~H_2O+

WATEROASIS GROUP LIMITED
奧思集團有限公司

stock code : 1161

Brilliant Results Today
Promising Prospects Tomorrow

展現璀璨成果 開拓豐盛未來

2007

ANNUAL REPORT 年報

Contents

Corporate Profile

Water Oasis Group Limited is a skin-care and beauty group with exclusive distribution rights to the renowned ~H_2O+ brand skin-care product range in Hong Kong, Mainland China, Macau, Taiwan and Singapore, as well as exclusive distribution right to the global brand Neutrogena skin-care products at department store counters in Mainland China.

Boasting water-based, oil-free formula and health benefits from its use of ingredients extracted from the sea, the ~H_2O+ range has wide appeal for both men and women. Retail sales of ~H_2O+ products is a major revenue stream of the Group. It has the support of retail outlets in Hong Kong (14) and Macau (1), and (167) in Mainland China (a mix of (91) self-managed and (76) franchised outlets), Taiwan (13) and Singapore (2).

Granted the exclusive rights by Johnson & Johnson to distribute products of the globally recognised Neutrogena brand in Mainland China department stores, the Group has opened (74) self-managed and (45) franchised outlets for the brand in the country and have brought enormous revenue to the Group.

In addition to retailing ~H_2O+ and Neutrogena products, the Group operates a total of 19 Spa and Beauty outlets in Hong Kong. Its 2 "Oasis Spa" outlets provide beauty and slimming treatments, hydro-bath and massage services, featuring use of the full range of ~H_2O+ products. The Group also runs 13 "Oasis Beauty / Oasis Homme" outlets and 4 "Aqua Beauty" outlets. They offer a wide range of competitively-priced beauty treatments targeting the high, mid and mass market customers. Meanwhile, our "Oasis Beauty School" aiming at grooming professionals provides a good source of trained staff for our Group's need. In April 2007, the Group opened its first Oasis Beauty outlet in Beijing.

In October 2007, the Group was granted the exclusive rights to distribute the Italian-made "Needle-free Mesotherapy" EPOREX K69 beauty treatment equipment in Hong Kong, Macau and Mainland China. In addition, the Group acquired an advertising company business located in Shenzhen in the same month, allowing both to bring additional contributions to the Group. Besides, in November 2007, the Group has launched the "Oasis Florist" for supporting the Group's brand image, while supplying floral arrangements for internal use as well as to the general public.

To build a comprehensive spectrum of services, the Group planned to start the business of medical beauty in January 2008, entailing the offer of specialist medical beauty services such as laser, IPL, whitening, vein removal, and botox treatments. The new business represents expansion of the Group's operations in alignment with its core business.

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

CEO's Statement

A SIGNIFICANT TURNING POINT

The calendar year 2007 has shaped as a turning point for the forward momentum of our Group. We have spent the past couple of years planting ourselves firmly in Mainland China, and developing and expanding our ~H_2O+ and Neutrogena operations there. Investment and planning has been intensive, but the rewards of our foresight and energy have flowed quickly. The strong and rapidly growing Mainland China economy has worked in our favour, especially with the rise in spending power of the urban populace there. In our home base of Hong Kong, a dramatically reviving economy has been further good news for the Group. As we come to the end of 2007, we cannot only look back at a series of measures over the past couple of years to build our Mainland China profile, but also forward to several new projects that are set to inject further vigour and diversity into our operations. Starting this year, we have moved from a preparatory phase to one in which we are able to reap fully the rewards of our labours.

DUAL STRATEGIES FOR GROWTH

To take the Group forward over the coming year, we are undertaking expansion projects that are both 'organic' and 'inorganic' in nature. The first of these types involves continuing with our ambitious plans to create an unrivalled network of ~H_2O+ and Neutrogena outlets across the major cities of Mainland China to tap the huge demand for quality skincare products there. This will remain our main focus in the year to come, and we see it as our primary growth driver for the future. Other such activities include the development of the medical beauty centre, to be launched in Hong Kong in January 2008. Inorganic expansion involves acquiring new projects and businesses that complement our core operations and add additional value to our overall portfolio. These include new businesses such as our recent advertising agency acquisition and beauty equipment distributorship, and the upcoming possible acquisition of a stake in a cosmetic brand. The advantage of buying into new and well-established businesses is that results can be rapid, as infrastructure and sales networks are generally already in place.

A POSITIVE OUTLOOK

With a good year behind us, our expansion plans continuing smoothly, and a series of new and promising projects in outlet for 2008, we are expecting the Group's performance to offer much to please investors. In particular, robust economic performances in the past couple of years from our main markets have seen our results strengthen. We anticipate that the flow-on effects will lead to improvements in our net profit margins in the coming year.

Yu Lai Si
Executive Director and Chief Executive Officer
16th January 2008

Management Discussion and Analysis

The Group's retail business in Hong Kong was boosted by the launch of a new health drink product, Collagen 8000, in May. Consumer response was excellent and the product quickly began to generate a strong revenue stream alongside the Group's established beauty products, which proved to be a new niche of market with great potential. Since then, Collagen 8000 has been launched in Mainland China and Taiwan, where initial response has been very good.

Once again the Group has enjoyed a successful year, with its expansion initiatives being balanced by steady growth in existing markets. Turnover for the Group continues strong, and double-digit growth was recorded by comparison with last year. This was largely driven by the Group's ongoing Mainland China expansion, with the Group now having more outlets than ever up and running; at the same time, however, the Group's Hong Kong retail outlets have continued to provide solid returns. Meanwhile, income from the Group's Hong Kong services operations (namely, its Oasis Spa and Oasis Beauty outlets) was robust, reflecting a great improvement in our business operations accompanied with a rekindled economic environment in the city, and turnover grew over the equivalent figure for last year. Overall, profit attributable to equity holders achieved solid growth over that recorded last year.

In breaking down profit contributions from the Group's business sectors, one point of note was that profit after tax from the Group's Mainland China ~H_2O+ and Neutrogena outlets represented a record high from this source, approximately three times the profit achieved last year. The Group's retail business in Hong Kong was boosted by the launch of a new health drink product, Collagen 8000, in May. Consumer response was excellent and the product quickly began to generate a strong revenue stream alongside the Group's established beauty products, which proved to be a new niche of market with great potential. Since then, Collagen 8000 has been launched in Mainland China and Taiwan, where initial response has been very good.

Given the developments of the year past, the Group has very positive expectations of the coming twelve months, particularly from its Mainland China activities. With record profits being generated from Mainland China operations, the Group is looking to further expand its retail outlets there, and move forward with exploiting the beauty services market in Mainland China's large cities. Its new medical beauty business in Hong Kong, described below, is another high-potential operation which is expected to make a significant contribution to the Group's development.

~H_2O+ Retail Business

MAINLAND CHINA

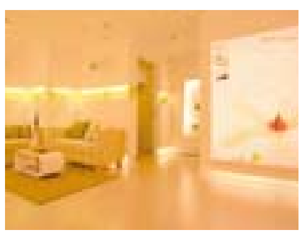
Mainland China remains the prime focus of the Group's plans for future expansion and development, and in the year under review that focus could be seen in the expanding number of retail outlets established there. At the end of December 2007, the Group had opened a total of 167 outlets in Mainland China, an increase from the 136 outlets operating at the beginning of the year.

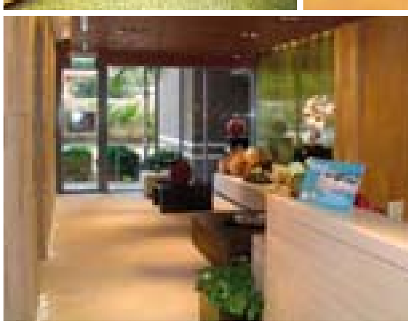
HONG KONG

The Group has continued with its Hong Kong growth strategy, which involves tapping into the new opportunities arising from a resurgent Hong Kong economy while keeping close control of the rising staff and property rental costs that have followed the economic upturn. The number of the Group's outlets has remained stable at 15 at December end 2007, and rationalisation has primarily been achieved through the implementation of cost controls in rental, staffing, and advertising expenditures. For example, the Group has been able to reduce the impact of rapidly rising rentals by negotiating longer leases on some properties. It has also reduced advertising costs as a percentage of revenue from double to single figures, while ensuring that the Group's products maintain a high public profile and brand image. A proportion of these advertising costs have been redirected into a range of Public Relation activities, along with the Group's Customer Loyalty programme, where the extra benefits they enable the Group to offer its VIP customers are proving highly effective in building goodwill and getting the Group's products and services known by word of mouth.

Neutrogena Business

The Group's Neutrogena business in Mainland China has gathered considerable momentum and has been expanding at a rapid pace over the past twelve months. After just one full year of sales, this business strand is already contributing positively to the Group's bottom line, after the number of Neutrogena outlets expanded from 41 at the beginning of the year to a total of 119 at December end 2007.





Spa and Beauty Business

MAINLAND CHINA

The Group achieved a significant milestone in April 2007 when it opened its first Oasis Beauty outlet in Beijing. Located in the prestigious Beijing APM building, a prime retail and commercial destination in Beijing, the new Oasis Beauty fits well with its high-end surroundings and has attracted a steady-stream of high calibre clients. Given the good start and clear appeal of the Beijing beauty centre, the Group is currently exploring several other sites in major cities such as Beijing, Shanghai and Guangzhou with a view to opening further outlets.

HONG KONG

At the end of December 2007, the Group was operating 2 high-end Oasis Spa outlets and 17 Oasis Beauty outlets across Hong Kong.

The Group enjoyed steady growth of its customer base over the year, which in turn helped it achieve growth in its beauty services income. This growth was helped by innovations and improvements made over the year, including the introduction of new equipment and new treatments to both the Spa and Beauty Centres, a general revamp and upgrading of the Group's Spa services, and improved Public Relation promotion of this area of the Group's operations. Despite the increasing contribution of the Group's Mainland China operations to its overall turnover, its Hong Kong beauty business continued to prove its worth by contributing a good proportion of the Group's total turnover. Its outlets offer distinctive and in some cases unique beauty services and treatments at competitive prices, and responses have been good.

During August of the year under review, the Group began providing in-house spa facilities for Henderson Land Development Group's brand-new prestige housing complex 'The Sherwood'. Another private spa to be run by the Group in the same developer's 'Grand Waterfront' development will be opening soon.

Prospects

FOCUSED EXPANSION ACROSS THE BOARD

After a period of rationalisation in Hong Kong, the Group is about to expand its ~H_2O+ outlets in the territory with plans to open an extra 3 outlets in the year of 2008, bringing the total number of outlets to 18. The Group has decided to expand its geographical coverage to more of the New Territories, and including plans to open the extra stores in Tsuen Wan and Sheung Shui. At the time of writing, suitable locations had already been selected and leases signed. With historically low unemployment and an improving economy in Hong Kong, the Group believes that demand for ~H_2O+ products is on the increase in the territory.

In Mainland China, meanwhile, the Group has clear plans to have a total of approximately 190 ~H_2O+ outlets operating by the end of year 2008. Besides outlet expansion, the Group is also steadily expanding the product range it offers Mainland China customers. The new Collagen 8000 product, which was a health drink launched with great success in Hong Kong in May, went on sale in Mainland China in October. The response there was excellent, with the Group's large stock of initial supplies selling out in just a fortnight, and customers clamouring for more. Collagen 8000 definitely appears to have the potential to become one of the Group's single biggest revenue contributors in Mainland China.

Neutrogena sales still have enormous potential in Mainland China, and the Group will be pushing ahead to continue expanding its network of retail outlets across the country. It aims to have a total of approximately 180 outlets by the end of year 2008. In addition, the Group will launch further products to the range currently being offered in Mainland China outlets over the coming year, including the widely-popular 'Waterwhite' series.

The Group also expects to ride on the strengthening demand for its beauty services in Hong Kong by expanding its beauty centre operations. It intends to open further Oasis Beauty centres in the coming year, serving customers in the New Territories. Suitable locations for these branches are still being negotiated. In Mainland China, meanwhile, the successful opening of the Beijing beauty centre has prompted the Group to consider opening further centres in prime cities such as Beijing and Shanghai. If satisfactory locations can be found, these may be launched in the coming year.

MEDICAL BEAUTY

One new initiative which the Group believes to possess very high potential is the launch, scheduled for January 2008, of a medical beauty arm. This will provide specialist medical beauty services such as laser, IPL, whitening, vein removal, and botox treatments. These sorts of services are in great demand in Hong Kong, and command a significant price premium. To be located in a centralised clinic, the medical beauty centre will be operated by doctors and staffed by trained specialists and advisers. Once this centre is up and running, the Group will boast a comprehensive spectrum of services right across the beauty industry.

DISTRIBUTION OF BEAUTY EQUIPMENT

During 2007, the Group imported Italian-made "Needle-free Mesotherapy" EPOREX K69 beauty treatment equipment for use in our spa and beauty centres. In October, it was granted the exclusive rights to distribute this equipment in Hong Kong, Macau and Mainland China to other beauty services providers. The Group is optimistic about the potential for this equipment, which combines different functions for beautification. Accompanying the machine are certain unique beauty products that provide customers with additional benefits, so sales of the equipment will lead to a continuing revenue stream.

NEW SUPPORT FOR ADVERTISING INITIATIVES

In October 2007, the Group acquired an advertising company business located in Shenzhen. The business currently has a solid customer base and talented staff, and as such will bring the Group a new stream of revenue. More importantly, however, it will provide the Group with better internal support for its own advertising initiatives, particularly in Mainland China. Plans are in place to expand the operations of the agency to Hong Kong and to Shanghai, enabling the Group to support its expanding projects in northern Mainland China.

OASIS FLORIST

Another very recent development has been the launch of Oasis Florist, a new initiative that will support the Group's brand image, while supplying floral arrangements for internal use as well as to the general public.

Directors and Senior Management

Directors

EXECUTIVE DIRECTORS

Ms. YU Lai Si, aged 46, is one of the founders and is the chief executive officer of the Group. Ms. Yu holds a Bachelor's Degree in Business Administration. She started her career in the services industry and then moved to the advertising industry. In 1993, she set up her own distribution business and acted as the sole distributing agent of various well-known international brands of cosmetics and fashion labels. Ms. Yu is primarily responsible for corporate policy formulation, business strategy planning, business development and the overall management of the Group. Ms. Yu is the sister of Ms. Yu Lai Chu, Eileen and Mr. Yu Kam Shui, Erastus.

Mr. TAM Chie Sang, aged 55, is one of the founders of the Group. He started his career in the retail and services industry in 1967 and he once owned and managed a retail jewellery chain. Since 2006, Mr. Tam starts building up his business in catering industry. Mr. Tam first became involved in the cosmetic and skin-care businesses in 1993 and was, together with Ms. Yu Lai Si, and Ms. Yu Lai Chu, Eileen, the sole agent for several well-known international brands before the founders set up the Group. Mr. Tam is primarily responsible for the strategic planning of the Group. Mr. Tam is the husband of Ms. Yu Lai Chu, Eileen.

Ms. YU Lai Chu, Eileen, aged 55, is one of the founders of the Group. Ms. Yu started her own realty agency business in 1984 and she managed a retail jewellery chain with Mr. Tam Chie Sang. In 1993, she entered into the cosmetic and skin-care market. Ms. Yu, Mr. Tam Chie Sang and Ms. Yu Lai Si acted as the sole distributing agent of a number of well-known international brands of cosmetics. She is primarily responsible for the business development of the Group with particular emphasis on the spa business. Ms. Yu is the sister of Ms. Yu Lai Si and Mr. Yu Kam Shui, Erastus and is the wife of Mr. Tam Chie Sang.

Mr. YU Kam Shui, Erastus, aged 57, is one of the founders of the Group and the founder of the Group's Taiwan operations. He holds a Bachelor's Degree in Business Administration from the University of Hawaii. Mr. Yu started his career in trading in the United States in 1993. In 1999, he set up Water Babe Company Limited, through which the Group's Taiwan operations are run, and was the managing director of that company until January 2001. Mr. Yu is primarily responsible for the business development of the Group. Mr. Yu is the brother of Ms. Yu Lai Chu, Eileen and Ms. Yu Lai Si and is Ms. Lai Yin Ping's husband.

Ms. LAI Yin Ping, aged 52, is one of the founders of the Group. She holds a Bachelor's Degree in Arts with Economics as her major. Prior to founding the Group in May 1998, she co-founded a trading business with Mr. Yu Kam Shui, Erastus in the United States in 1993. Ms. Lai is primarily responsible for the strategic planning of the Group. Ms. Lai is the wife of Mr. Yu Kam Shui, Erastus.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. WONG Lung Tak, Patrick, J.P., aged 59, is an independent non-executive director. Dr. Wong is a Practising Certified Public Accountant and is the managing director of Wong Lam Leung & Kwok CPA Limited. He has over 30 years' experience in the accountancy profession. Among his qualifications, he obtained a Doctor of Philosophy in Business in 2000, awarded a Badge of Honour in 1993 by the Queen of England and appointed a Justice of the Peace in 1998. Dr. Wong involves in many other community services, holding posts in various organisations and committees in government and voluntary agencies.

Mr. WONG Chun Nam, aged 54, is an independent non-executive director. Mr. Wong is a partner of Ho, Wong & Wong Solicitors & Notaries, practicing commercial, corporate and tax law. Mr. Wong has been a practicing solicitor in Hong Kong since 1982 and is also a Notary Public, a Chartered Secretary, an associate of the Taxation Institute of Hong Kong, and a member of the Chartered Institute of Arbitrators. He participates in many community services including being a member of the Quality Education Fund Steering Committee.

Dr. WONG Chi Keung, aged 52, is an independent non-executive director. Dr. Wong holds a Doctorate Degree in Business and is a member of the Hong Kong Institute of Housing and Chartered Institute of Housing and a fellow of the Hong Kong Institute of Real Estate Administrators. He is an honorary fellow of Quangxi Academy of Social Science as well as a member of the Chinese People's Political Consultative Conference, Nanning City, Guangxi, the People's Republic of China, and vice chairman of Hong Kong Auxiliary Medical Services Officers' Club. Dr. Wong has also held various senior executive positions with some of Hong Kong's leading property companies.

Senior Management

Mr. AU Moon Ying, Henry, aged 41, is the Chief Financial Officer of the Group. Prior to joining the Group since March 2007, Mr. Au has over 18 years of financial management, accounting, auditing, business planning and development experiences in various blue-chip listed companies and in an international accounting firm. He holds a Master Degree in Business Administration and a Bachelor Degree of Arts (Hons.) majoring in Accountancy. Mr. Au is a Chartered Accountant of England and Wales, a Practicing Certified Public Accountant of The Hong Kong Institute of Certified Public Accountants, a fellow of The Association of Chartered Certified Accountants as well as an associate of the Institute of Canadian General Accountants.

Ms. CHIEN I-Chi, Vicky, aged 40, is the General Manager of the Group's operation in Taiwan. Ms. Chien holds a MBA and a Bachelor's Degree in Mass Communications. Prior to joining the Group in 2006, Ms. Chien has over 10 years' experience in the cosmetic and beauty industry, with key job scope spanning over general management, operations, marketing, advertising, training and customer service. Before that, she has also worked for various global advertising agencies.

Ms. CHOW Wai Yan, Elsa, aged 34, is the Senior Marketing Manager of the Group. Ms. Chow holds a Bachelor of Science Degree and is responsible for overseeing marketing, advertising and promotion functions for the Group. Ms. Chow has more than 10 years of experience in these areas. Prior to joining the Group in May 2002, Ms. Chow worked for various reputable advertising agencies and had served a number of international FMCG corporate clients.

Mr. HO Fai Man, Patrick, aged 39, is the General Manager overseeing the Group's operations in Mainland China since 2002. Mr. Ho holds a Bachelor's Degree in Accounting and is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. Mr. Ho has more than 15 years' experience in auditing, finance, accounting and business development areas in international accounting firm, multinational corporations and Hong Kong listed companies. Mr. Ho joined the Group in 2002.

Ms. NIP Pui Que, Phoebe, aged 43, is the Operations Manager overseeing the spa and beauty centres' operations in Hong Kong. Ms. Nip holds a diploma in beauty therapy and has more than 14 years' sales and management experience working for a number of well-known beauty and fitness chain centres. Ms. Nip joined the Group in 2000.

Mr. TAM Siu Kei, Alan, aged 30, is the Group's Operations Manager. Joining the Group in 1999, Mr. Tam is currently in charge of retail operations of the ~H_2O+ brand in Hong Kong and Singapore as well as overseeing the beauty centres' operations in Hong Kong. Mr. Tam holds a Bachelor of Arts Degree in Contemporary English Language. Mr. Tam is the son of Mr. Tam Chie Sang and Ms. Yu Lai Chu, Eileen, both are directors of the Company.

Corporate Governance Report

The Board of Directors ("Board") is pleased to present this Corporate Governance Report in the Company Annual Report for the year ended 30th September 2007.

In November 2004, The Stock Exchange of Hong Kong Limited ("Stock Exchange") promulgated the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange ("Listing Rules") which sets out the corporate governance principles ("Principles") and the code provisions ("Code Provisions") with which the listed issuers are expected to follow and comply.

The Board is committed to upholding a high standard of corporate governance practices and business ethics with the firm belief that they are essential for maintaining and promoting investors' confidence and maximising shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance.

Corporate Governance

In the opinion of the directors, save as disclosed below, the Company has complied with the Code Provisions set out in the CG Code contained in Appendix 14 of the Listing Rules throughout the year ended 30th September 2007.

CODE PROVISION A.2.1

The Board 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 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 maximises the 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.

Board of Directors

RESPONSIBILITIES

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The Board delegates the authority and responsibilities to the senior management for the day-to-day management and operations of the Group. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management.

All directors have full and timely access to all relevant information in relation to the Company as well as the advice and services of the Company Secretary, if and when required, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

There are established procedures for directors to seek independent professional advice for them to discharge their duties and responsibilities, where appropriate at the Company's expense.

Board Composition

The Board currently comprises five executive directors and three independent non-executive directors from different business and professional fields. The profiles of each director are set out in the "Directors and Senior Management" section in this Annual Report. The directors, including the independent non-executive directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions.

The Board is responsible for selection and approval of candidates for appointment as directors to the Board. Accordingly, the Company has not established a Nomination Committee for the time being.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

The Company has arranged Directors' and Officers' Liability Insurance for the directors and officers of the Company.

Board and Board Committee Meetings

NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

Regular Board meetings are held at regular intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Excluding the Board meeting for options approval, the Board met four times during the year ended 30th September 2007.

PRACTICES AND CONDUCT OF MEETINGS

Notices of regular Board meetings are served to all directors at least 14 days before the meetings while reasonable notice is generally given for other Board meetings. For committee meetings, notices are served in accordance with the required notice period stated in the relevant terms of reference.

Agenda and Board papers together with all appropriate, complete and reliable information are normally sent to all directors before each Board meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. All directors are given the opportunity to include matters in the agenda for regular Board meetings. The Board and each director also have separate and independent access to the senior management whenever necessary.

Minutes of all Board meetings recording sufficient details of matters considered and decisions reached are kept by the secretary of the meetings and are open for inspection by the directors.

The attendance of individual members of the Board and other Board Committees meetings during the year ended 30th September 2007 is set out in the table below:

	Meetings attended/held					
Directors	**Full Board**	**Board for Options Approval**	**Executive Board ***	**Audit Committee**	**Remuneration Committee**	**AGM**
Executive Directors						
YU Lai Si	2/2	15/15	2/2			1/1
TAM Chie Sang	2/2	14/15	2/2			1/1
YU Lai Chu, Eileen	2/2	1/15	2/2			1/1
YU Kam Shui, Erastus	2/2		2/2			1/1
LAI Yin Ping	1/2		0/2			0/1
Independent Non-executive Directors						
WONG Lung Tak, Patrick, J.P.	2/2			4/4	1/1	1/1
WONG Chun Nam	2/2			4/4	1/1	1/1
WONG Chi Keung	2/2			4/4	1/1	1/1

* *comprises all executive directors of the Company*

Board Committees

To oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established three Board Committees, namely Audit Committee, Remuneration Committee and Investment Advisory Committee. Independent non-executive directors play an important role in these committees to ensure independent and objective views are expressed and to promote critical review and control.

Audit Committee

The Audit Committee comprises all of the three independent non-executive directors and is chaired by Mr. Wong Lung Tak, Patrick, J.P., a qualified accountant with extensive experience in financial reporting and controls. It is responsible for appointment of external auditors, review of the Group's financial information, oversee of the Group's financial reporting system and internal control procedures. It is also responsible for reviewing the interim and final results of the Group prior to recommending them to the Board for approval. It meets regularly to review financial reporting and internal control matters and to this end has unrestricted access to both the Company's external and internal auditors. Its terms of reference are available on request.

In 2007, four meetings were held by the Audit Committee. At the meetings, it reviewed the final results for 2006 and the interim results for 2007 respectively with the external auditors and also the activities of the Group's internal control functions.

It also reviewed the Company's progress in implementing the corporate governance requirements as set out in the CG Code.

Remuneration Committee

To comply with the CG Code, a Remuneration Committee was established on 26th June 2006. The members of the Remuneration Committee comprises 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.

The Remuneration Committee shall meet at least once every year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior executives and other related matters.

During the year ended 30th September 2007, one Remuneration Committee meeting was held.

Investment Advisory Committee

To establish better control on the Group's investment portfolio, an Investment Advisory Committee was established on 15th November 2007. The members of the Investment Advisory Committee comprises all independent non-executive directors of the Company and Ms. Yu Lai Si, executive director and chief executive officer of the Company, and is chaired by Dr . Wong Chi Keung.

The objectives of this Committee are to set guidelines on the portfolio mix of the Group's investments for the daily execution of investment decisions and monitoring of the investment portfolio. The Committee shall meet at regular intervals for reviewing the investment directions and the portfolio mix as well as evaluating the performance of the investment portfolio.

In 2007, one Investment Advisory Committee meeting was held.

Auditor's Remuneration

On 18th September 2007, Deloitte Touche Tohmatsu has been appointed as auditor of the Group to fill the casual vacancy following the resignation of PricewaterhouseCoopers. The Board confirmed that there was no circumstance in respect of the resignation of PricewaterhouseCoopers which it considers should be brought to the attention of the shareholders of the Company.

The remuneration paid or payable to the Group's independent auditor, Deloitte Touche Tohmatsu, and its affiliated firms, for services rendered is broken down below:

(In HK$'000)	**2007**
Statutory audit	**1,135**
Non-audit services	**–**
Total	**1,135**

The non-audit services mainly comprised tax advisory and interim review services.

The responsibilities of the independent auditor with respect to the 2007 financial statements are set out in the section "Independent Auditor's Report" on pages 28 to 29.

Directors' Responsibility for the Financial Statements

The directors are responsible for overseeing the preparation of accounts for each financial period with a view to ensuring such accounts give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable.

Internal Control

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority, and is designed to help the Group achieve its business objectives, safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Following a specific enquiry, each of the directors confirmed that he/she complied with the Model Code for transactions in the Company's securities throughout the year.

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

Directors' Report

The directors present their Annual Report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 30th September 2007.

Principal Activities

The Company is an investment holding company. Its principal subsidiaries are engaged in the distribution of ~H_2O+ brand skin-care products in Hong Kong, Macau, Taiwan, Mainland China and Singapore as well as the distribution of Neutrogena brand skin-care products in Mainland China. Certain of its principal subsidiaries also engaged in the operation of spa and beauty centres in Hong Kong under the brand names "Oasis Spa", "Oasis Beauty", "Aqua Beauty" and "Oasis Homme", which offer wide varieties of beauty and massage services. The Company and its subsidiaries are hereinafter collectively referred to as the "Group".

Details of the Company's principal subsidiaries at 30th September 2007 are set out in note 31 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 30th September 2007 are set out in the consolidated income statement on page 30.

The directors recommended a final dividend of 8.0 HK cents per share and a special dividend of 2.0 HK cents per share (collectively the "Final Dividend") for the year ended 30th September 2007 payable to shareholders whose names appear on the Register of Members of the Company at the close of business on 11th March 2008. Subject to the passing of the relevant resolution at the forthcoming Annual General Meeting, the Final Dividend will be payable on 19th March 2008.

Share Capital

Details of the Company's authorised and issued share capital as at 30th September 2007 are set out in note 24 to the financial statements.

Reserves

Movements in the reserves of the Group and of the Company are set out in note 25 to the financial statements.

Investment Properties

The Group revalued its investment properties as at 30th September 2007 on an open market value basis. Details of which are set out in note 14 to the financial statements.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 15 to the financial statements.

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 80.

Directors and Directors' Services Agreements

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

EXECUTIVE DIRECTORS:

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

INDEPENDENT NON-EXECUTIVE DIRECTORS:

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

In accordance with Articles 87(1) and (2) of the Company's articles of association, Tam Chie Sang and Wong Chi Keung would retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Company considers that Wong Lung Tak, Patrick, J.P., Wong Chun Nam and Wong Chi Keung are independent pursuant to the criteria set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and that confirmations of independence have been received from each of them.

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

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

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

Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures

As at 30th September 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

LONG POSITION IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

Name of director	The Company/ name of associated corporation	Capacity	Number and class of shares: Personal interests	Corporate interests	Family interests	Other interests	Total	Percentage of issued share capital
Yu Lai Si	The Company	Beneficial owner	80,356,880 ordinary	–	–	–	80,356,880 ordinary	22.5%
	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	1,500,000 ordinary	–	2,480,000 ordinary(2)	77,666,880 ordinary(1)	81,646,880 ordinary	22.9%
	Water Oasis Company Limited	Beneficial owner and interest of spouse	165,000 non voting deferred	–	165,000 non voting deferred(2)	–	330,000 non voting deferred	–
Yu Lai Chu, Eileen	The Company	Beneficial owner and interest of a controlled corporation	2,480,000 ordinary	–	1,500,000 ordinary(3)	77,666,880 ordinary(1)	81,646,880 ordinary	22.9%
	Water Oasis Company Limited	Beneficial owner and interest of spouse	165,000 non voting deferred	–	165,000 non voting deferred(3)	–	330,000 non voting deferred	–
Yu Kam Shui, Erastus	The Company	Beneficial owner and interest of spouse	1,500,000 ordinary	–	1,500,000 ordinary(4)	–	3,000,000 ordinary	0.8%
Lai Yin Ping	The Company	Beneficial owner and interest of spouse	1,500,000 ordinary	–	1,500,000 ordinary(5)	–	3,000,000 ordinary	0.8%
Wong Lung Tak, Patrick, J.P.	The Company	Beneficial owner	600,000 ordinary	–	–	–	600,000 ordinary	0.2%
Wong Chun Nam	The Company	Beneficial owner	600,000 ordinary	–	–	–	600,000 ordinary	0.2%

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.

(4) These shares are registered in the name of Lai Yin Ping, the wife of Yu Kam Shui, Erastus.

(5) These shares are registered in the name of Yu Kam Shui, Erastus, the husband of Lai Yin Ping.

Other than aforesaid and as disclosed under the section headed "Share Options" below, there were no long positions in the underlying shares and debentures or any short positions in the shares, underlying shares and debentures of the Company and its associated corporations, which were recorded in the register as required to be kept under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

As at 30th September 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

Particulars of the Company's share option scheme are set out in note 24 to the financial statements.

Movements in the Company's share options during the year are as follows:

Category and name of participant	Date of grant	Exercise period	Exercise price per share HK$	Balance as at 1st October 2006	Granted	Exercised	Cancelled/ Lapsed	Balance as at 30th September 2007
Directors								
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	–	1,000,000	–	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	–	7,300,000	–	8,000,000

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 30th September 2007
Supplier								
H_2O Plus, L.P.	11th March 2002	11th March 2002 – 10th March 2012	1.18	3,264,000	–	–	–	3,264,000
	12th March 2003	12th March 2003 – 11th March 2013	0.54	976,000	–	–	–	976,000
				4,240,000	–	–	–	4,240,000
Employees (In aggregate)								
	26th April 2002	26th October 2002 – 25th April 2007	1.67	750,000	–	–	750,000	–
	26th April 2002	26th April 2003 – 25th April 2007	1.67	750,000	–	–	750,000	–
	30th August 2002	28th February 2003 – 29th August 2007	0.52	1,484,000	–	1,320,000	164,000	–
	30th August 2002	31st August 2003 – 29th August 2007	0.52	2,560,000	–	2,320,000	240,000	–
	30th August 2002	29th February 2004 – 29th August 2007	0.52	1,560,000	–	1,320,000	240,000	–
	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	–	7,020,000	2,384,000	580,000

In general, the employees may exercise one-third of each of their respective share options within six months, twelve months and eighteen months from the date of grant.

The directors do not consider it is appropriate to disclose a theoretical value of the share options of the Company granted because a number of factors crucial for the valuation are subjective and uncertain. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful, and would be misleading.

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

Substantial Shareholders

As at 30th September 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

Name of Shareholder	Capacity	Number of ordinary shares	Approximate percentage of voting power
Zinna Group Limited[(1)]	Interest of a controlled corporation	77,666,880	21.8%
Advance Favour Holdings Limited[(2)]	Interest of a controlled corporation	38,833,440	10.9%
Billion Well Holdings Limited[(3)]	Interest of a controlled corporation	38,833,440	10.9%

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.

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 2007, the aggregate purchases attributable to the Group's five largest suppliers represented approximately 96% 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 2007, distributable reserves of the Company amounted to approximately HK$42,101,000.

Employees and Remuneration Policies

As at 30th September 2007, the Group employed 1,401 staff (2006: 1,236). Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance and medical cover, educational allowances and training programs. Options to subscribe for a maximum of approximately 8.6 million shares in the Company in aggregate had been granted and are outstanding as at 30th September 2007 to certain directors and employees pursuant to the Company's share option scheme. Exercise price of which is HK$0.42.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 30th September 2007, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

Pre-emptive Rights

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

Compliance with the Model Code

The Company has adopted the Model Code 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 year.

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

Sufficiency of Public Float

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

Compliance with the Code of Best Practice

In the opinion of the directors, the Company has complied throughout the financial year ended 30th September 2007 with the Code of Best Practice set out in Appendix 14 to the Listing Rules except for those as detailed in the Corporate Governance Report set out in this Annual Report.

Audit Committee

The Company's Audit Committee comprises Dr. Wong Lung Tak, Patrick, J.P., Mr. Wong Chun Nam and Dr. Wong Chi Keung who are the independent non-executive directors of the Company. In establishing the terms of reference for this committee, the directors had made reference to the "Guide for the formation of an audit committee" issued by the Hong Kong Institute of Certified Public Accountants in December 1997.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the audited consolidated financial statements of the Group for the year ended 30th September 2007 with management and discussed with the independent auditor on auditing, internal control and financial reporting matters in respect of the Annual Report.

Auditor

The accompanying financial statements have been audited by Deloitte Touche Tohmatsu 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, 16th January 2008

Independent Auditor's Report

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

TO THE MEMBERS OF WATER OASIS GROUP LIMITED
奧思集團有限公司

(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Water Oasis Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 79, which comprise the consolidated and Company balance sheets as at 30th September 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30th September 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 16th January 2008

Consolidated Income Statement

	Note	FOR THE YEAR ENDED 30TH SEPTEMBER 2007 HK$'000	2006 HK$'000
Turnover	5	**593,358**	484,018
Purchases and changes in inventories of finished goods		**(131,485)**	(106,810)
Other revenues	5	**12,258**	5,396
Increase in fair value of investment properties		**2,300**	–
Staff costs	11	**(178,040)**	(153,325)
Depreciation of property, plant and equipment		**(22,293)**	(20,628)
Other operating expenses		**(223,355)**	(195,052)
Profit before taxation	6	**52,743**	13,599
Taxation	7	**(10,176)**	733
Profit for the year		**42,567**	14,332
Attributable to:			
Equity holders of the Company		**40,723**	13,600
Minority interests		**1,844**	732
		42,567	14,332
Dividends	9	**53,325**	27,723
Earnings per share			
Basic	10	**11.7 HK cents**	4.0 HK cents
Diluted	10	**11.5 HK cents**	N/A

Consolidated Balance Sheet

	Note	AS AT 30TH SEPTEMBER 2007 HK$'000	2006 HK$'000
Non-current assets			
Intangible assets	13	**1,063**	516
Investment properties	14	**29,300**	27,000
Property, plant and equipment	15	**26,104**	33,374
Rental deposits and prepayments	17	**14,838**	13,212
Deferred tax assets	27	**4,261**	5,025
		75,566	79,127
Current assets			
Inventories	18	**49,556**	45,343
Financial assets at fair value through profit or loss	19	**20,063**	9,615
Trade receivables	20	**58,049**	39,732
Prepayments		**20,962**	17,865
Other deposits and receivables		**13,859**	7,320
Tax recoverable		**52**	232
Bank balances and cash	21	**161,915**	130,293
		324,456	250,400
Current liabilities			
Trade payables	22	**3,027**	6,231
Accruals and other payables		**76,496**	63,189
Receipts in advance	23	**140,161**	103,604
Tax payable		**9,674**	3,572
		229,358	176,596
Net current assets		**95,098**	73,804
Total assets less current liabilities		**170,664**	152,931
Capital and reserves			
Share capital	24	**35,674**	34,242
Reserves	25	**131,507**	117,163
Equity attributable to equity holders of the Company		**167,181**	151,405
Minority interests		**2,597**	847
Total equity		**169,778**	152,252
Non-current liabilities			
Pension obligations	26	**473**	529
Deferred tax liabilities	27	**413**	150
		170,664	152,931

TAM Chie Sang
Executive Director

YU Lai Si
Executive Director

Balance Sheet

	Note	AS AT 30TH SEPTEMBER 2007 HK$'000	2006 HK$'000
Non-current assets			
Investments in subsidiaries	16	**3,000**	3,000
Current assets			
Amounts due from subsidiaries	16	**112,608**	78,387
Prepayments		**142**	95
Bank balances and cash		**1,910**	1,030
		114,660	79,512
Current liabilities			
Amounts due to subsidiaries	16	**5,837**	1,117
Other payables		**980**	716
		6,817	1,833
Net current assets		**107,843**	77,679
Total assets less current liabilities		**110,843**	80,679
Capital and reserves			
Share capital	24	**35,674**	34,242
Reserves	25	**75,169**	46,437
Equity attributable to equity holders of the Company		**110,843**	80,679

TAM Chie Sang
Executive Director

YU Lai Si
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 30th September 2006

	Note	Attributable to equity holders of the Company: Share Capital HK$'000	Reserves HK$'000	Total HK$'000	Minority Interests HK$'000	Total HK$'000
At 1st October 2005		34,212	123,190	157,402	209	157,611
Exchange differences arising from translation of overseas operations recognised directly in equity		–	809	809	–	809
Profit for the year		–	13,600	13,600	732	14,332
Total recognised income for the year		–	14,409	14,409	732	15,141
Issue of shares upon exercise of share options	24	30	96	126	–	126
Dividends paid	25	–	(20,532)	(20,532)	–	(20,532)
Dividends paid to a minority shareholder	28(b)	–	–	–	(94)	(94)
		30	(20,436)	(20,406)	(94)	(20,500)
At 30th September 2006		34,242	117,163	151,405	847	152,252

For the year ended 30th September 2007

	Note	**Attributable to equity holders of the Company: Share Capital** HK$'000	**Reserves** HK$'000	**Total** HK$'000	**Minority Interests** HK$'000	**Total** HK$'000
At 1st October 2006		**34,242**	**117,163**	**151,405**	**847**	**152,252**
Exchange differences arising from translation of overseas operations recognised directly in equity		**–**	**3,129**	**3,129**	**–**	**3,129**
Profit for the year		**–**	**40,723**	**40,723**	**1,844**	**42,567**
Total recognised income for the year		**–**	**43,852**	**43,852**	**1,844**	**45,696**
Issue of shares upon exercise of share options	24	**1,432**	**5,588**	**7,020**	**–**	**7,020**
Dividends paid	25	**–**	**(35,096)**	**(35,096)**	**–**	**(35,096)**
Dividends paid to a minority shareholder	28(b)	**–**	**–**	**–**	**(94)**	**(94)**
		1,432	**(29,508)**	**(28,076)**	**(94)**	**(28,170)**
At 30th September 2007		**35,674**	**131,507**	**167,181**	**2,597**	**169,778**

Consolidated Cash Flow Statement

	Note	For the year ended 30th September 2007 HK$'000	2006 HK$'000
Operating activities			
Cash generated from operations	28(a)	**69,463**	42,678
Interest paid		**–**	(610)
Hong Kong profits tax paid		**–**	(871)
Overseas tax paid		**(2,835)**	(1,009)
Net cash from operating activities		**66,628**	40,188
Investing activities			
Increase of intangible assets		**(785)**	(102)
Purchase of property, plant and equipment		**(14,272)**	(24,189)
Proceeds from disposal of property, plant and equipment		**10**	103
Proceeds from disposal of investment properties		**–**	63,975
Interest received		**5,829**	1,123
Dividend received		**45**	–
Net cash (used in)/from investing activities		**(9,173)**	40,910
Financing activities			
Repayment of long-term bank loan	28(b)	**–**	(16,737)
Proceeds from exercise of share options	28(b)	**7,020**	126
Dividends paid to a minority shareholder of a subsidiary	28(b)	**(94)**	(94)
Dividends paid	25	**(35,096)**	(20,532)
Net cash used in financing activities		**(28,170)**	(37,237)
Net increase in cash and cash equivalents		**29,285**	43,861
Cash and cash equivalents at beginning of the year		**130,293**	85,680
Effect of foreign exchange rate changes		**2,337**	752
Cash and cash equivalents at end of the year, represented by bank balances and cash		**161,915**	130,293

Notes to the Financial Statements

1. Organisation and Principal Activities

Water Oasis Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 27th September 2001 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the Annual 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.

The consolidated financial statements are presented in Hong Kong Dollars. These consolidated financial statements have been approved for issue by the Board of Directors on 16th January 2008.

2. Principal Accounting Policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below:

(a) Basis of Preparation and Impact of New and Revised HKFRSs and HKASs

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They have been prepared under the historical cost convention except that financial assets at fair value through profit or loss and investment properties are stated at fair value.

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in 2006.

The preparation of the consolidated financial statements in conformity with HKFRSs require the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2. Principal Accounting Policies (Continued)

(a) Basis of Preparation and Impact of New and Revised HKFRSs and HKASs (Continued)

In the current year, the Group has applied, for the first time, a number of new standards, amendments, and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on or after 1st October 2006. The adoption of the new HKFRSs have had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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.

2. Principal Accounting Policies (Continued)

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 30th September.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(c) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2. Principal Accounting Policies (Continued)

(d) Foreign Currency Translation

(i) Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong Dollars, which is the Company's functional and presentation currency.

(ii) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at period-end applicable exchange rates are recognised in the consolidated income statement.

At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

(iii) Group Companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the Company's presentation currency are translated into presentation currency as follows:

- assets and liabilities at each balance sheet are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates prevailing during the relevant period unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other foreign currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, the exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

2. Principal Accounting Policies (Continued)

(e) Investment Properties

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

Investment property comprises land held under operating leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met.

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

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

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

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

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

Changes in fair values are recognised in the consolidated income statement in the period in which they arise.

2. Principal Accounting Policies (Continued)

(f) Property, Plant and Equipment

Property, plant and equipment 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 property, plant and equipment is calculated to write off their costs less accumulated impairment losses on a straight-line basis over their estimated useful lives to the Group after taking into account of the estimated residual value. The principal annual rates used for this purpose are as follows:

Motor vehicles	20% to $33^1/_3$%
Computer equipment	$33^1/_3$%
Machinery and equipment	20%
Office equipment, furniture and fixtures	20% to $33^1/_3$%

Assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

Major costs incurred in restoring property, plant and equipment to their normal working conditions are charged to the consolidated income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

(g) Intangible Assets

Expenditure on acquiring licenses for sale of products is capitalised and amortised using the straight-line method over the license period.

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)

(h) Impairment

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(i) Financial Assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial labilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group's financial assets fall into the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments or other financial assets were acquired.

(a) Financial Assets at Fair Value through Profit or Loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of sales in the short term or if so designated by the management. Derivatives are also categorised here if they are held for trading unless they are designated as tools for hedging. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the consolidated income statement in the period in which they arise.

2. Principal Accounting Policies (Continued)

(i) Financial Assets (Continued)

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. Loans and receivables are included in trade receivables in the consolidated balance sheet (Note k).

(c) Equity Instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

(d) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(j) 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.

(k) Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised costs using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement.

2. Principal Accounting Policies (Continued)

(l) Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(m) Trade Payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(n) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(o) Deferred Taxation

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Taxation rates that are expected to apply in the period when the liability is settled or the asset is realised are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2. Principal Accounting Policies (Continued)

(p) Employee Benefits

(i) Employee Leave Entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension Obligations

The Group's subsidiaries in Hong Kong and Mainland China participate in relevant defined contribution schemes, the assets of which are held separately from those of the Group in independently administered funds. Contributions are made to these schemes based on a certain percentage of the applicable payroll costs. The contributions are expensed as incurred.

The Group's subsidiary in Taiwan participates in a defined benefit pension plan for employees who joined before 1st July 2005 in accordance with the local statutory regulations. Pension costs are assessed using the projected unit credit method with actuarial valuation being carried out at each balance sheet date. The pension obligation is measured as the present value of the estimated future cash outflows using discount rate based on the rate of return on high-quality fixed-income investments in Taiwan which have terms to maturity approximating the terms of the related liability as adjusted for unrecognised actuarial gains or losses and unrecognised past service cost and as reduce by the fair value of plan assets. Actuarial gains and losses are recognised over the average remaining service lives of employees. Past service costs are recognised as expenses on a straight-line basis over the average period until the benefits become vested. The contributions are charged to the consolidated income statement in the period to which the contributions relate.

2. Principal Accounting Policies (Continued)

(p) Employee Benefits (Continued)

(iii) Profit Sharing and Bonus Plans

Share-based Compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the options granted to employees is recognised as an expense in full at grant date when the share option granted vest immediately. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are however included in the assumptions on the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(q) 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2. Principal Accounting Policies (Continued)

(r) 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 consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(s) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts.

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

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

Revenue from rendering of services is recognised when the services are rendered. Fees received in advance for prepaid packages are recorded as liabilities and are recognised on a systematic basis in accordance with service usage. Upon expiry of prepaid packages, the corresponding receipts in advance are fully recognised as income.

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

(t) Interest Income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

(u) Operating Leases

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

3. Financial Risk Management

3.1 Financial Risk

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and interest rate risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried by management who identifies, evaluates and mitigate financial risks in close cooperation with the Group's operating units. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market Risk

(a) Foreign Exchange Risk

The Group operates in various countries/locations and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operation. The Group manages its foreign exchange risks by performing regular reviews of the Group's net foreign exchange exposure.

(b) Cashflow Interest Rate Risk

Major interest bearing assets of the Group are bank deposits. The Group monitors its interest rate risk through management of maturity profile, currency mix and choice of fixed or floating interest rates. Besides, the Group continues to adopt a conservative approach to financial risk management with no significant borrowing during the year. The interest rate risk resulted from borrowing is minimal.

Credit Risk

As at 30th September 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties, including trade receivables and amounts due from subsidiaries and financial guarantees issued by the Company on the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

The Group has no significant concentrations of credit risk, with exposure spread over a number of customers. A large portion of the Group's turnover are cash or credit card sales. In addition, the Group and the Company also manages its credit risk by performing regular reviews of the aging profile of trade receivables and amounts due from subsidiaries.

The credit risk on liquid funds is limited because the counterparties are financial institutions with high credit ratings assigned by international credit-rating agencies.

3.2 Fair Value

In director's opinion, the nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values due to their current nature.

4. Critical Accounting Estimates and Judgements

In the application of the Group's accounting policies, which are described in Note 2, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgements in Applying the Entity's Accounting Policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

(a) Revenue Recognition

Revenue from rendering of services is recognised when the services are rendered and sale of gift coupons are recognised when the coupons are redeemed for products, at its fair value. In determining the fair value of the consideration, the directors of the Company considered the measurement of revenue as set out in HKAS 18 "Revenue", which have taken into reference the historical experience of the actual forfeiture on the prepaid packages and the coupons. The turnover recognised will change when the actual forfeiture is different to the estimated amount adopted by the management.

(b) Depreciation

The Group's carrying value of leasehold improvements as at 30th September 2007 was approximately HK$13.3 million. The Group's management determines the estimated useful lives on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of store renovation and relocation. Management will increase the depreciation charge where useful lives are less than previous estimated useful lives.

Key Source of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Taxation

The Group is subject to income taxes in various countries/locations. Significant judgement is required in determining the provision for these taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made. Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred taxation assets and taxation in the periods in which such estimate is changed.

4. Critical Accounting Estimates and Judgements (Continued)

(b) Impairment of Assets

The Group conducts impairment reviews of assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or tests for impairment annually in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the value in use, which requires the Group to estimate the future cash flows and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(c) Estimate of Fair Value of Investment Properties

The fair value of investment properties have been determined with reference to independent valuations. The best evidence of fair value is current price in an active market for similar lease and other contracts. The Group employed an independent firm of professional surveyor to determine the open market values for the investment properties of the Group. These valuations require the use of judgement and estimates.

5. Turnover, Other Revenues and Segment Information

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

	2007 **HK$'000**	2006 HK$'000
Turnover		
Sales of goods	**415,794**	327,832
Rendering of services	**177,564**	156,186
	593,358	484,018
Other revenues		
Interest income on bank deposits	**5,829**	1,123
Rental income from investment properties	**964**	1,703
Dividend income from listed investments	**45**	–
Increase in fair value of financial assets at fair value through profit or loss	**4,470**	57
Gain on disposal of investment properties	**–**	1,975
Others	**950**	538
	12,258	5,396
Total revenues	**605,616**	489,414

5. Turnover, Other Revenues and Segment Information (Continued)

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.

Primary Reporting Format – Business Segments

	Retail		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	415,794	327,832	177,564	156,186	–	–	593,358	484,018
Inter-segment sales	25,825	21,563	–	–	(25,825)	(21,563)	–	–
Total	441,619	349,395	177,564	156,186	(25,825)	(21,563)	593,358	484,018
Segment results	55,942	27,033	25,268	18,504	–	–	81,210	45,537
Other revenues							12,258	5,396
Increase in fair value of investment properties							2,300	–
Unallocated corporate expenses							(43,025)	(37,334)
Profit before taxation							52,743	13,599
Taxation							(10,176)	733
Profit for the year							42,567	14,332

5. Turnover, Other Revenues and Segment Information (Continued)

Primary Reporting Format – Business Segments (Continued)

	Retail		Services		Group	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
ASSETS						
Segment assets	**244,448**	207,417	**90,826**	85,806	**335,274**	293,223
Unallocated assets					**64,748**	36,304
Total assets					**400,022**	329,527
LIABILITIES						
Segment liabilities	**84,601**	68,665	**133,235**	99,719	**217,836**	168,384
Unallocated liabilities					**12,408**	8,891
Total liabilities					**230,244**	177,275
OTHER INFORMATION						
Depreciation of property, plant and equipment	**12,794**	10,986	**9,499**	9,642	**22,293**	20,628
Amortisation of intangible assets	**238**	850	**–**	–	**238**	850
Capital expenditures	**10,810**	14,416	**4,247**	9,875	**15,057**	24,291

Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. Capital expenditures comprise additions to property, plant and equipment, investment properties and intangible assets.

5. Turnover, Other Revenues and Segment Information (Continued)

Secondary Reporting Format – Geographical Segments

	Turnover		Capital expenditures		Total assets	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Hong Kong and Macau	**297,783**	261,042	**3,906**	13,601	**188,181**	180,454
Mainland China	**244,313**	159,265	**10,071**	8,334	**123,785**	84,180
Taiwan	**42,897**	53,772	**672**	1,833	**19,571**	22,176
Singapore	**8,365**	9,939	**408**	523	**3,737**	6,413
	593,358	484,018	**15,057**	24,291	**335,274**	293,223
Unallocated assets					**64,748**	36,304
					400,022	329,527

In respect of geographical segment reporting, sales are reported based on the country/place in which the customers are located. Segment assets and capital expenditures are reported where the assets are located.

6. Profit before Taxation

Profit before taxation is stated after crediting and charging the following:

	2007 HK$'000	2006 HK$'000
Crediting		
Gain/(loss) on disposal of property, plant and equipment	**1**	(4)
Net exchange gain	**1,709**	803
Charging		
Allowance for bad and doubtful debts	**778**	–
Amortisation of intangible assets	**238**	850
Auditor's remuneration	**1,491**	1,430
Operating lease rentals in respect of land and buildings		
– minimum lease payments	**47,454**	43,196
– contingent rent	**4,536**	4,427
Department store commissions	**61,689**	46,506
Interest expense on long-term bank loan	**–**	610

7. Taxation

	2007 HK$'000	2006 HK$'000
Current taxation		
Hong Kong profits tax	**4,091**	2,348
Overseas taxation	**4,978**	2,072
Under/(over) provision in prior years	**48**	(514)
Deferred taxation relating to the origination and reversal of temporary differences (Note 27)	**1,059**	(4,639)
	10,176	(733)

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year after setting off available tax losses brought forward from prior years.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries/places in which the Group operates.

People's Republic of China (the "PRC") Enterprise Income Tax is calculated at the statutory income tax rate of 33% of the assessable profit, except that the assessable profit derived from the Waigaoqiao Free Trade Zone and Pudong New Area is taxed at a preferential rate of 15% pursuant to the relevant governmental notices.

On 16th March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax by Order No. 63 of the President of PRC, which will change the tax rate from 33% to 25% for certain subsidiaries from 1st January 2008.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the major business territory of the Group as follows:

	2007 HK$'000	2006 HK$'000
Profit before taxation	**52,743**	13,599
Calculated at a taxation rate of 17.5% (2006: 17.5%)	**9,230**	2,380
Effect of different taxation rates in other countries	**(966)**	(734)
Income not subject to taxation	**(1,341)**	(601)
Expenses not deductible for taxation purposes	**1,174**	369
Utilisation of tax losses	**(567)**	–
Unrecognised tax losses	**1,153**	3,039
Under/(over) provision in prior years	**48**	(514)
Derecognised tax losses	**629**	–
Reversal of temporary difference on fair value gain	**–**	(4,672)
Others	**816**	–
Taxation charge/(credit)	**10,176**	(733)

8. Profit Attributable to Equity Holders

The profit attributable to equity holders is dealt with in the financial statements of the Company to the extent of approximately HK$58,240,000 (2006: HK$27,536,000).

9. Dividends

	2007 HK$'000	2006 HK$'000
Interim dividend declared and paid of 4.0 HK cents (2006: 2.0 HK cents) per share	**14,114**	6,846
Special interim dividend declared and paid of 1.0 HK cent (2006: 1.0 HK cent) per share	**3,528**	3,423
	17,642	10,269
Final dividend proposed after balance sheet date of 8.0 HK cents (2006: 4.0 HK cents) per share	**28,547**	13,963
Special final dividend proposed after balance sheet date of 2.0 HK cents (2006: 1.0 HK cent) per share	**7,136**	3,491
	35,683	17,454
	53,325	27,723

The 2007 final dividend of 8.0 HK cents per share and a special dividend of 2.0 HK cents per share, amounting to approximately HK$28,547,000 and HK$7,136,000, respectively, have been proposed by the directors and is subject to approval by the shareholders in the general meeting.

The aggregate amount of the dividends paid for the year ended 30th September 2007 were approximately HK$35,096,000 (2006: HK$20,532,000).

10. Earnings Per Share

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of approximately HK$40,723,000 (2006: HK$13,600,000) and the weighted average number of 348,219,178 (2006: 342,173,534) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 30th September 2007 is based on profit attributable to equity holders of approximately HK$40,723,000 and the weighted average number of 348,219,178 ordinary shares in issue during the year plus the weighted average number of 6,384,543 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 year or at the date of grant of the options if later.

The computation of diluted earnings per share for the year ended 30th September 2006 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price of the Company's shares for that year.

11. Staff Costs (Including Directors' Emoluments)

	2007 HK$'000	2006 HK$'000
Wages, salaries, bonuses and allowances	**167,406**	148,313
Pension costs-defined benefit plan (Note 26)	**(56)**	(56)
Pension costs-defined contribution plans	**9,217**	6,496
Unutilised annual leave	**1,473**	(1,428)
	178,040	153,325

12. Directors' Emoluments and Five Highest Paid Individuals

(a) Directors' Emoluments

Name of directors	Fees HK$'000	Basic salaries, housing allowances, other allowances and benefits-in-kinds HK$'000	Bonuses HK$'000	Retirement benefit costs HK$'000	2007 Total emoluments HK$'000	2006 Total emoluments HK$'000
Yu Lai Si[(4)]	–	5,931	500	12	**6,443**	5,535
Tam Chie Sang	–	897	125	12	**1,034**	909
Yu Lai Chu, Eileen	–	897	125	12	**1,034**	909
Yu Kam Shui, Erastus	–	1,405	125	12	**1,542**	1,387
Lai Yin Ping	–	897	125	12	**1,034**	909
Wong Lung Tak, Patrick, J.P.[(1)(2)(3)(4)]	150	–	–	–	**150**	150
Wong Chun Nam[(1)(2)(3)(4)]	150	–	–	–	**150**	150
Wong Chi Keung[(1)(2)(3)(4)]	150	–	–	–	**150**	150
Total for the year 2007	450	10,027	1,000	60	**11,537**	
Total for the year 2006	450	9,589	–	60		10,099

(1) Independent non-executive directors
(2) Members of the Company's Audit Committee
(3) Members of the Company's Remuneration Committee
(4) Members of the Company's Investment Advisory Committee

12. Directors' Emoluments and Five Highest Paid Individuals (Continued)

(a) Directors' Emoluments (Continued)

Certain directors of the Company have been granted options to acquire shares of the Company. Details of share options granted, exercised and lapsed during the year are disclosed in the Directors' Report and Note 24.

(b) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2006: two) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining three (2006: three) individuals during the year are as follows:

	2007 HK$'000	2006 HK$'000
Basic salaries, housing allowances, other allowances and benefits-in-kinds	**3,447**	3,764
Bonuses	**487**	629
Retirement benefit costs	**29**	36
	3,963	4,429

Bonuses were determined with reference to the Group's operating results, individual performance and comparable market statistics.

12. Directors' Emoluments and Five Highest Paid Individuals (Continued)

(b) Five Highest Paid Individuals (Continued)

The emoluments fell within the following bands:

	Number of individual 2007	2006
Emolument bands		
HK$500,000 – HK$1,000,000	**–**	1
HK$1,000,001 – HK$1,500,000	**2**	1
HK$1,500,001 – HK$2,000,000	**1**	–
HK$2,000,001 – HK$2,500,000	**–**	1
	3	3

For the years ended 30th September 2007 and 2006, 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 and compensation for loss of office.

13. Intangible Assets

	License fees 2007 HK$'000	2006 HK$'000
At the beginning of the year	**516**	1,264
Additions	**785**	102
Amortisation charge	**(238)**	(850)
At the end of the year	**1,063**	516
At the end of the year		
Cost	**6,065**	5,280
Accumulated amortisation	**(5,002)**	(4,764)
Net book amount	**1,063**	516

Expenditures on acquiring licenses for sale of products is capitalised and amortised using the straight-line method over the respective licence period.

14. Investment Properties

	2007 HK$'000	2006 HK$'000
At the beginning of the year	**27,000**	89,000
Additions	**–**	–
Disposals	**–**	(62,000)
Increase in fair value recognised in the consolidated income statement	**2,300**	–
At the end of the year	**29,300**	27,000

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

	2007 HK$'000	2006 HK$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	**23,800**	22,000
Leases of over 50 years	**5,500**	5,000
	29,300	27,000

The investment properties were revalued at 30th September 2007 on the basis of their open market values by Savills Valuation and Professional Services Limited, an independent firm of chartered surveyors.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

No investment property was pledged as at 30th September 2007 and 2006.

15. Property, Plant and Equipment

	Leasehold improvements HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Machinery and equipment HK$'000	Office equipment, furniture and fixtures HK$'000	Total HK$'000
At cost						
As at 1st October 2005	58,930	2,532	6,042	17,546	7,056	92,106
Additions	17,616	673	1,744	2,346	1,810	24,189
Eliminated on disposals	(1,945)	(299)	–	(12)	(470)	(2,726)
Exchange realignment	353	9	57	–	2	421
As at 30th September 2006	74,954	2,915	7,843	19,880	8,398	113,990
Accumulated depreciation						
As at 1st October 2005	43,403	1,943	4,806	7,516	4,575	62,243
Provided for the year	14,939	452	985	3,262	990	20,628
Eliminated on disposals	(1,945)	(299)	–	(6)	(369)	(2,619)
Exchange realignment	315	5	45	–	(1)	364
As at 30th September 2006	56,712	2,101	5,836	10,772	5,195	80,616
Net book value						
As at 30th September 2006	18,242	814	2,007	9,108	3,203	33,374
At cost						
As at 1st October 2006	**74,954**	**2,915**	**7,843**	**19,880**	**8,398**	**113,990**
Additions	**10,410**	**40**	**1,073**	**2,372**	**377**	**14,272**
Eliminated on disposals	**(67)**	**–**	**(65)**	**–**	**(233)**	**(365)**
Exchange realignment	**1,558**	**38**	**218**	**31**	**91**	**1,936**
As at 30th September 2007	**86,855**	**2,993**	**9,069**	**22,283**	**8,633**	**129,833**
Accumulated depreciation						
As at 1st October 2006	**56,712**	**2,101**	**5,836**	**10,772**	**5,195**	**80,616**
Provided for the year	**15,934**	**410**	**1,148**	**3,544**	**1,257**	**22,293**
Eliminated on disposals	**(67)**	**–**	**(65)**	**–**	**(224)**	**(356)**
Exchange realignment	**990**	**19**	**116**	**2**	**49**	**1,176**
As at 30th September 2007	**73,569**	**2,530**	**7,035**	**14,318**	**6,277**	**103,729**
Net book value						
As at 30th September 2007	**13,286**	**463**	**2,034**	**7,965**	**2,356**	**26,104**

16. Investments in Subsidiaries/Amounts due from/(to) Subsidiaries

Company

	2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**3,000**	3,000
Amounts due from subsidiaries	**112,608**	78,387
Amounts due to subsidiaries	**(5,837)**	(1,117)
	109,771	80,270

Details of the subsidiaries are set out in Note 31.

The amounts due from/(to) subsidiaries are unsecured, interest-free and are repayable on demand. The fair value of amounts due from/(to) subsidiaries approximates its carrying amount.

17. Rental Deposits and Prepayments

Rental deposits and prepayments are carried at amortised cost using the effective interest rate of 2% per annum.

18. Inventories

	2007 HK$'000	2006 HK$'000
Finished goods – merchandises	**49,556**	45,343

19. Financial Assets at Fair Value through Profit or Loss

	2007 HK$'000	2006 HK$'000
Equity securities listed in Hong Kong	**5,439**	1,828
Structured deposit held at bank	**14,624**	7,787
	20,063	9,615

Structured deposits held at bank carry interest at rates which range from 14.5% to 20% and with returns linked to performance of certain listed shares at the maturity date. Structured deposits are designated as fair value through profit or loss upon initial recognition as it forms part of a contract contains one or more embedded derivatives, which designated the structured deposits as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value at the balance sheet date. Fair value of the listed investments have been determined by reference to bid prices quoted in active market while the structured deposits have been determined using the prices provided by the banks using valuation technique.

20. Trade Receivables

Details of the aging analysis are as follows:

	2007 HK$'000	2006 HK$'000
0 to 30 days	**49,760**	34,263
31 days to 60 days	**5,619**	4,431
61 days to 90 days	**1,117**	921
Over 90 days	**1,553**	117
	58,049	39,732

Credit terms generally range from 30 days to 90 days.

The fair value of trade receivables approximates its carrying amount.

Trade receivables are mainly denominated in Hong Kong Dollars, New Taiwan Dollars and Renminbi.

21. Bank Balances and Cash

Bank balances and cash are mainly denominated in Hong Kong Dollars, New Taiwan Dollars and Renminbi.

The short-term bank deposits carry interest at around 4% (2006: 3%) per annum and mature within 3 months.

The fair values of short-term bank deposits approximate their carrying amounts.

22. Trade Payables

Details of the aging analysis are as follows:

	2007 HK$'000	2006 HK$'000
0 to 30 days	**3,027**	6,231

The fair value of trade payables approximates its carrying amount.

Trade payables are mainly denominated in US Dollars.

23. Receipts in Advance

The balance represents proceeds from sales of gift coupons not yet redeemed and money received in advance for beauty salon services, skin-care and other related services.

24. Share Capital

Company

	2007	2006
	HK$'000	HK$'000
Authorised:		
1,000,000,000 (2006: 1,000,000,000) ordinary shares of HK$0.1 each	**100,000**	100,000
Issued and fully paid:		
356,736,000 (2006: 342,416,000) ordinary shares of HK$0.1 each	**35,674**	34,242

	Issued and fully paid ordinary shares	
	No. of shares	HK$'000
At the beginning of the year	342,416,000	34,242
Issue of new shares upon exercise of share options	14,320,000	1,432
At the end of the year	356,736,000	35,674

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.

24. Share Capital (Continued)

Details of the movements in share options during the year are as follows:

Category	Date of grant	Exercise period	Exercise price per share HK$	As at 1st October 2006	Granted	Exercised	Cancelled/ Lapsed	As at 30th September 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	–	2,200,000	–	8,000,000
				15,300,000	–	7,300,000	–	8,000,000
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	–	1,320,000	164,000	–
	30th August 2002	31st August 2003 – 29th August 2007	0.52	2,560,000	–	2,320,000	240,000	–
	30th August 2002	29th February 2004 – 29th August 2007	0.52	1,560,000	–	1,320,000	240,000	–
	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	–	7,020,000	2,384,000	580,000

24. **Share Capital** (Continued)

Options to subscribe for a maximum of approximately 13 million shares in the Company in aggregate had been granted and are outstanding as at 30th September 2007 to a supplier, certain directors and employees pursuant to the Company's share option scheme, representing 3.6% of the existing issued share capital of the Company as at the date of this Annual Report.

As at 30th September 2007, the weighted average exercise price of share options outstanding was HK$0.62 per share (2006: HK$0.61 per share).

Options exercised during the year ended 30th September 2007 resulted in 14,320,000 shares (2006: 300,000 shares) being issued. The related weighted average share price at the time of exercise was HK$0.84 per share (2006: HK$0.52 per share).

25. Reserves

Group

	Share premium HK$'000	Exchange reserve HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st October 2005	26,934	533	(1,766)	450	97,039	123,190
Profit for the year	–	–	–	–	13,600	13,600
Issue of shares upon exercise of share options	96	–	–	–	–	96
2005 final dividend paid	–	–	–	–	(10,263)	(10,263)
2006 interim and special dividend paid	–	–	–	–	(10,269)	(10,269)
Exchange differences arising from translation of overseas operations recognised directly in equity	–	809	–	–	–	809
At 30th September 2006	27,030	1,342	(1,766)	450	90,107	117,163
Represented by:						
Reserves	27,030	1,342	(1,766)	450	72,986	100,042
Proposed final and special dividend	–	–	–	–	17,121	17,121
	27,030	1,342	(1,766)	450	90,107	117,163

	Share premium HK$'000	**Exchange reserve HK$'000**	**Capital reserve HK$'000**	**Capital redemption reserve HK$'000**	**Retained profits HK$'000**	**Total HK$'000**
At 1st October 2006	**27,030**	**1,342**	**(1,766)**	**450**	**90,107**	**117,163**
Profit for the year	**–**	**–**	**–**	**–**	**40,723**	**40,723**
Issue of shares upon exercise of share options	**5,588**	**–**	**–**	**–**	**–**	**5,588**
2006 final and special dividend paid	**–**	**–**	**–**	**–**	**(17,454)**	**(17,454)**
2007 interim and special dividend paid	**–**	**–**	**–**	**–**	**(17,642)**	**(17,642)**
Exchange differences arising from translation of overseas operations recognised directly in equity	**–**	**3,129**	**–**	**–**	**–**	**3,129**
At 30th September 2007	**32,618**	**4,471**	**(1,766)**	**450**	**95,734**	**131,507**
Represented by:						
Reserves	**32,618**	**4,471**	**(1,766)**	**450**	**60,051**	**95,824**
Proposed final and special dividend	**–**	**–**	**–**	**–**	**35,683**	**35,683**
	32,618	**4,471**	**(1,766)**	**450**	**95,734**	**131,507**

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

25. Reserves (Continued)

Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st October 2005	26,934	450	11,953	39,337
Profit for the year	–	–	27,536	27,536
Issue of shares upon exercise of share options	96	–	–	96
2005 final dividend paid	–	–	(10,263)	(10,263)
2006 interim and special dividend paid	–	–	(10,269)	(10,269)
At 30th September 2006	27,030	450	18,957	46,437
Represented by:				
Reserves	27,030	450	1,836	29,316
Proposed final and special dividend	–	–	17,121	17,121
	27,030	450	18,957	46,437

	Share premium HK$'000	**Capital redemption reserve HK$'000**	**Retained profits HK$'000**	**Total HK$'000**
At 1st October 2006	**27,030**	**450**	**18,957**	**46,437**
Profit for the year	**–**	**–**	**58,240**	**58,240**
Issue of shares upon exercise of share options	**5,588**	**–**	**–**	**5,588**
2006 final and special dividend paid	**–**	**–**	**(17,454)**	**(17,454)**
2007 interim and special dividend paid	**–**	**–**	**(17,642)**	**(17,642)**
At 30th September 2007	**32,618**	**450**	**42,101**	**75,169**
Represented by:				
Reserves	**32,618**	**450**	**6,418**	**39,486**
Proposed final and special dividend	**–**	**–**	**35,683**	**35,683**
	32,618	**450**	**42,101**	**75,169**

26. Pension Obligations

(a) Defined Contribution Plans

(i) The Group operates a MPF Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes the lower of HK$1,000 or 5% of the relevant monthly payroll costs to the MPF Scheme.

(ii) The employees employed in Mainland China subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

(b) Defined Benefit Plan

A subsidiary of the Group in Taiwan participates in a pension plan as stipulated by the local statutory regulations. The assets of the funded plans are held independently of the Group's assets in separate trustee administered funds. The subsidiary has an obligation to ensure that there are sufficient funds in the defined benefit plan to pay the promised benefits to employees when they attain the age of retirement. The subsidiary currently contributes at a fixed percentage of the payroll incurred in accordance with the regulations.

Actuarial valuation has been performed on the pension liability as at 30th September 2007 and 2006 by an independent qualified actuary, Actuarial Consulting Company Limited using projected unit credit method. The deficit between the pension asset and present value of the obligation as at 30th September 2007 is recognised in the consolidated income statement in 2007.

The amounts recognised in the consolidated balance sheet arising from the Group's obligation in respect of the defined benefit plans are determined as follows:

	2007 **HK$'000**	2006 HK$'000
Present value of funded defined benefit obligations	**204**	431
Fair value of plan assets	**(641)**	(625)
Present value of overfunded obligations	**(437)**	(194)
Unrecognised actuarial gains	**910**	723
Liability in the balance sheet	**473**	529

The amounts recognised in the consolidated income statement in respect of the defined benefit plans were as follows:

	2007 **HK$'000**	2006 HK$'000
Interest cost	**16**	24
Expected return on plan assets	**(17)**	(16)
Net actuarial gain	**(55)**	(64)
Total gain recognised in the consolidated income statement (Note 11)	**(56)**	(56)

26. Pension Obligations (Continued)

The movement in the liability recognised in the consolidated balance sheet:

	2007 HK$'000	2006 HK$'000
At the beginning of the year	**529**	620
Total gain included in staff costs (Note 11)	**(56)**	(56)
Contributions paid	**–**	(35)
At the end of the year	**473**	529

The principal actuarial assumptions used were as follows:

	2007 %	2006 %
Discount rate	**3.75**	3.75
Expected rate of return on plan assets	**2.75**	2.75
Expected rate of future salary increases	**2.50**	2.50

The actuarial valuation showed that the market value of plan assets was HK$641,000 (2006: HK$625,000).

Movements in the present value of the defined benefit obligations during the year were as follows:

	2007 HK$'000	2006 HK$'000
At the beginning of the year	**431**	653
Interest cost	**16**	24
Actuarial gains	**(243)**	(246)
At the end of the year	**204**	431

26. Pension Obligations (Continued)

The movements in the fair value of the plan assets during the year were as follows:

	2007 HK$'000	2006 HK$'000
At the beginning of the year	625	578
Contributions paid	–	35
Expected return on plan assets	17	16
Actuarial losses	(1)	(4)
At the end of the year	641	625

The major categories of plan assets, and the percentage of the fair value at the balance sheet date for each category are as follows:

	2007 %	2006 %
Deposits with financial institutions	39.96	48.10
Short term bills	9.48	15.03
Stocks	10.87	19.34
Bonds	13.18	10.16
Others	26.51	7.37
	100.00	100.00

27. 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 the deferred tax assets is as follows:

	2007 HK$'000	2006 HK$'000
At the beginning of the year	5,025	2,753
Exchange realignment	32	–
(Charged)/credited to consolidated income statement	(796)	2,272
At the end of the year	4,261	5,025

27. Deferred Taxation (Continued)

The movement in the deferred tax liabilities is as follows:

	2007 HK$'000	2006 HK$'000
At the beginning of the year	**(150)**	(2,517)
(Charged)/credited to consolidated income statement	**(263)**	2,367
At the end of the year	**(413)**	(150)

The movement in deferred tax assets/(liabilities) prior to offsetting of balances within the same taxation jurisdiction is as follows:

	Decelerated tax depreciation		Tax losses		Accelerated tax depreciation		Fair value gain		Total	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
At the beginning of the year	**1,055**	926	**4,431**	5,162	**-**	(569)	**(611)**	(5,283)	**4,875**	236
(Charged)/credited to consolidated income statement	**953**	129	**(1,610)**	(731)	**-**	569	**(402)**	4,672	**(1,059)**	4,639
Exchange realignment	**-**	–	**32**	–	**-**	–	**-**	–	**32**	–
At the end of the year	**2,008**	1,055	**2,853**	4,431	**-**	–	**(1,013)**	(611)	**3,848**	4,875

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2007 HK$'000	2006 HK$'000
Deferred tax assets	**4,261**	5,025
Deferred tax liabilities	**(413)**	(150)
	3,848	4,875

27. Deferred Taxation (Continued)

Deferred tax assets are only recognised for tax losses carried forward to the extent that realisation of the related tax benefits through the future taxable profits is probable. Total potential deferred taxation asset not provided for in the financial statements is as follows:

	2007 HK$'000	2006 HK$'000
Tax losses	**5,681**	5,095

These losses can be carried forward indefinitely to offset against future taxable income.

28. Note to the Consolidated Cash Flow Statement

(a) Reconciliation of Profit before Taxation to Net Cash Generated from Operations

	2007 HK$'000	2006 HK$'000
Profit before taxation	**52,743**	13,599
Adjustment for:		
Dividend income	**(45)**	–
Depreciation of property, plant and equipment	**22,293**	20,628
Allowance for bad and doubtful debts	**778**	–
Amortisation of intangible assets	**238**	850
Interest income	**(5,829)**	(1,123)
Interest expenses	**–**	610
Increase in fair value of financial assets at fair value through profit or loss	**(4,470)**	(57)
(Gain)/loss on disposal of property, plant and equipment	**(1)**	4
Gain on disposal of investment properties	**–**	(1,975)
Increase in fair value of investment properties	**(2,300)**	–
Operating cash flow before movements in working capital	**63,407**	32,536
Increase in inventories	**(4,213)**	(10,193)
Increase in trade receivables	**(19,095)**	(7,981)
Increase in rental deposits and prepayments, prepayments, other deposits and receivables	**(11,262)**	(4,708)
Increase in financial assets at fair value through profit or loss	**(5,978)**	(9,493)
Decrease in trade payables	**(3,204)**	(5,099)
Increase in accruals and other payables	**13,307**	16,448
Increase in receipts in advance	**36,557**	31,259
Decrease in pension obligations	**(56)**	(91)
Cash generated from operations	**69,463**	42,678

28. Note to the Consolidated Cash Flow Statement (Continued)

(b) Analysis of Changes in Financing Activities During the Year

	Long-term bank loan		Share capital including share premium and capital reserve		Minority interests	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
At the beginning of the year	**–**	16,737	**59,506**	59,380	**847**	209
Repayment of long-term bank loan	**–**	(16,737)	**–**	–	**–**	–
Proceeds from exercise of share options	**–**	–	**7,020**	126	**–**	–
Minority interests' in share of net profit	**–**	–	**–**	–	**1,844**	732
Dividends paid to a minority shareholder of a subsidiary	**–**	–	**–**	–	**(94)**	(94)
At the end of the year	**–**	–	**66,526**	59,506	**2,597**	847

29. Commitments

Group

(a) Capital Commitments

The Group did not have any capital commitments at 30th September 2007 (2006: nil).

(b) Commitments Under Operating Leases

At 30th September 2007 and 2006, 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:

As lessors **Rental receipts**	**2007** **HK$'000**	2006 HK$'000
Not later than one year	**264**	964
Later than one year and not later than five years	**–**	264
	264	1,228

As lessees **Rental payments**	**2007** **HK$'000**	2006 HK$'000
Not later than one year	**51,513**	40,628
Later than one year and not later than five years	**48,610**	22,707
	100,123	63,335

Operating lease payments represent rentals payable by the Group for certain of its leased properties. Leases are negotiated and rentals are fixed for an average term of two to three years.

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.

Company

The Company did not have any capital commitments or operating leases commitments at 30th September 2007 (2006: nil).

30. Banking Facilities

As at 30th September 2007, the Group was granted banking facilities amounting to approximately HK$18,000,000 by a bank (2006: HK$18,000,000) under guarantees provided by the Company.

31. Particulars of Subsidiaries

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
DIRECTLY HELD:				
Water Oasis Group (BVI) Limited	British Virgin Islands 16th December 1999	Ordinary shares US$30,000	100%	Investment holding in Hong Kong
INDIRECTLY HELD:				
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
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 Taiwan
Water Oasis China (BVI) Limited	British Virgin Islands 12th October 2000	Ordinary shares US$1	100%	Investment holding in Hong Kong
OBS Company Limited	Hong Kong 26th July 2000	Ordinary shares HK$2	100%	Operating of skin-care and beauty training centre in Hong Kong

31. Particulars of Subsidiaries (Continued)

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
INDIRECTLY HELD: (Continued)				
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 (changed to Oasis Techno-Beauty Company Limited on 2nd October 2007)	Hong Kong 24th December 1999	Ordinary shares HK$10,000	100%	Distribution of beauty service equipment
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

31. Particulars of Subsidiaries (Continued)

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
INDIRECTLY HELD: (Continued)				
Claire International Limited	Hong Kong 22nd October 1999	Ordinary shares HK$2	100%	Inactive
Oasis Advertising Agency Company Limited (changed to Oasis Florist Company Limited on 7th November 2007)	Hong Kong 18th October 2000	Ordinary shares HK$2	100%	Operating of florist shop 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
Master Advance Limited	Hong Kong 28th June 2002	Ordinary shares HK$1,000,000	100%	Investment holding in Hong Kong

31. Particulars of Subsidiaries (Continued)

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
INDIRECTLY HELD: (Continued)				
奧思美容品(上海)有限公司	PRC 9th February 2002	US$200,000	90.1%	Retail sales of skin-care products in Mainland China
奧思美容品(深圳)有限公司	PRC 10th October 2002	HK$3,000,000	90.1%	Inactive
奧泉(上海)商貿有限公司	PRC 9th March 2006	US$200,000	100%	Retail sale of skin-care products in Mainland China
Water Oasis (Singapore) Pte. Limited	Singapore 6th November 2003	Ordinary shares S$300,000	100%	Retail sales of skin-care products in Singapore
Top Distinct Limited	Hong Kong 26th January 2006	Ordinary shares HK$2,000,000	100%	Operation of beauty salons and provision of other related services in Hong Kong

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

32. Related Party Transactions

KEY MANAGEMENT PERSONNEL COMPENSATION

	2007 **HK$'000**	2006 HK$'000
Basic salaries, housing allowances, other allowances and benefits-in-kinds	**10,027**	9,589
Bonuses	**1,000**	–
Retirement benefit costs	**60**	60
	11,087	9,649

Five-Year Financial Summary

	Year ended 30th September				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**593,358**	484,018	413,888	357,553	310,236
Increase in fair value of investment properties	**2,300**	–	23,763	1,300	(350)
Profit/(loss) before taxation	**52,743**	13,599	17,936	3,577	(7,710)
Taxation	**(10,176)**	733	(4,653)	(1,678)	(41)
Profit/(loss) for the year	**42,567**	14,332	13,283	1,899	(7,751)
Minority interests	**(1,844)**	(732)	(521)	(205)	654
Profit/(loss) attributable to equity holders	**40,723**	13,600	12,762	1,694	(7,097)
BALANCE SHEETS					
Total assets	**400,022**	329,527	309,397	259,980	199,684
Total liabilities	**(230,244)**	(177,275)	(151,786)	(103,289)	(55,671)
Minority interests	**(2,597)**	(847)	(209)	193	(362)
Net assets	**167,181**	151,405	157,402	156,884	143,651

Corporate Information 公司資料

DIRECTORS
董事

EXECUTIVE DIRECTORS
執行董事

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余麗絲
TAM Chie Sang
譚次生
YU Lai Chu, Eileen
余麗珠
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黃鎮南
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Hang Seng Bank Limited
恒生銀行有限公司

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