

1. GROUP REORGANISATION AND BASIS OF PREPARATION

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.

The Group resulting from the Reorganisation is regarded as a continuing entity, and accordingly, the consolidated accounts have been prepared for on the basis of merger accounting. The accounts have been prepared as if the current group structure had been in existence throughout the years ended 30th September 2002 and 2001, rather than from the date on which the Reorganisation was completed.

The Company was incorporated on 27th September 2001 and did not enter into any transaction until 15th October 2001. Accordingly, there are no comparatives for the Company's balance sheet.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of accounting

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment properties and investments in securities are stated at fair value.

The Reorganisation referred to in note 1 above has been accounted for using merger accounting by regarding the Company as being the holding company for the Group from the beginning of the earliest period presented.

The same accounting policies adopted in the accountants' report as disclosed in the Prospectus have been applied to the accounts, except that, the Group adopted the following new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which became effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards is set out in the accounting policies below.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(b) Basis of consolidation**

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th September. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power and holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1st April 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life not exceeding 15 years.

Goodwill on acquisitions that occurred prior to 1st April 2001 was written off against reserves. The Group has elected the transitional provision 1(a) set out in paragraph 88 of SSAP 30 and goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1st April 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

(d) Intangible assets

Expenditure on acquiring licenses for sale of products in the People's Republic of China (the "PRC") is capitalised and amortised using the straight-line method over the licenses period. Licenses are not revalued as there is no active market for these assets.

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of leasehold improvements is calculated to write off their costs less accumulated impairment losses on a straight-line basis over the unexpired periods of the leases.

Depreciation of other fixed assets is calculated to write off their costs less accumulated impairment losses on a straight-line basis over their estimated useful lives to the Group. The principal annual rates used for this purpose are as follows:

Motor vehicles	20% to 33 $\frac{1}{3}$ %
Computer equipment	33 $\frac{1}{3}$ %
Office equipment, furniture and fixtures	20% to 33 $\frac{1}{3}$ %

Major costs incurred in restoring fixed assets to their normal working conditions are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(g) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases, net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

NOTES TO THE ACCOUNTS

2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(h) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost represents invoiced value on purchases and is calculated on a weighted-average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Investments*(i) Trading investments*

Trading investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Profits or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(ii) Other investments

Other investments held for long-term purposes are stated at cost less any provision for diminution in value other than temporary in nature.

The carrying amounts of other investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

(j) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(m) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) **Deferred taxation**

Deferred taxation is 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 is expected to be payable or recoverable in the foreseeable future.

(o) **Translation of foreign currencies**

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

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(p) **Retirement benefit costs**

The Group's contributions to the defined contribution retirement scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(q) **Revenue recognition**

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

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

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

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

Dividend income from listed investment is recognised when the right to receive payment is established.

(r) **Segment reporting**

In note 3 to the accounts, the Group had disclosed segment revenue and results as defined under SSAP 26.

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude investment properties and other investments. Segment liabilities comprise operating liabilities and exclude items such as taxation. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country/place in which the customer is located. Total assets and capital expenditure are where the assets are located.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(s) Dividends**

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively. As detailed in note 20 to the accounts retained earnings at 1st October 2000 have increased by HK\$8,910,000 by the reversal of the provision for the 2000 proposed final dividend previously recorded as a liability as at 30th September 2000 although not declared until after the balance sheet date.

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the retail sales of skin-care products, provision of beauty salon, spa and related services. Revenues recognised during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sales of goods	260,953	254,581
Rendering of services	47,496	31,417
	<u>308,449</u>	<u>285,998</u>
Other revenues		
Interest income	936	2,782
Gross rental income from an investment property	288	49
Income from expired coupons	307	–
Others	55	–
	<u>1,586</u>	<u>2,831</u>
Total revenues	<u><u>310,035</u></u>	<u><u>288,829</u></u>

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments

	Retailing		Services		Elimination		Group	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to external customers	260,953	254,582	47,496	31,416	-	-	308,449	285,998
Inter-segment sales	697	380	-	-	(697)	(380)	-	-
Total	<u>261,650</u>	<u>254,962</u>	<u>47,496</u>	<u>31,416</u>	<u>(697)</u>	<u>(380)</u>	<u>308,449</u>	<u>285,998</u>
Segment results	<u>30,975</u>	<u>72,979</u>	<u>13,003</u>	<u>6,267</u>	<u>-</u>	<u>-</u>	<u>43,978</u>	<u>79,246</u>
Other revenues							1,586	2,831
Unallocated corporate expenses							(33,595)	(21,572)
Operating profit							11,969	60,505
Taxation							(5,063)	(7,812)
Profit after taxation							6,906	52,693
Minority interests							418	(683)
Profit attributable to shareholders							<u>7,324</u>	<u>52,010</u>
	Retailing		Services		Group			
	2002	2001	2002	2001	2002	2001		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Segment assets	103,478	69,689	27,135	11,608	130,613	81,297		
Unallocated assets					86,459	67,030		
Total assets					<u>217,072</u>	<u>148,327</u>		
Segment liabilities	31,756	21,900	17,739	4,404	49,495	26,304		
Unallocated liabilities (including minority interests)					7,003	16,366		
Total liabilities					<u>56,498</u>	<u>42,670</u>		
Depreciation	<u>7,019</u>	<u>5,457</u>	<u>3,032</u>	<u>2,425</u>	<u>10,051</u>	<u>7,882</u>		
Capital expenditures	<u>5,892</u>	<u>17,512</u>	<u>8,073</u>	<u>1,180</u>	<u>13,965</u>	<u>18,692</u>		

NOTES TO THE ACCOUNTS

3. **TURNOVER, REVENUE AND SEGMENT INFORMATION** *(Continued)*

Secondary reporting format – geographical segments

	Turnover		Capital expenditures		Total assets	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	210,769	234,622	9,456	16,461	68,265	56,557
PRC	8,469	–	2,783	–	28,594	2,662
Taiwan	89,211	51,376	1,726	2,231	33,754	22,078
	<u>308,449</u>	<u>285,998</u>	<u>13,965</u>	<u>18,692</u>	<u>130,613</u>	<u>81,297</u>
Unallocated assets					<u>86,459</u>	<u>67,030</u>
Total assets					<u>217,072</u>	<u>148,327</u>

4. **OPERATING PROFIT**

Operating profit is stated after crediting and charging the following:

	2002 HK\$'000	2001 HK\$'000
Crediting		
Gain on disposal of trading investments	<u>–</u>	<u>89</u>
Charging		
Amortisation of intangible assets	411	–
Auditors' remuneration	677	333
Operating leases rental on land and buildings	46,571	50,582
Unrealised loss on trading investments	173	1,469
Loss on disposals of fixed assets	156	705
Retirement benefit costs (included in staff costs)	1,891	1,383
Net exchange losses	137	104
Revaluation deficit on an investment property	<u>949</u>	<u>–</u>

5. TAXATION

	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax	3,028	7,358
Overseas taxation	2,129	1,123
Over provision in prior years	<u>(94)</u>	<u>(669)</u>
	<u>5,063</u>	<u>7,812</u>

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit, after setting off available tax losses brought forward from prior year, for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries/places in which the Group operates.

Deferred taxation assets have not been provided in respect of the following as the amounts are not material:

	2002 HK\$'000	2001 HK\$'000
Accelerated depreciation allowances	(517)	(285)
Tax losses	<u>763</u>	<u>1,033</u>
	<u>246</u>	<u>748</u>

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$8,025,000 (2001: HK\$nil).

7. DIVIDENDS

	2002 HK\$'000
Interim, paid, of 1.3 HK cents per ordinary share	4,243
Final, proposed on 14th January 2003, of 1.0 HK cents per ordinary share	<u>3,219</u>
	<u>7,462</u>

The Company was incorporated on 27th September 2001. Dividend paid during the year ended 30th September 2001 represented dividend paid by the relevant subsidiaries of the Group to their then shareholders outside the Group.

NOTES TO THE ACCOUNTS

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$7,324,000 (2001: HK\$52,010,000) and the weighted average number of 301,674,082 (2001: 269,280,000) ordinary shares in issue during the year.

No diluted earnings per share is calculated for the year ended 30th September 2002 since the exercise prices of the Company's outstanding options were higher than the average fair value per share of the Company during the year and the potential ordinary shares would have no dilutive effect.

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**(a) Directors' emoluments**

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Fees	157	–
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits-in-kinds	8,672	1,093
Bonuses	–	–
Retirement benefit costs	55	10
	<u>8,884</u>	<u>1,103</u>

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

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

The emoluments of the directors fell within the following bands:

	Number of Directors	
	2002	2001
Emolument bands		
HK\$ nil – HK\$1,000,000	5	5
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$4,500,000	–	–
HK\$4,500,001 – HK\$5,000,000	1	–
	<u>7</u>	<u>5</u>

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2001: one) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining two (2001: four) individuals during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries, housing allowances, other allowances and benefits-in-kinds	2,168	2,546
Bonuses	602	552
Retirement benefit costs	12	40
	<u>2,782</u>	<u>3,138</u>

The emoluments of employees fell within the following bands:

	Number of Employees	
	2002	2001
Emolument bands		
HK\$ nil – HK\$1,000,000	–	3
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	1	1
	<u>2</u>	<u>4</u>

During the year, no directors waived any emoluments and no emoluments have been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group as compensation for loss of office.

10. INTANGIBLE ASSETS

Group

	License fees HK\$'000
Additions	3,667
Amortisation charge	<u>(411)</u>
At 30th September 2002	<u>3,256</u>
At 30th September 2002	
Cost	3,667
Accumulated amortisation	<u>(411)</u>
Net book amount	<u>3,256</u>

There were no intangibles as of 30th September 2001.

NOTES TO THE ACCOUNTS

11. FIXED ASSETS

Group

	Investment property HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Office equipment, furniture and fixtures HK\$'000	Total HK\$'000
Cost or valuation						
As at 1st October 2001	6,899	20,678	3,611	2,540	7,556	41,284
Additions	–	8,827	340	904	3,894	13,965
Revaluation	(949)	–	–	–	–	(949)
Disposals	–	(345)	(448)	–	(158)	(951)
As at 30th September 2002	<u>5,950</u>	<u>29,160</u>	<u>3,503</u>	<u>3,444</u>	<u>11,292</u>	<u>53,349</u>
Accumulated depreciation and impairment						
As at 1st October 2001	–	8,610	1,306	1,252	1,843	13,011
Charge for the year	–	6,434	1,032	829	1,756	10,051
Disposals	–	(332)	(71)	–	(88)	(491)
As at 30th September 2002	<u>–</u>	<u>14,712</u>	<u>2,267</u>	<u>2,081</u>	<u>3,511</u>	<u>22,571</u>
Net book value						
As at 30th September 2002	<u>5,950</u>	<u>14,448</u>	<u>1,236</u>	<u>1,363</u>	<u>7,781</u>	<u>30,778</u>
As at 30th September 2001	<u>6,899</u>	<u>12,068</u>	<u>2,305</u>	<u>1,288</u>	<u>5,713</u>	<u>28,273</u>
The analysis of the cost or valuation at 30th September 2002 of the above assets is as follows:						
At cost	–	29,160	3,503	3,444	11,292	47,399
At valuation	<u>5,950</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>5,950</u>
	<u>5,950</u>	<u>29,160</u>	<u>3,503</u>	<u>3,444</u>	<u>11,292</u>	<u>53,349</u>
The analysis of the cost or valuation at 30th September 2001 of the above assets is as follows:						
At cost	6,899	20,678	3,611	2,540	7,556	41,284
At valuation	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>6,899</u>	<u>20,678</u>	<u>3,611</u>	<u>2,540</u>	<u>7,556</u>	<u>41,284</u>

The investment property is held under a medium-term lease (less than 50 years but not less than 10 years) in Hong Kong.

The investment property was revalued at 30th September 2002 on the basis of their open market value by American Appraisal Hongkong Limited, an independent firm of chartered surveyors.

12. INVESTMENTS IN SUBSIDIARIES**Company**

	2002 HK\$'000
Unlisted shares, at cost	3,000
Amounts due from subsidiaries	51,222
Amounts due to subsidiaries	<u>(7,112)</u>
	<u>47,110</u>

Details of the principal subsidiaries are set out on Note 26.

The amounts due from/to subsidiaries classified as current asset/liabilities are unsecured, interest-free and are repayable on demand.

13. OTHER INVESTMENTS**Group**

Other investments represent investments in various capital guaranteed funds stated at cost. As at 30th September 2002, the market value of other investments was approximately HK\$2,055,000 (2001: HK\$2,001,000).

These investments were pledged to a bank for bank guarantees given in respect of certain operating leases of certain shop premises as at 30th September 2001. The pledge and guarantee was released during the year ended 30th September 2002.

14. INVENTORIES**Group**

	2002 HK\$'000	2001 HK\$'000
Finished goods – merchandises	<u>36,901</u>	<u>18,682</u>

As at 30th September 2002 and 2001, all inventories were stated at cost.

15. TRADING INVESTMENTS**Group**

Trading investments are listed securities in Hong Kong and are stated at market value at the balance sheet date.

NOTES TO THE ACCOUNTS

16. ACCOUNTS RECEIVABLE**Group**

Details of the ageing analysis are as follows:

	2002 HK\$'000	2001 HK\$'000
0 to 30 days	18,152	6,322
31 days to 60 days	875	2,114
61 days to 90 days	468	3
Over 90 days	36	7
	<u>19,531</u>	<u>8,446</u>

Credit terms generally range from 30 days to 90 days.

17. ACCOUNTS PAYABLE**Group**

Details of the ageing analysis are as follows:

	2002 HK\$'000	2001 HK\$'000
0 to 30 days	<u>8,239</u>	<u>7,178</u>

18. RECEIPTS IN ADVANCE**Group**

The balance represents proceeds from sales of gift coupons not yet redeemed and money received in advance for beauty salon services.

19. SHARE CAPITAL**Company**

	Authorised ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 1st October 2001	3,800,000	380
Increase in authorised ordinary share capital	<u>996,200,000</u>	<u>99,620</u>
At 30th September 2002	<u>1,000,000,000</u>	<u>100,000</u>
	Issued and fully paid ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 30th September 2002	<u>326,400,000</u>	<u>32,640</u>

19. SHARE CAPITAL *(Continued)*

- (a) The Company was incorporated with an authorised share capital of HK\$380,000 divided into 3,800,000 shares with a nominal value of HK\$0.1 each. On 15th October 2001, one share of HK\$0.1 in the capital of the Company was allotted and issued at par.
- (b) In preparation for the listing of the Company's shares on the Stock Exchange, the following changes in authorised and issued share capital of the Company took place on 23rd January 2002:
- (i) the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of an additional 996,200,000 shares of HK\$0.1 each;
- (ii) as consideration for the acquisition by the Company of the entire issued capital of Water Oasis Group (BVI) Limited, now an intermediate holding company, an aggregate of 29,999,999 shares of HK\$0.1 each, credited as fully paid, were issued and allotted by the Company to the then shareholders of Water Oasis Group (BVI) Limited.
- (c) On 8th March 2002, a total of 239,280,000 shares of HK\$0.1 each were credited and issued as fully paid through a capitalisation issue from the share premium account of the Company (note 20).
- (d) A total of 57,120,000 new shares of HK\$0.1 each were issued and offered for subscription at a price of HK\$1.08 per share upon listing of the Company's shares on the Main Board of the Stock Exchange on 11th March 2002.
- (e) The share capital presented in the consolidated balance sheet as at 30th September 2001 represents the share capital of the Company, arising on incorporation, from the share swap transaction and capitalisation issue described in notes 19 (a), (b) (ii) and (c) above, which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of preparation referred to in note 1.

20. RESERVES**Group**

	Exchange reserve	Capital reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st October 2000 as previously reported	(55)	(25,694)	76,839	51,090
Effect of adopting SSAP 9 (revised)	—	—	8,910	8,910
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 1st October 2000 as restated	(55)	(25,694)	85,749	60,000
Profit attributable to shareholders	—	—	52,010	52,010
2000 final dividend	—	—	(8,910)	(8,910)
2001 interim dividend	—	—	(23,760)	(23,760)
Exchange differences	(611)	—	—	(611)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30th September 2001	<u>(666)</u>	<u>(25,694)</u>	<u>105,089</u>	<u>78,729</u>

NOTES TO THE ACCOUNTS

20. RESERVES (Continued)

Group (Continued)

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st October 2001	–	(666)	(25,694)	105,089	78,729
Profit attributable to shareholders	–	–	–	7,324	7,324
Proceeds from Initial Public Offer	55,978	–	–	–	55,978
Initial Public Offer expenses	(10,100)	–	–	–	(10,100)
Capitalisation issue (note 19)	(23,928)	–	23,928	–	–
2002 interim dividend	–	–	–	(4,243)	(4,243)
Exchange differences	–	246	–	–	246
	<u>21,950</u>	<u>(420)</u>	<u>(1,766)</u>	<u>108,170</u>	<u>127,934</u>
At 30th September 2002	<u>21,950</u>	<u>(420)</u>	<u>(1,766)</u>	<u>108,170</u>	<u>127,934</u>
Represented by:					
Reserves	21,950	(420)	(1,766)	104,951	124,715
Proposed final dividend	–	–	–	3,219	3,219
	<u>21,950</u>	<u>(420)</u>	<u>(1,766)</u>	<u>108,170</u>	<u>127,934</u>

The capital reserve of the Group represents the merger difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Reorganisation and the nominal value of the Company's shares issued in exchange therefor.

Company

	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st October 2001	–	–	–
Profit for the year	–	8,025	8,025
Proceeds from Initial Public Offer	55,978	–	55,978
Initial Public Offer expenses	(10,100)	–	(10,100)
Capitalisation issue (note 19)	(23,928)	–	(23,928)
2002 interim dividend	–	(4,243)	(4,243)
	<u>21,950</u>	<u>3,782</u>	<u>25,732</u>
At 30th September 2002	<u>21,950</u>	<u>3,782</u>	<u>25,732</u>
Represented by:			
Reserves	21,950	563	22,513
Proposed final dividend	–	3,219	3,219
	<u>21,950</u>	<u>3,782</u>	<u>25,732</u>

21. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 HK\$'000	2001 HK\$'000
Operating profit	11,969	60,505
Depreciation	10,051	7,882
Amortisation of license fees	411	–
Interest income	(936)	(2,782)
Gain on disposal of trading investments	–	(89)
Unrealised loss on trading investments	173	1,469
Loss on disposal of fixed assets	156	705
Revaluation on deficit on an investment property	949	–
Increase in inventories	(18,219)	(6,134)
Increase in accounts receivable	(11,085)	(172)
Increase in rental deposits, prepayments, other deposits and receivables	(6,387)	(12,452)
Decrease in loans to directors	–	7,901
Decrease in amounts due from shareholders	–	234
Decrease in amount due to a director	–	(438)
Increase in accounts payable	1,061	4,590
Increase/(decrease) in accruals and other payables	16,531	(10,670)
Increase in receipts in advance	9,703	1,788
	<u>14,377</u>	<u>52,337</u>
Net cash inflow from operating activities	<u>14,377</u>	<u>52,337</u>

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

	Share capital including premium and capital reserve		Minority interests	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At 1st October	1,234	1,234	2,610	1,832
Proceeds from Initial Public Offer	61,690	–	–	–
Initial Public Offer expenses	(10,100)	–	–	–
Minority interests' in share of (losses)/profits	–	–	(418)	683
Dividends paid to minority shareholders	–	–	(43)	(330)
Advance from a minority shareholder	–	–	284	425
Acquisition of further interest in a subsidiary	–	–	(1,267)	–
	<u>52,824</u>	<u>1,234</u>	<u>1,166</u>	<u>2,610</u>
At 30th September	<u>52,824</u>	<u>1,234</u>	<u>1,166</u>	<u>2,610</u>

NOTES TO THE ACCOUNTS

22. RETIREMENT BENEFIT COSTS

The Group has participated in the mandatory provident fund (the "Fund") for its employees in Hong Kong since December 2000. Contributions to the scheme by the Group are calculated at 5% of employees' relevant income. The retirement benefit costs charged to profit and loss account included contributions paid and payable by the Group to the Fund. The assets of the Fund are held separately from those of the Group in an independently administered fund. Contributions were also made by the subsidiaries of the Company in the PRC and Taiwan which participate in employee pension schemes operated by the governments or authorised administrators of the respective country/place. Total contributions made by the Group during the year ended 30th September 2002 amounted to HK\$1,891,000 (year ended 30th September 2001 HK\$1,383,000).

23. COMMITMENTS**(a) Capital commitments for property, plant and equipment**

	Group	
	2002	2001
	HK\$'000	HK\$'000
Contracted but not provided for	<u>315</u>	<u>–</u>

(b) Commitments under operating leases

At 30th September 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Not later than one year	34,766	35,712
Later than one year and not later than five years	<u>19,916</u>	<u>31,035</u>
	<u>54,682</u>	<u>66,747</u>

24. BANK FACILITIES

As at 30th September 2002, the Company and its subsidiaries were granted banking facilities amounted to HK\$18,000,000 by a bank (2001: Nil).

25. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	2002 HK\$'000	2001 HK\$'000
Acquisition of further interest in a subsidiary (note (a))	1,000	–
Purchase of an investment property from a director (note (b))	<u>–</u>	<u>6,899</u>

Note:

- (a) The Group acquired the remaining 1% interest in Water Oasis Company Limited ("WOCL") from two directors of the Company. Consideration paid was determined with reference to the net assets value of WOCL as at the transaction date.
- (b) The consideration for the purchase of the property was determined with reference to the then prevailing market price.

26. PARTICULARS OF SUBSIDIARIES

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
<i>Directly held:</i>				
Water Oasis Group (BVI) Limited	British Virgin Islands 16th December 1999	Ordinary shares US\$30,000	100%	Investment holding in Hong Kong
<i>Indirectly held:</i>				
Water Oasis Holdings Limited	British Virgin Islands 16th December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Oasis Spa Holdings Limited	British Virgin Islands 16th December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong

NOTES TO THE ACCOUNTS

26. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
<i>Indirectly held (Continued):</i>				
Oasis-Beauty.com Holdings Limited	British Virgin Islands 16th December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Water Oasis (Labuan) Holdings Limited	Labuan, Malaysia 28th June 2000	Ordinary shares US\$10,000	100%	Investment holding in Hong Kong
Water Oasis China (BVI) Limited	British Virgin Islands 12th October 2000	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Water Oasis (China) Company Limited	Hong Kong 26th July 2000	Ordinary shares HK\$2	100%	Dormant
Water Oasis Company Limited	Hong Kong 6th May 1998	Non-voting deferred shares HK\$1,000,000 Ordinary shares HK\$10,000	100%	Retail sales of skin-care products in Hong Kong
Oasis Spa Company Limited	Hong Kong 24th December 1999	Ordinary shares HK\$1,000,000	100%	Operating of beauty salon, spa and other related services in Hong Kong
Oasis-Beauty.com Limited	Hong Kong 24th December 1999	Ordinary shares HK\$10,000	100%	Sale of skin-care products via the internet in Hong Kong

26. PARTICULARS OF SUBSIDIARIES (Continued)

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
<i>Indirectly held (Continued):</i>				
水貝兒股份有限公司 (Water Babe Company Limited)	Taiwan 17th September 1999	Common stock NT\$20,000,000	90%	Retail sales of skin-care products in Taiwan
Water Oasis (China) Holdings Limited	Samoa 5th April 2000	Ordinary shares US\$101	90.1%	Investment holding in Hong Kong
Claire International Limited	Hong Kong 22nd October 1999	Ordinary shares HK\$2	100%	Inactive
Oasis Advertising Agency Company Limited	Hong Kong 18th October 2000	Ordinary shares HK\$2	100%	Advertising agency in Hong Kong
Water Oasis (Macau) Company Limited	Macau 19th July 2001	Ordinary shares Mop\$25,000	100%	Retail sales of skin-care products in Macau
Oasis Beauty Company Limited	Hong Kong 13th March 2002	Ordinary shares HK\$1,000,000	100%	Operating of beauty salons and provision of other related services in Hong Kong
Aricon Investments Limited	British Virgin Islands 8th March 2002	Ordinary shares US\$1	100%	Inactive

NOTES TO THE ACCOUNTS

26. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
<i>Indirectly held (Continued):</i>				
Master Advance Limited	Hong Kong 28th June 2002	Ordinary shares HK\$1,000,000	100%	Inactive
奥思美容品（上海）有限公司	PRC 9th February 2002	US\$200,000	90.1%	Retail sales of skin-care products in the PRC
奥思美容品（深圳）有限公司	PRC 10th October 2002	HK\$3,000,000	90.1%	Retail sales of skin-care products in the PRC

27. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 14th January 2003.