

The directors present their first annual report and the audited consolidated accounts of the Company and its subsidiaries for the year ended 30th September 2002.

GROUP REORGANISATION

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.

On 23rd January 2002, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Water Oasis Group (BVI) Limited through a share swap and became the holding company of the companies comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 27th February 2002 (the "Prospectus").

The Company was listed on the Main Board of the Stock Exchange on 11th March 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its principal subsidiaries are engaged in the distribution of ~H₂O+ brand skin-care products in Hong Kong, Macau, Taiwan and the People's Republic of China (the "PRC"). Certain of its principal subsidiaries also engaged in the operation of spa and beauty centres in Hong Kong under the brand names "Oasis Spa" and "Oasis Beauty", which offer wide varieties of massage and beauty services. The Company and subsidiaries are hereinafter collectively referred to as the Group.

Details of the Company's principal subsidiaries at 30th September 2002 are set out in note 26 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30th September 2002 are set out in the consolidated profit and loss account on page 21.

The Directors recommended a final dividend of 1.0 HK cents per share for the year ended 30th September 2002 payable to shareholders whose names appear on the Register of Members of the Company at the close of business on 11th March 2003. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, such dividend will be payable on 13th March 2003.

SHARE CAPITAL

Details of the Company's authorised and issued share capital as at 30th September 2002 are set out in note 19 to the accounts.

RESERVES

Movements in the reserves of the Group and of the Company are set out in note 20 to the accounts.

INVESTMENT PROPERTIES

The Group revalued its investment property as at 30th September 2002 on an open market value basis. Details of which are set out in note 11 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

DIRECTORS AND DIRECTORS' SERVICES AGREEMENTS

The directors of the Company who held office during the year and up to the date of this report were:

Executive directors:

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

Independent non-executive directors:

WONG Lung Tak, Patrick, J.P.
WONG Chun Nam, Duffy

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

All directors, except the Chairman and/or the managing director of the Company, are subject to retirement by rotation as required by the Company's articles of association.

Each of the executive directors has entered into a service agreement with the Company. Each agreement is for a period of three years commencing on 1st October 2001 and shall continue thereafter until terminated by either party giving to the other not less than three calendar months' prior notice in writing, so as to expire on 30th September 2004 or at any time thereafter provided that no such notice may be given before 30th June 2004.

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

AUDIT COMMITTEE

The Company's audit committee comprises Mr. Wong Lung Tak, Patrick and Mr. Wong Chun Nam, Duffy who are the independent non-executive directors of the Company. In establishing the terms of reference for this committee, the directors had made reference to the "Guide for the formation of an audit committee" issued by the Hong Kong Society of Accountants in December 1997.

The audit committee of the Company has reviewed the accounting principles and policies adopted by the Company and discussed with management the internal control, auditing and financial reporting matters in respect of the annual report including review of the audited consolidated accounts of the Group for the year ended 30th September 2002.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

As at 30th September 2002, as notified to the Company pursuant to Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the interests of the directors and the chief executive in the shares of the Group were as follows:

| Name of Director ⁽⁶⁾ | Name of company | Personal interests | Corporate interests | Number of shares | | Total interests |
|---------------------------------|-----------------------------|-----------------------------------|---------------------|--|---------------------------------------|-----------------------------------|
| | | | | Family interests | Other interests | |
| Yu Lai Si | The Company | 77,666,880 ordinary | – | – | – | 77,666,880 ordinary |
| | Water Oasis Company Limited | 330,000 non voting deferred | – | – | – | 330,000 non voting deferred |
| Tam Chie Sang | The Company | – | – | – | 77,666,880 ordinary ⁽¹⁾ | 77,666,880 ordinary |
| | Water Oasis Company Limited | 165,000 non voting deferred | – | 165,000 non voting deferred ⁽²⁾ | – | 330,000 non voting deferred |
| Yu Lai Chu, Eileen | The Company | – | – | – | 77,666,880 ordinary ⁽¹⁾ | 77,666,880 ordinary |
| | Water Oasis Company Limited | 165,000 non voting deferred | – | 165,000 non voting deferred ⁽³⁾ | – | 330,000 non voting deferred |
| Yu Kam Shui, Erastus | The Company | – | – | 38,833,440 ordinary ⁽⁵⁾ | 38,833,440 ordinary ⁽⁴⁾ | 77,666,880 ordinary |
| Lai Yin Ping | The Company | – | – | 38,833,440 ordinary ⁽⁴⁾ | 38,833,440 ordinary ⁽⁵⁾ | 77,666,880 ordinary |

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 held by K S Yu 2002 Grantor Retained Annuity Trust formed for the benefit of Yu Kam Shui, Erastus and Lai Yin Ping's sister, Lai Yin Ling and upon her death, Yu Kam Shui, Erastus' mother Fung Sin Ping. Yu Kam Shui, Erastus and Lai Yin Ping are the trustees to the K S Yu 2002 Grantor Retained Annuity Trust.
- (5) These shares are registered in the name of Billion Well Holdings Limited, a British Virgin Islands company held by Y P Lai 2002 Grantor Retained Annuity Trust formed for the benefit of Lai Yin Ping and Lai Yin Ping's sister, Lai Yin Ling and upon her death, Lai Yin Ping's mother, Wong Kwai Ying. Lai Yin Ping is the sole trustee to the Y P Lai 2002 Grantor Retained Annuity Trust.
- (6) Each of Yu Lai Si, Tam Chie Sang, Yu Lai Chu, Eileen, Yu Kam Shui, Erastus and Lai Yin Ping had outstanding options to subscribe for certain number of shares of the Company as set out below under "Directors' and Chief Executive's Rights to acquire Shares or Debentures" pursuant to the share option scheme of the Company.

Other than disclosed above, as at 30th September 2002, none of the directors or the chief executive has (i) any interest in, or any deemed interest in, pursuant to Section 28 of the SDI Ordinance or under Section 31 or Part I of the Schedule to the SDI Ordinance, the shares of the Company or any associated corporation (within the meaning of the SDI Ordinance); or (ii) any interest which is required to be entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance; or (iii) any interest which is required to be disclosed, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules, to the Company and The Stock Exchange of Hong Kong Limited.

SHARE OPTION SCHEME

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, promotor, 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 is the higher of the average of the closing prices of the share of the Company on The Stock Exchange of Hong Kong Limited 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 of the options granted under the Share Option Scheme during the year were as follows:

| Date of grant | Exercise price per share HK\$ | Granted during the year | Number of share options | |
|------------------|-------------------------------------|----------------------------|---------------------------|---------------------------------------|
| | | | Lapsed during the year | Outstanding at 30th September 2002 |
| 11th March 2002 | 1.18 | 3,264,000 | – | 3,264,000 |
| 26th April 2002 | 1.67 | 1,500,000 | – | 1,500,000 |
| 30th August 2002 | 0.52 | 19,460,000 | – | 19,460,000 |
| Total | | 24,224,000 | | 24,224,000 |

The options are generally exercisable in stages within a period of one to three years from the date of grant.

The above options granted are not recognised in the accounts until they are exercised. Chapter 17 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of share options granted to participants. The Directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share option based on various speculative assumptions would be meaningless and could be misleading to the shareholders.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the Share Option Scheme, the directors and chief executive officer of the Company have personal interests in share options which have been granted to them to subscribe for shares in the Company.

| Name of director | Date of grant | Exercise price per share HK\$ | Granted during the year | Number of share options | |
|----------------------|------------------|-------------------------------------|----------------------------|----------------------------|---------------------------------------|
| | | | | Lapsed during the year | Outstanding at 30th September 2002 |
| Yu Lai Si | 30th August 2002 | 0.52 | 3,000,000 | – | 3,000,000 |
| Tam Chie Sang | 30th August 2002 | 0.52 | 1,500,000 | – | 1,500,000 |
| Yu Lai Chu, Eileen | 30th August 2002 | 0.52 | 1,500,000 | – | 1,500,000 |
| Yu Kam Shui, Erastus | 30th August 2002 | 0.52 | 1,500,000 | – | 1,500,000 |
| Lai Yin Ping | 30th August 2002 | 0.52 | 1,500,000 | – | 1,500,000 |

These options are exercisable from 28th February 2003 to the close of business on 29th August 2007.

No option was exercised by the Company's directors during the year.

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or the chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, the chief executive, their spouses or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

At 30th September 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those stated below:

| Name | Number of ordinary shares | Approximate percentage of voting power |
|--|------------------------------|---|
| Yu Lai Si | 77,666,880 | 23.9% |
| Zinna Group Limited ⁽¹⁾ | 77,666,880 | 23.9% |
| Advance Favour Holdings Limited ⁽²⁾ | 38,833,440 | 11.9% |
| Billion Well Holdings Limited ⁽³⁾ | 38,833,440 | 11.9% |

Notes:

- (1) All voting rights of Zinna Group Limited are held by Royalion Worldwide Limited, which is wholly owned by Hitchin Trading Limited as trustee of Hitchin Unit Trust which in turn is ultimately held by Trident Trust Company (Cayman) Limited which forms part of a discretionary trust set up by Tam Chie Sang and Yu Lai Chu, Eileen, Trident Trust Company (Cayman) Limited is the trustee of the discretionary trust, the beneficiaries of which are the family members of Tam Chie Sang and Yu Lai Chu, Eileen.
- (2) Advance Favour Holdings Limited is a British Virgin Islands company held by K S Yu 2002 Grantor Retained Annuity Trust formed for the benefit of Yu Kam Shui, Erastus and Lai Yin Ping's sister, Lai Yin Ling and upon her death, Yu Kam Shui, Erastus mother, Fung Sin Ping. Yu Kam Shui, Erastus and Lai Yin Ping are the trustees to the K S Yu 2002 Grantor Retained Annuity Trust.
- (3) Billion Well Holdings Limited is a British Virgin Islands company held by Y P Lai 2002 Grantor Retained Annuity Trust formed for the benefit of Lai Yin Ping and Lai Yin Ping's sister, Lai Yin Ling and upon her death, Lai Yin Ping's mother, Wong Kwai Ying. Lai Yin Ping is the sole trustee to the Y P Lai 2002 Grantor Retained Annuity Trust.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30th September 2002, the aggregate purchases attributable to the Group's five largest suppliers represented approximately 99% of the Group's purchase. Whereas the aggregate turnover attributable to the Group's five largest customers was less than 1% of the Group's turnover.

DISTRIBUTABLE RESERVES

As at 30th September 2002, distributable reserves of the Company amounted to approximately HK\$3,782,000.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th September 2002, the Group employed 523 staff (30th September 2001: 323). Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance and medical cover, educational allowances and training programs. Options to subscribe for a maximum of 20,960,000 shares in the Company in aggregate had been granted to certain employees pursuant to the Company's share option scheme. Exercise prices of which ranges from HK\$0.52 to HK\$1.67 and these options are exercisable within a period of one to three years from the date of grant.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

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

USE OF PROCEEDS

The net proceeds from the initial public offering and placing of the Company's shares in March 2002 amounted to approximately HK\$51 million. As at 30th September 2002, the directors have applied the net proceeds as follows:

- as to approximately HK\$11 million for the establishment of 17 retail outlets in the PRC for the sales of ~H₂O+ products;
- as to approximately HK\$7 million for the marketing and promotion of the Group's products and services;
- as to approximately HK\$6 million for the establishment of 4 new "Oasis Beauty" centres, catering to a mass sector market.

The net proceeds from the initial public offering and placing will continue to be used substantially for the purposes as set out in the prospectus of the Company dated 27th February 2002.

PRE-EMPTIVE RIGHTS

There is no provisions for pre-emptive rights under the Company's articles of association although there is no restriction against such rights under the Companies Law of the Cayman Islands.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied throughout the financial year ended 30th September 2002 with the Code of Best Practice set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except that:

- (a) 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; and
- (b) the Directors fully intended to comply with the requirement to hold a full board meeting every six months but were not able to do so in December 2002 due to extensive travel commitments, the holiday season and unavailability of final results for contemplation.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 48.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

YU Lai Si

Executive Director and Chief Executive Officer

Hong Kong, 14th January 2003