscribe for a maximum of approximately 17.7 million shares in the Company in aggregate had been granted and are outstanding as at 31st March 2007 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.

The Group is committed to nurturing a learning culture in the organization. Heavy emphasis is placed on training and development, as the Group's success is dependent on the effort of a skilled and motivated work force.

## 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 HKICPA in December 1997.

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and the unaudited consolidated results of the Group for the six months period ended 31st March 2007 with management. Prior to the review work carried out by the independent auditor, the audit committee had discussed with the independent auditor the scope of their review and subsequently the results of their review including matters on statutory compliance, internal control and financial reporting in respect of the Interim Financial Information.

## REMUNERATION COMMITTEE

To comply with the Corporate Governance Code, a Remuneration Committee was established on 26th June 2006. The members of the Remuneration Committee comprise all independent non-executive directors of the Company and the Group's Senior Human Resources Manager, Ms. Lau Mei Yin, Ivy, and is chaired by Mr. Wong Chun Nam.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

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

As at 31st March 2007, 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 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				Percentage of issued share capital	
			Personal interests	Corporate interests	Family interests	Other interests	Total	
Yu Lai Si	The Company	Beneficial owner	80,356,880 ordinary	–	–	–	80,356,880 ordinary	23.0%
	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	–	–	880,000 ordinary <sup>(2)</sup>	77,666,880 ordinary <sup>(1)</sup>	78,546,880 ordinary	22.5%
	Water Oasis Company Limited	Beneficial owner and interest of spouse	165,000 non-voting deferred	–	165,000 non-voting deferred <sup>(2)</sup>	–	330,000 non-voting deferred	–
Yu Lai Chu, Eileen	The Company	Beneficial owner and interest of a controlled corporation	880,000 ordinary	–	–	77,666,880 ordinary <sup>(1)</sup>	78,546,880 ordinary	22.5%
	Water Oasis Company Limited	Beneficial owner and interest of spouse	165,000 non-voting deferred	–	165,000 non-voting deferred <sup>(3)</sup>	–	330,000 non-voting deferred	–
Wong Lung Tak, Patrick, J.P.	The Company	Beneficial owner	600,000 ordinary	–	–	–	600,000 ordinary	0.17%
Wong Chun Nam	The Company	Beneficial owner	600,000 ordinary	–	–	–	600,000 ordinary	0.17%

*Notes:*

- (1) These shares are registered in the name of Zinna Group Limited, a company incorporated in Hong Kong. All voting rights over Zinna Group Limited are held by Royalion Worldwide Limited, a British Virgin Islands company which is 51% owned by Tam Chie Sang and 49% owned by his spouse Yu Lai Chu, Eileen, both are directors of the Company.
- (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 31st March 2007, 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

Movements in the Company's share options during the period were as follows:

Category and name of participant	Date of grant	Exercise period	Exercise price per share HK\$	Balance as at 1st October 2006	Granted	Exercised	Cancelled/ Lapsed	Balance as at 31st March 2007
<b>Directors</b>								
Yu Lai Si	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	600,000	–	–	–	600,000
	28th January 2004	3rd May 2004 – 31st January 2009	0.42	1,500,000	–	–	–	1,500,000
Yu Kam Shui, Erastus	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, J.P.	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	–	–
				15,300,000	–	1,200,000	–	14,100,000

Category and name of participant	Date of grant	Exercise period	Exercise price per share HK\$	Balance as at 1st October 2006	Granted	Exercised	Cancelled/ Lapsed	Balance as at 31st March 2007
<b>Supplier</b>								
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
<b>Employees</b> (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	1,484,000	–	1,020,000	164,000	300,000
	30th August 2002	31st August 2003 – 29th August 2007	0.52	2,560,000	–	1,830,000	240,000	490,000
	30th August 2002	29th February 2004 – 29th August 2007	0.52	1,560,000	–	560,000	240,000	760,000
	28th January 2004	3rd May 2004 – 31st January 2009	0.42	960,000	–	720,000	80,000	160,000
	28th January 2004	1st November 2004 – 31st January 2009	0.42	1,060,000	–	820,000	80,000	160,000
	28th January 2004	2nd May 2005 – 31st January 2009	0.42	860,000	–	520,000	80,000	260,000
				9,984,000	–	5,470,000	884,000	3,630,000

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.

Other than as disclosed above, at no time during the period 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 period.

## SUBSTANTIAL SHAREHOLDERS

As at 31st March 2007, 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

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of ordinary shares</b>	<b>Approximate percentage of voting power</b>
Zinna Group Limited <sup>(1)</sup>	Interest of a controlled corporation	77,666,880	22.2%
Advance Favour Holdings Limited <sup>(2)</sup>	Interest of a controlled corporation	38,833,440	11.1%
Billion Well Holdings Limited <sup>(3)</sup>	Interest of a controlled corporation	38,833,440	11.1%

Notes:

- (1) Zinna Group Limited is a company incorporated in Hong Kong. All of its voting rights are held by Royalion Worldwide Limited, a British Virgin Islands company which is 51% owned by Tam Chie Sang and 49% owned by his spouse Yu Lai Chu, Eileen, both are directors of the Company.
- (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.

## PURCHASE, SALE OR 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.

## CORPORATE GOVERNANCE

In the opinion of the directors, save as disclosed below, the Company has complied with the code provisions (the "Code Provision") set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules during the period.

### CODE PROVISION A.2.1

The Board of the Company does not have any director with the title "Chairman". Presently the Company Secretary is responsible to ensure that all directors are properly briefed, either by her own or by members of the Company's senior management, on issues arising at board meetings. Whereas the Chief Executive Officer is responsible to ensure all directors have received adequate, complete and reliable information in a timely manner. The Board considers that the current structure facilitates the execution of the Group's business strategies and maximizes effectiveness of its operation. The Board shall nevertheless review the structure from time to time to ensure appropriate move is being taken should suitable circumstances arise.



## CODE PROVISION A.4.1

Under the Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. However, 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.

## COMPLIANCE WITH THE MODEL CODE

The Company has adopted 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.

The Company has also adopted a code of conduct governing securities transactions by employees who may possess or have access to price sensitive information.

By order of the Board

**Yu Lai Si**

*Executive Director  
and Chief Executive Officer*

Hong Kong, 18th June 2007

# CORPORATE INFORMATION

## DIRECTORS

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

Independent Non-executive Directors  
WONG Lung Tak, Patrick, J.P.  
WONG Chun Nam  
WONG Chi Keung

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

WONG Chun Nam  
WONG Lung Tak, Patrick, J.P.  
WONG Chi Keung  
LAU Mei Yin, Ivy

## COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

MO Yuen Yee, Shirley FCCA, FCPA

## AUDITOR

PricewaterhouseCoopers

## LEGAL ADVISOR

Richards Butler

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited  
Hang Seng Bank Limited

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705  
Grand Cayman  
Cayman Islands  
British West Indies

## HONG KONG BRANCH TRANSFER OFFICE

Standard Registrars Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

18th Floor, World Trade Centre  
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