

Water **Oasis** Group Limited

奧思集團有限公司

Stock Code 股份代號: 1161



綻放 **絢麗動力**

Releasing

New Energies

INTERIM REPORT

2012 中期
報告

INTERIM REPORT 2012

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The Board of Directors (the “Board”) of Water Oasis Group Limited (the “Company”) herein announces the unaudited consolidated results of the Company and its subsidiaries (collectively known as the “Group”) for the six months ended 31st March, 2012.

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

Results and Dividend

For the six months ended 31st March, 2012, the Group’s turnover fell slightly by 3.5% to approximately HK\$497.7 million by comparison with that of the same period last year, while the Group still recorded a strong growth in profit for the period. Gross profit margin increased from 77.2% to 79.8% and the profit for the period increased by 96.2% to HK\$36.7 million when compared with that of the same period last year.

The Board has resolved to declare an interim dividend of 4.5 HK cents per share.

Management Discussion and Analysis

The six months from 1st October, 2011 to 31st March, 2012 has produced steady results for Water Oasis across its operations. The previously announced termination of the Group’s ~H₂O+ distributorship rights in the PRC and Taiwan in February this year has had a limited impact on the Group’s first half results. In the meantime, the Group has been planning and realising the plans of launching Glycel retail business and Oasis Beauty franchising business in PRC to boost and diversify incomes from PRC market. With a strong and well-established business network in the PRC, the Group believes that our established excellent platform will speed up the momentum building for launching new ventures in the foreseeable future. Overall turnover for the period fell slightly by comparison with the same period last year. This was primarily because the health supplements products such as collagen drink that are produced in Japan after 11th March, 2011, were not allowed to sell in the PRC due to the leaking of radiation of the nuclear plant in Fukushima after the Japan earthquake happened on that date; as well as due to the decrease in turnover in the PRC after the termination of ~H₂O+ distributorship rights. However, gross profit margin improved in this period was due to a larger weighting of contribution from beauty services segment. In addition, higher profit for the period achieved in the period under review than that of same period last year were mainly due to better performance on Beauty Services operations which compensated the negative impact of the termination of the ~H₂O+ distributorship rights in the PRC and Taiwan.

Brand ownership and distribution

The distributorship rights for ~H₂O+ products of Water Oasis in Hong Kong, Macau and Singapore still retain and remain unchanged, and it expects this popular brand to continue to do well in these core markets where the brand has a strong and longstanding following. The number of ~H₂O+ outlets in these markets remained stable in the period under review and sales were relatively good. The Group continued to do its utmost to promote and support its valuable ~H₂O+ business.

At the same time, the Group’s self-owned Glycel brand continued its successful run in Hong Kong. The brand has quickly found a niche in the Hong Kong market since the Group acquired it in May 2010. Its customer base has been growing rapidly, helped by effective marketing and branding campaigns. For the period under review, the Group enjoyed an increase in the brand’s sales performance, accompanied by growth in its bottom line results. Riding on its success in Hong Kong, in the middle of March 2012, the Group has successfully replaced some of the ~H₂O+ outlets with Glycel and launched in Taiwan strategic prime locations.

Besides boosting the Group's overall revenues, the popularity of Glycel in Hong Kong since its launch suggests great opportunities for future growth, especially in the PRC market. The Group sees this as an important strategy to counter the loss of ~H₂O+ revenues from the PRC. It began the hygiene permit registration process of Glycel for selling the brand's products in the PRC starting in 2011, which is proceeding smoothly, and the current schedule is targeted to start selling Glycel products there in the third quarter of 2012. The Group's established strong PRC sales network and its previous experience of promoting ~H₂O+ products gives it a strong head-start in getting Glycel up and running there quickly and effectively. The Group is confident that once Glycel has been launched in the PRC, it will soon begin to build up sales momentum and generate revenues that will make up the shortfall in retail sales in the near future.

The Group's Erno Laszlo brand has also performed well in the interim period. With the opening of two new counters in Harvey Nichols stores in Hong Kong, together with the well performance of our existing stores, the bottom-line results of the brand have been boosted.

Spa and Beauty services

The Group's spa and beauty services operations have remained strong contributors over the interim period and have continued to display good revenue growth. In December 2011 the Group opened a new Oasis Medical Centre in Shatin, bringing to four its range of these specialist medical beauty treatment outlets. The Group's Oasis Beauty and related beauty outlets, of which there were 28 in Hong Kong as at 31st March, 2012, also continued to perform well.

The Group intends to carry out a focused expansion of its beauty services offerings. A new Oasis Beauty centre was opened in May 2012 in Hong Kong's prestigious Harbour City shopping mall, an excellent location with high quality shopper traffic. As part of this strategic realignment, the Group will channel new resources into ramping up the brand image of its Oasis Beauty business.

Beauty services developments are also taking place in the PRC, where the Group is setting up a franchise base for Oasis Beauty centres offering beauty services treatment. Already a number of franchisees have signed up to take on Oasis Beauty business and expect to launch business in this year, and the Group expects several more to follow. The planned outcome is for a comprehensive network of franchised beauty centres in the PRC that will generate steady franchise income for the Group in the next few years.

Outlook

As a result of the termination of the PRC and Taiwan distributorship agreement for ~H₂O+, the Group is adjusting its optimum revenue structure so as to place greater emphasis on its successful beauty services operations while waiting Glycel's retail business to grow at the same time. This process will involve some realignment and the channeling of new resources into brand-building and promotional activities for its beauty services operations and, as mentioned, the setting up of franchised beauty services in the PRC.

On the retail side, meanwhile, the Group will be continuing to support and promote the ~H₂O+ brand to the best of its ability in Hong Kong, Macau and Singapore; the brand will remain an important part of the Water Oasis brand portfolio. Apart from ~H₂O+, a new Erno Laszlo shop located at Hysan Place in Causeway Bay will be expected to open in the third quarter of 2012. Glycel, the Group's wholly self-owned brand, offers much scope for further development and growth, especially this self-owned brand has a higher margin to invest and the Group has complete control over almost every aspect of its sales and marketing. Two new Glycel shops are planned to open in Hong Kong in the second half of this fiscal year. In the coming few months the Group intends to pour significant resources into promoting Glycel, in the belief that its rapid Hong Kong success is fully translatable into Taiwan and PRC market. This will involve both enhancing and overhauling the brand image, and increasing the Glycel product range. The Group will be using all its market know-how, proven skills, and strong resources to expand Glycel into the PRC, as well as taking advantage of its strong existing business networks there.

All along, the Group will stay primed for opportunities to acquire new brands, and launch new partnerships or Merger and Acquisition arrangements, that could lead to enhanced value for investors.



Report on Review of Interim Financial Information To the Board of Directors of Water Oasis Group Limited

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 5 to 21, which comprises the condensed consolidated statement of financial position of Water Oasis Group Limited (the “Company”) and its subsidiaries as of 31st March, 2012 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 29th May, 2012

Condensed Consolidated Income Statement

Unaudited
Six months ended
31st March,

	Notes	2012 HK\$'000	2011 HK\$'000 (restated)
Turnover	4	497,711	515,502
Purchases and changes in inventories of finished goods		(100,770)	(117,718)
Other income		4,507	4,042
Other gains or losses		10,586	12,196
Staff costs		(161,803)	(151,253)
Depreciation of property, plant and equipment		(16,455)	(13,989)
Finance costs		(3,153)	(2,966)
Other expenses		(187,517)	(208,337)
Profit before taxation		43,106	37,477
Taxation	5	(6,371)	(18,757)
Profit for the period	6	36,735	18,720
Profit for the period attributable to:			
Owners of the Company		37,903	22,982
Non-controlling interests		(1,168)	(4,262)
		36,735	18,720
Earnings per share			
Basic	7	5.0 HK cents	3.0 HK cents
Diluted	7	5.0 HK cents	3.0 HK cents

Condensed Consolidated Statement of Comprehensive Income

Unaudited
Six months ended
31st March,

	2012 HK\$'000	2011 HK\$'000 (restated)
Profit for the period	36,735	18,720
Other comprehensive income:		
Exchange differences arising on translation and other comprehensive income for the period	58	1,480
Total comprehensive income for the period	36,793	20,200
Total comprehensive income for the period attributable to:		
Owners of the Company	37,961	24,462
Non-controlling interests	(1,168)	(4,262)
	36,793	20,200

Condensed Consolidated Statement of Financial Position

	Notes	Unaudited As at 31st March, 2012 HK\$'000	Audited As at 30th September, 2011 HK\$'000
Non-current assets			
Intangible assets		59,369	59,250
Goodwill		3,978	3,978
Investment properties	9	200,150	189,560
Property, plant and equipment	9	46,083	44,248
Rental deposits		29,195	27,638
Deferred tax assets		5,301	6,637
		344,076	331,311
Current assets			
Inventories		53,413	69,969
Trade receivables	10	82,576	65,360
Prepayments		49,078	37,719
Other deposits and receivables		21,758	32,242
Bank balances and cash		251,669	324,982
		458,494	530,272
Current liabilities			
Trade payables	11	5,622	19,561
Accruals and other payables		118,594	145,819
Receipts in advance		262,570	251,812
Secured mortgage loan	12	35,533	37,125
Tax payable		14,244	22,198
		436,563	476,515
Net current assets		21,931	53,757
Total assets less current liabilities		366,007	385,068
Capital and reserves			
Share capital	13	76,395	76,395
Reserves		208,903	228,286
Equity attributable to owners of the Company		285,298	304,681
Non-controlling interests		15,168	16,336
Total equity		300,466	321,017
Non-current liabilities			
Pension obligations		225	225
Deferred tax liabilities		20,847	21,138
Convertible bond		44,469	42,688
		65,541	64,051
		366,007	385,068

Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Statutory fund reserve HK\$'000	Share options reserve HK\$'000	Convertible bond equity reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1st October, 2010 (audited)	76,395	38,879	13,069	(1,766)	450	1,797	13,880	1,347	102,865	246,916	12,105	259,021
Profit for the period (restated)	-	-	-	-	-	-	-	-	22,982	22,982	(4,262)	18,720
Other comprehensive income for the period	-	-	1,480	-	-	-	-	-	-	1,480	-	1,480
Total comprehensive income for the period	-	-	1,480	-	-	-	-	-	22,982	24,462	(4,262)	20,200
2010 final dividend paid	-	-	-	-	-	-	-	-	(30,558)	(30,558)	-	(30,558)
Recognition of equity-settled share-based payment expenses	-	-	-	-	-	-	8,802	-	-	8,802	-	8,802
At 31st March, 2011 (unaudited)	76,395	38,879	14,549	(1,766)	450	1,797	22,682	1,347	95,289	249,622	7,843	257,465
	Attributable to owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Statutory fund reserve HK\$'000	Share options reserve HK\$'000	Convertible bond equity reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1st October, 2011 (audited)	76,395	38,879	22,108	(1,766)	450	1,797	31,533	1,347	133,938	304,681	16,336	321,017
Profit for the period	-	-	-	-	-	-	-	-	37,903	37,903	(1,168)	36,735
Other comprehensive income for the period	-	-	58	-	-	-	-	-	-	58	-	58
Total comprehensive income for the period	-	-	58	-	-	-	-	-	37,903	37,961	(1,168)	36,793
2011 final dividend paid	-	-	-	-	-	-	-	-	(61,116)	(61,116)	-	(61,116)
Recognition of equity-settled share-based payment expenses	-	-	-	-	-	-	3,772	-	-	3,772	-	3,772
At 31st March, 2012 (unaudited)	76,395	38,879	22,166	(1,766)	450	1,797	35,305	1,347	110,725	285,298	15,168	300,466

Condensed Consolidated Statement of Cash Flows

Unaudited
Six months ended
31st March,

	2012 HK\$'000	2011 HK\$'000
Net cash from operating activities	8,038	88,544
Net cash used in investing activities:		
Purchase of property, plant and equipment	(18,356)	(11,873)
Other investing cash flows	1,021	(1,519)
	(17,335)	(13,392)
Net cash used in financing activities:		
Dividends paid	(61,116)	(30,558)
Other financing cash flows	(2,964)	(2,739)
	(64,080)	(33,297)
Net (decrease) increase in cash and cash equivalents	(73,377)	41,855
Cash and cash equivalents at beginning of the period	324,982	217,536
Effect of foreign exchange rate changes	64	1,604
Cash and cash equivalents at end of the period, represented by bank balances and cash	251,669	260,995

Notes to the Condensed Consolidated Financial Statements

1. General Information

Water Oasis Group Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability on 27th September, 2001 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section to the Interim Report. The shares of the Company 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 beauty salons, spa and medical beauty centres in Hong Kong and Mainland China.

The condensed consolidated financial statements are presented in Hong Kong Dollars (“HK\$”) which is the functional currency of the Company. The condensed consolidated financial statements were approved for issue by the Board of Directors on 29th May, 2012.

2. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 30th September, 2011.

3. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31st March, 2012 are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 30th September, 2011.

In the current interim period, the Group has applied, for the first time, the following new or revised standards, amendments and interpretations (“new or revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s accounting period beginning on 1st October, 2011.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 ¹
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets
HKAS 24 (Revised 2009)	Related Party Disclosures
HK (IFRIC)–Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement

¹ Amendments that are effective for annual periods beginning on or after 1st January, 2011

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new or revised HKFRSs will have no material impact on the results and the financial position of the Group.

Comparatives – Amendments to HKAS 12 “Income Taxes”

As set out in the consolidated financial statements for the year ended 30th September, 2011, the Group early adopted the amendments to HKAS 12 titled “Deferred Tax: Recovery of Underlying Assets” for the first time in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40 “Investment Property”. Accordingly, certain comparative figures in these condensed consolidated financial statements have been restated.

- (a) The effect of the above changes in accounting policies on the results for the six months ended 31st March, 2011 by line items are as follows:

	HK\$'000
Decrease in taxation and increase in profit for the period	1,856
Increase in profit for the period attributable to owners of the Company	1,856

- (b) The effects of the above changes in accounting policies on the Group's basic and diluted earnings per share for the six months ended 31st March, 2011 are as follows:

Impact on basic earnings per share

	HK cents
Reported figure before adjustment	2.8
Adjustment arising from changes in accounting policies in respect of deferred tax on investment properties carried at fair value	0.2
Restated	3.0

Impact on diluted earnings per share

	HK cents
Reported figure before adjustment	2.7
Adjustment arising from changes in accounting policies in respect of deferred tax on investment properties carried at fair value	0.3
Restated	3.0

4. Turnover and Segment Information

The Group's operating segments, based on information reported to the chief operating decision maker, i.e. the Group's Executive Directors, for the purposes of allocating resources to segments and assessing their performance are as follows:

- (i) Retail segment – the retail sales of skin-care products
- (ii) Services segment – provision of services in beauty salons, spa, medical beauty centres and other businesses

The following is an analysis of the Group's turnover and results by operating segment for the period under review:

	Retail segment		Services segment		Elimination		Total	
	Six months ended		Six months ended		Six months ended		Six months ended	
	31st March,		31st March,		31st March,		31st March,	
	2012	2011	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to external customers	282,819	330,116	214,892	185,386	-	-	497,711	515,502
Inter-segment sales	11,654	13,910	-	-	(11,654)	(13,910)	-	-
Total	294,473	344,026	214,892	185,386	(11,654)	(13,910)	497,711	515,502
Segment results	12,752	26,981	61,470	41,376	-	-	74,222	68,357
Other income							4,507	4,042
Other gains or losses							10,586	12,196
Finance costs							(3,153)	(2,966)
Central administrative costs							(43,056)	(44,152)
Profit before taxation							43,106	37,477

Segment results represent the profit earned by each segment without allocation of income, gains or losses of the corporation function, finance costs and central administrative costs (including directors' emoluments). This is the measure reported to the Group's directors for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates at terms determined.

5. Taxation

	Six months ended 31st March,	
	2012 HK\$'000	2011 HK\$'000 (restated)
Current taxation		
Current period	5,335	10,683
Overprovision in prior years	-	(176)
	5,335	10,507
Deferred taxation		
Current period	1,036	8,250
	6,371	18,757

Hong Kong Profits Tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the period after setting off available tax losses brought forward from prior years.

The People's Republic of China (the "PRC") Enterprise Income Tax was calculated at the statutory income tax rate of 25% (2011: 25%) on the assessable profits except for those profits derived from the Waigaoqiao Free Trade Zone and Pudong New Area which were taxed at a preferential rate of 24% in the year 2011. The preferential rate was increased to 25% in the year 2012 pursuant to the relevant governmental notices. On 28th November, 2008, a subsidiary of the Group in Waigaoqiao Free Trade Zone has been qualified as an "operating centre" and entitled to certain tax reductions.

Withholding tax has been imposed on dividends payable to foreign shareholders out of profits generated by companies established in the PRC. Deferred taxation has been provided for in respect of the undistributed profits from the Group's PRC subsidiaries accordingly.

Taxation on profits generated outside Hong Kong/the PRC has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries/places in which the Group operates.

During the six months ended 31st March, 2011, deferred taxation previously recognised as deferred tax assets was reversed as a result of the discontinuation of a business line of certain group entities where future profits in relation to this discontinued business line will not be available for utilising such related deferred tax assets.

6. Profit for the Period

	Six months ended 31st March,	
	2012 HK\$'000	2011 HK\$'000
Profit for the period is stated at after charging:		
Amortisation of intangible assets	167	212
Interest expenses on secured mortgage loan	389	416
Effective interest expenses on convertible bond	2,764	2,550
Equity-settled share-based payment expenses	3,772	8,802
and after crediting:		
Gain on fair value change of investment properties	10,590	11,250
Interest income on bank deposits	1,733	530
Rental income from investment properties	2,580	648
Net exchange gains	516	954

7. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 31st March,	
	2012 HK\$'000	2011 HK\$'000 (restated)
Earnings for the purpose of basic and diluted earnings per share	37,903	22,982
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	763,952,764	763,952,764
Effect of dilutive potential ordinary shares in respect of share options	–	7,202,210
Weighted average number of ordinary shares for the purpose of diluted earnings per share	763,952,764	771,154,974

The computation of diluted earnings per share for the six months ended 31st March, 2012 has not assumed the exercise of the Company's outstanding share options because the adjusted exercise price of these options was higher than the average market price of shares in the current interim period.

Diluted earnings per share for both periods do not include the effect of the convertible bond because it would result in an increase in earnings per share.

8. Dividends

	Six months ended 31st March,	
	2012 HK\$'000	2011 HK\$'000
Interim dividend proposed of 4.5 HK cents (2011: 3.0 HK cents) per share	34,378	22,919

During the six months ended 31st March, 2012, a final dividend of 8.0 HK cents (2011: 4.0 HK cents) per share totalled approximately HK\$61,116,000 was paid to shareholders of the Company in respect of the year ended 30th September, 2011 (2011: HK\$30,558,000 was paid in respect of the year ended 30th September, 2010).

At the Board meeting held on 29th May, 2012, the directors declared an interim dividend of 4.5 HK cents (2011: 3.0 HK cents) per share. This proposed interim dividend is not reflected as dividend payable in the condensed consolidated financial statements as it was declared after the end of the reporting period.

9. Capital Expenditures

During the six months ended 31st March, 2012, the Group incurred capital expenditure of approximately HK\$18,356,000 for property, plant and equipment (six months ended 31st March, 2011: HK\$11,873,000).

The Group's investment properties were revalued as of 31st March, 2012 on the basis of their open market values by Dynasty Premium Asset Valuation & Real Estate Consultancy Limited, an independent qualified professional valuer not connected with the Group. The resulting increase in fair value of investment properties of HK\$10,590,000 (six months ended 31st March, 2011: HK\$11,250,000) has been recognised directly in profit or loss.

10. Trade Receivables

The Group allows its trade debtors credit terms of 30 days to 90 days. The following is an aging analysis of trade receivables, presented based on the payment due date, net of allowance for bad and doubtful debts, at the end of the reporting period:

	As at 31st March, 2012 HK\$'000	As at 30th September, 2011 HK\$'000
0 to 30 days	75,255	51,430
31 days to 60 days	4,678	7,601
61 days to 90 days	1,336	1,867
Over 90 days	1,307	4,462
	82,576	65,360

11. Trade Payables

The following is an aging analysis of trade payables, presented based on the payment due date, at the end of the reporting period:

	As at 31st March, 2012 HK\$'000	As at 30th September, 2011 HK\$'000
0 to 30 days	5,622	19,561

12. Secured Mortgage Loan

	As at 31st March, 2012 HK\$'000	As at 30th September, 2011 HK\$'000
Analysed for reporting purpose as current liabilities	35,533	37,125

The scheduled principal repayment dates of the loan with reference to the mortgage loan agreement are as follows:

	As at 31st March, 2012 HK\$'000	As at 30th September, 2011 HK\$'000
Within 1 year	2,778	2,971
1 year to less than 2 years	2,836	2,807
2 years to less than 3 years	2,898	2,867
3 years to less than 4 years	2,960	2,930
4 years to less than 5 years	3,026	2,993
5 years or more	21,035	22,557
	35,533	37,125

As the Group's secured mortgage loan contains a repayment on demand clause, the entire loan balance is classified as current liability.

As at 31st March, 2012, the mortgage loan was secured by one of the Group's investment properties with a carrying amount of HK\$161,000,000 (as at 30th September, 2011: HK\$151,000,000). It bears interest at 2.85% per annum below the bank's Best Lending Rate. The effective interest rate is approximately 2.15% (as at 30th September, 2011: 2.15%) per annum.

13. Share Capital

	As at 31st March, 2012 HK\$'000	As at 30th September, 2011 HK\$'000
Authorised: 2,000,000,000 (2011: 2,000,000,000) ordinary shares of HK\$0.1 each	200,000	200,000
Issued and fully paid: 763,952,764 (2011: 763,952,764) ordinary shares of HK\$0.1 each	76,395	76,395

14. Share Options

- (i) On 24th February, 2012, the Company adopted a new share option scheme (the "Share Option Scheme"), which replaced an old share option scheme that expired on 22nd January, 2012. 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 23rd February, 2022, at its discretion, offer to grant options at an option price of HK\$1.00 to any executives and full-time employees, part time employees with weekly working hours of 10 hours and above, executive or non-executive directors of the Company or any of its subsidiaries, any advisors (professional or otherwise), consultants, distributors, suppliers, agents, customers, partners, joint venture partners, promoters, service providers 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 on which the Share Option Scheme was conditionally adopted pursuant to the resolution of the shareholders of the Company in general meeting held on 24th February, 2012. The subscription price shall be the highest of (i) the closing price of the shares of the Company on the Stock Exchange on the date of the grant of options; (ii) the average closing price of the shares of the Company on the Stock Exchange for the five business days immediately preceding the date of the grant of options; and (iii) 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 must not exceed 30% of the total number of shares in issue from time to time.

No share options under the Share Option Scheme were granted or exercised during the current interim period nor outstanding as at 31st March, 2012.

- (ii) On 18th December, 2009, the Company entered into a consultancy agreement with independent third parties, Luminary Capital Limited (the “Advisor”) and Mr. Leung Pak To, Francis, whereby an option was granted by the Company to the Advisor in return for its general consultancy and financial advisory services provided to the Group (the “Option”) for a period of 24 months. The Option entitles the Advisor the right, as adjusted by the Company’s bonus issue in March 2010, to require the Company to issue up to 73,911,200 shares at an option price of HK\$1.13 per share during a 36 months’ period from 18th December, 2009 to 17th December, 2012.

The fair value of the Option determined at the date of grant using the Binomial Option Pricing Model was approximately HK\$35,305,000. An option expense of approximately HK\$3,772,000 (six months ended 31st March, 2011: HK\$8,802,000) was recognised and charged to the condensed consolidated income statement for the current interim period.

Since the date the Option was granted, the Advisor has not exercised its right under the Option to subscribe for any shares in the Company.

15. Commitments and Arrangements

(a) Capital commitments

	As at 31st March, 2012 HK\$’000	As at 30th September, 2011 HK\$’000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	391	46

(b) **Commitments and arrangements under operating leases**

At 31st March, 2012 and 30th September, 2011, 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	As at 31st March, 2012 HK\$'000	As at 30th September, 2011 HK\$'000
Rental receipts		
Not later than 1 year	4,343	5,160
More than 1 year and not later than 5 years	941	3,325
	5,284	8,485

There was no contingent lease arrangement for the Group's rental receipts.

As lessees	As at 31st March, 2012 HK\$'000	As at 30th September, 2011 HK\$'000
Rental payments		
Not later than 1 year	98,244	99,530
More than 1 year and not later than 5 years	80,885	104,347
	179,129	203,877

Operating lease payments represent rentals payable by the Group for certain of its leased properties. Leases terms are negotiated and 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, where the amounts are determined by applying predetermined 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.

16. Related Party Transaction

Key management personnel compensation

	Six months ended 31st March,	
	2012 HK\$'000	2011 HK\$'000
Basic salaries and housing allowances	6,527	6,093
Bonuses	6,772	4,700
Retirement benefit costs	30	30
	13,329	10,823

17. Events After the End of the Interim Period

Pursuant to the announcement made on 20th January, 2012, the Company, on 20th January, 2012, received from H2O Plus, LLC a letter and two notices of termination, each dated 19th January, 2012 relating to the termination of the ~H₂O+ distribution rights for the territories of Taiwan and PRC on 20th February, 2012. The Company has a 90-day “sell-down period” after 19th February, 2012 to sell all the remaining inventories. Such termination constitutes discontinuation of the distribution business of ~H₂O+ products in these territories on 20th May, 2012 upon the lapse of the sell-down period. The Company’s distributorship rights of ~H₂O+ in Hong Kong, Macau and Singapore remain unaffected.

Interim Dividend and Closure of Register of Members

The directors have declared an interim dividend of 4.5 HK cents per share for the six months ended 31st March, 2012 payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 15th June, 2012. The Register of Members will be closed from Wednesday, 13th June, 2012 to Friday, 15th June, 2012, both days inclusive, during which period no transfer of shares will be registered. To qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Standard Limited whose share registration public offices are located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 12th June, 2012. The relevant dividend warrants will be dispatched to shareholders on Thursday, 28th June, 2012.

Liquidity and Financial Resources

As at 31st March, 2012, the Group had net current assets of approximately HK\$21.9 million (as at 30th September, 2011: HK\$53.8 million).

The Group generally finances its operations with internally generated resources. As at 31st March, 2012, the Group had cash reserves of approximately HK\$251.7 million (as at 30th September, 2011: HK\$325.0 million).

The gearing ratio, expressed as a percentage of the secured mortgage loan and convertible bond over total equity of approximately HK\$300.5 million (as at 30th September, 2011: HK\$321.0 million) is approximately 26.6% (as at 30th September, 2011: 24.9%).

The Group continues to follow the practice of prudent cash management. The Group has acceptable level of exposure on foreign currency fluctuations as most of its assets, receipts and payments are principally denominated in the functional currency of the relevant territories. The Group will continue to monitor its foreign exchange position and if necessary will hedge its foreign exchange exposure by entering forward foreign exchange contracts.

Human Resources

As at 31st March, 2012, the Group employed 1,387 staff (as at 30th September, 2011: 1,498 staff). The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses and share options will also be granted to eligible staff based on individual's and Group's performances. Other employee benefits include provident fund, insurance and medical cover, educational allowances and training programs.

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

Audit Committee

The Company's Audit Committee comprises Dr. Wong Lung Tak, Patrick, B.B.S., J.P., Mr. Wong Chun Nam, Duffy, J.P. and Dr. Wong Chi Keung who are the independent non-executive directors of the Company. The Audit Committee is chaired by Dr. Wong Lung Tak, Patrick, B.B.S., J.P..

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the unaudited consolidated results of the Group for the six months ended 31st March, 2012 with management and discussed with the independent auditor on reviewing internal control and financial reporting matters in respect of the Interim Financial Information.

Remuneration Committee

To comply with the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules, a Remuneration Committee was established on 26th June, 2006. The members of the Remuneration Committee comprise all independent non-executive directors of the Company and is chaired by Mr. Wong Chun Nam, Duffy, J.P..

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.

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 comprise 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 members meet and review the investment directions and the portfolio mix as well as evaluating the performance of the investment portfolio.

Nomination Committee

In compliance with the relevant amendments to the CG Code which took effect on 1st April, 2012, a Nomination Committee has been established on 22nd March, 2012 with specific terms of reference by the Board for the purpose of making recommendations to the Board in relation to the nomination and appointment of directors, with a view to ensuring fairness and transparency in the nomination and selection procedures.

The Company's Nomination Committee comprises Dr. Wong Chi Keung, Dr. Wong Lung Tak, Patrick, B.B.S., J.P. and Mr. Wong Chun Nam, Duffy, J.P. who are the independent non-executive directors of the Company. The Nomination Committee is chaired by Dr. Wong Chi Keung.

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

As at 31st March, 2012, the interests or short positions of the directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the percentage in the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571) (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (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	Personal interests	Number and class of shares		Total	Percentage of issued share capital
				Corporate interests	Family interests		
Yu Lai Si	The Company	Beneficial owner	166,113,760 ordinary	–	–	166,113,760 ordinary	21.7%
	Water Oasis Company Limited	Beneficial owner	330,000 non-voting deferred	–	–	330,000 non-voting deferred	–
Tam Chie Sang	The Company	Interest of a controlled corporation and interest of spouse	–	155,333,760 ordinary ⁽¹⁾	5,960,000 ordinary ⁽²⁾	161,293,760 ordinary	21.1%
	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	5,960,000 ordinary	155,333,760 ordinary ⁽¹⁾	–	161,293,760 ordinary	21.1%
	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	–

Name of director	The Company/ name of associated corporation	Capacity	Personal interests	Number and class of shares		Total	Percentage of issued share capital
				Corporate interests	Family interests		
Yu Kam Shui, Erastus	The Company	Beneficial owner	8,000,000 ordinary	–	–	8,000,000 ordinary	1.0%
Lai Yin Ping	The Company	Interest of spouse	–	–	8,000,000 ordinary ⁽⁴⁾	8,000,000 ordinary	1.0%
Wong Chun Nam, Duffy, J.P.	The Company	Beneficial owner	600,000 ordinary	–	–	600,000 ordinary	0.1%

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 Yu Kam Shui, Erastus, the husband of Lai Yin Ping.

As at 31st March, 2012, save as disclosed above and under the section headed “Share Options” below, none of the directors, chief executive 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 Share Option Scheme are set out in note 14 to the condensed consolidated financial statements. No share options under the Share Option Scheme were granted or exercised during the current interim period nor outstanding as at 31st March, 2012.

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

Substantial Shareholders' Interests

As at 31st March, 2012, 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 and underlying shares

Name of Shareholder	Capacity	Number of ordinary shares	Approximate percentage of voting power
Zinna Group Limited ⁽¹⁾	Interest of a controlled corporation	155,333,760	20.3%
Advance Favour Holdings Limited ⁽²⁾	Interest of a controlled corporation	77,666,880	10.2%
Billion Well Holdings Limited ⁽³⁾	Interest of a controlled corporation	77,666,880	10.2%
Luminary Capital Limited ⁽⁴⁾	Beneficial owner	73,911,200	9.7%
Darby Overseas Investments, Ltd. ⁽⁵⁾	Investment manager	42,487,822	5.6%

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.
- (4) Luminary Capital Limited is a company incorporated in Hong Kong and is beneficially owned by Leung Pak To, Francis. Those shares are options granted by the Company to Luminary Capital Limited under a consultancy agreement entered between the Company, Luminary Capital Limited and Leung Pak To, Francis. The number of option shares entitled to be issued was adjusted to 73,911,200 option shares following the bonus shares issued on 30th March, 2010.
- (5) Darby Overseas Investments, Ltd. is a company incorporated in Delaware, United States of America and is beneficially owned by Franklin Resources, Inc. Pursuant to the Subscription Agreement dated on 27th April, 2010, those shares include i) 24,840,764 shares issued and allotted at a price of HK\$1.57 per share; and ii) the convertible bonds in an aggregate principal amount of \$39,000,000, in which, upon full conversion, a total of 17,647,058 conversion shares will be issued.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

Corporate Governance

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

Code Provision A.2.1

Code Provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same person. Presently, the Board does not have any director with the title "Chairman", whereas Ms. Yu Lai Si, the Chief Executive Officer of the Group, has been carrying out the duties of both the Chairman and Chief Executive Officer since the establishment of the Group and the Company. 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.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. The Company had not designated a director for the purpose of receiving notification and providing acknowledgement in respect of dealing in securities of the Company under Rule B.8 of the Model Code. On 13th February, 2012, the Company had rectified the situation and had approved a memorandum detailing notification procedures to ensure compliance with the Model Code to all the directors. Following a specific enquiry by the Company, each of the directors (except one director) confirmed that he/she complied with the Model Code for transactions in the Company's securities throughout the review period.

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

By Order of the Board
Yu Kam Shui, Erastus
Executive Director

Hong Kong, 29th May, 2012

Corporate Information

Directors

Executive Directors

Yu Lai Si
Tam Chie Sang
Yu Lai Chu, Eileen
Yu Kam Shui, Erastus
Lai Yin Ping

Independent Non-Executive Directors

Wong Lung Tak, Patrick, B.B.S., J.P.
Wong Chun Nam, Duffy, J.P.
Wong Chi Keung

Audit Committee

Wong Lung Tak, Patrick, B.B.S., J.P.
Wong Chun Nam, Duffy, J.P.
Wong Chi Keung

Remuneration Committee

Wong Chun Nam, Duffy, J.P.
Wong Lung Tak, Patrick, B.B.S., J.P.
Wong Chi Keung

Investment Advisory Committee

Wong Chi Keung
Wong Lung Tak, Patrick, B.B.S., J.P.
Wong Chun Nam, Duffy, J.P.
Yu Lai Si

Nomination Committee

Wong Chi Keung
Wong Lung Tak, Patrick, B.B.S., J.P.
Wong Chun Nam, Duffy, J.P.

Company Secretary and Qualified Accountant

Mo Yuen Yee, FCCA, FCPA

Auditor

Deloitte Touche Tohmatsu

Legal Advisors

Deacons
Reed Smith Richards Butler

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited

Principal Share Registrar and Transfer Office

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