

Directors' Report

The directors present their annual report and the audited consolidated accounts of the Company and its subsidiaries for the year ended 30th September 2003.

PRINCIPAL ACTIVITIES

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

Details of the Company's principal subsidiaries at 30th September 2003 are set out in note 28 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30th September 2003 are set out in the consolidated profit and loss account on page 19.

The Directors recommended a final dividend of 1.0 HK cents per share for the year ended 30th September 2003 payable to shareholders whose names appear on the Register of Members of the Company at the close of business on 5th March 2004. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, such dividend will be payable on 9th March 2004.

SHARE CAPITAL

Details of the Company's authorised and issued share capital as at 30th September 2003 are set out in note 20 to the accounts.

RESERVES

Movements in the reserves of the Group and of the Company are set out in note 21 to the accounts.

INVESTMENT PROPERTY

The Group revalued its investment property as at 30th September 2003 on an open market value basis. Details of which are set out in note 12 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 12 to the accounts.

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 49.

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DIRECTORS AND DIRECTORS' SERVICES AGREEMENTS

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

Executive directors:

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

Independent non-executive directors:

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

In accordance with Article 86(3) of the Company's articles of association, Mr. Tam Chie Sang, Mr. Wong Lung Tak, Patrick and Mr. Wong Chun Nam, Duffy would retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 87(1) and (2) of the Company's articles of association, Ms. Yu Lai Si would retire by rotation at the forthcoming annual general meeting and, being eligible, offer herself for re-election.

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

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

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

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

As at 30th September 2003, the interests and 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Long positions in shares and underlying shares of the Company

Name of director	The Company/ name of associated corporation	Capacity	Number and class of shares				Total	Percentage of issued share capital
			Personal interests	Corporate interests	Family interests	Other interests		
Yu Lai Si	The Company	Beneficial owner	77,666,880 ordinary	-	-	-	77,666,880 ordinary	24.1%
	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	-	-	-	77,666,880 ordinary ⁽¹⁾	77,666,880 ordinary	24.1%
	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	Interest of a controlled corporation	-	-	-	77,666,880 ordinary ⁽¹⁾	77,666,880 ordinary	24.1%
	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	-
Yu Kam Shui, Erastus	The Company	Interest of spouse and interest of a controlled corporation	-	-	38,833,440 ordinary ⁽⁵⁾	38,833,440 ordinary ⁽⁴⁾	77,666,880 ordinary	24.1%
Lai Yin Ping	The Company	Interest of spouse and interest of a controlled corporation	-	-	38,833,440 ordinary ⁽⁴⁾	38,833,440 ordinary ⁽⁵⁾	77,666,880 ordinary	24.1%

Notes:

- (1) These shares are registered in the name of Zinna Group Limited. All voting rights over Zinna Group Limited are held by Royalion Worldwide Limited, which is wholly owned by Hitchin Trading Limited as trustee of Hitchin Unit Trust which in turn is ultimately held by Trident Trust Company (Cayman) Limited, which forms part of a discretionary trust set up by Tam Chie Sang and Yu Lai Chu, Eileen. Trident Trust Company (Cayman) Limited is the trustee of the discretionary trust, the beneficiaries of which are the family members of Tam Chie Sang and Yu Lai Chu, Eileen.
- (2) 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.

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- (4) These shares are registered in the name of Advance Favour Holdings Limited, a British Virgin Islands company held by K S Yu 2002 Grantor Retained Annuity Trust formed for the benefit of Yu Kam Shui, Erastus and Lai Yin Ping's sister, Lai Yin Ling and upon her death, Yu Kam Shui, Erastus' mother, Fung Sin Ping. Yu Kam Shui, Erastus and his spouse, Lai Yin Ping are the trustees to the K S Yu 2002 Grantor Retained Annuity Trust.
- (5) These shares are registered in the name of Billion Well Holdings Limited, a British Virgin Islands company held by Y P Lai 2002 Grantor Retained Annuity Trust formed for the benefit of Lai Yin Ping and Lai Yin Ping's sister, Lai Yin Ling and upon her death, Lai Yin Ping's mother, Wong Kwai Ying. Lai Yin Ping is the sole trustee to the Y P Lai 2002 Grantor Retained Annuity Trust.

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 2003, 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 20 to the accounts.

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

Category and name of participant	As at 1st October 2002	Granted during the year	Cancelled/ Lapsed during the year	As at 30th September 2003	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
Directors							
Yu Lai Si	3,000,000	–	–	3,000,000	30th August 2002	28th February 2003 – 29th August 2007	0.52
Tam Chie Sang	1,500,000	–	–	1,500,000	30th August 2002	28th February 2003 – 29th August 2007	0.52
Yu Lai Chu, Eileen	1,500,000	–	–	1,500,000	30th August 2002	28th February 2003 – 29th August 2007	0.52
Yu Kam Shui, Erastus	1,500,000	–	–	1,500,000	30th August 2002	28th February 2003 – 29th August 2007	0.52
Lai Yin Ping	1,500,000	–	–	1,500,000	30th August 2002	28th February 2003 – 29th August 2007	0.52
	<u>9,000,000</u>	<u>–</u>	<u>–</u>	<u>9,000,000</u>			

Category and name of participant	As at 1st October 2002	Granted during the year	Cancelled/ Lapsed during the year	As at 30th September 2003	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
Supplier							
H ₂ O Plus, L.P.	3,264,000 ⁽¹⁾	976,000 ⁽²⁾	–	4,240,000	⁽¹⁾ 11th March 2002 ⁽²⁾ 12th March 2003	⁽¹⁾ 11th March 2002 – 10th March 2012 ⁽²⁾ 12th March 2003 – 11th March 2013	⁽¹⁾ 1.18 ⁽²⁾ 0.54
	<u>3,264,000</u>	<u>976,000</u>	<u>–</u>	<u>4,240,000</u>			
Employees (In aggregate)							
	750,000	–	–	750,000	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
	3,820,000	–	840,000	2,980,000	30th August 2002	28th February 2003 – 29th August 2007	0.52
	3,820,000	–	840,000	2,980,000	30th August 2002	31st August 2003 – 29th August 2007	0.52
	2,820,000	–	840,000	1,980,000	30th August 2002	29th February 2004 – 29th August 2007	0.52
	<u>11,960,000</u>	<u>–</u>	<u>2,520,000</u>	<u>9,440,000</u>			

No share options were exercised during the year ended 30th September 2003.

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.

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SUBSTANTIAL SHAREHOLDERS

As at 30th September 2003, the following persons had interests or short positions 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:

Name of Shareholder	Capacity	Number of ordinary shares	Approximate percentage of voting power
Yu Lai Si	Beneficial owner	77,666,880 Long position	24.1%
Zinna Group Limited ⁽¹⁾	Interest of a controlled corporation	77,666,880 Long position	24.1%
Advance Favour Holdings Limited ⁽²⁾	Interest of a controlled corporation	38,833,440 Long position	12.1%
Billion Well Holdings Limited ⁽³⁾	Interest of a controlled corporation	38,833,440 Long position	12.1%

Notes:

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30th September 2003, the aggregate purchases attributable to the Group's five largest suppliers represented approximately 99% of the Group's purchase. Whereas the aggregate turnover attributable to the Group's five largest customers was less than 1% of the Group's turnover.

DISTRIBUTABLE RESERVES

As at 30th September 2003, distributable reserves of the Company amounted to approximately HK\$3,687,000.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th September 2003, the Group employed 733 staff (2002: 523). 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 18 million shares in the Company in aggregate had been granted to certain employees pursuant to the Company's share option scheme. Exercise prices of which ranges from HK\$0.52 to HK\$1.67 and these options are exercisable within a period of one to three years from the date of grant.

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

During the year ended 30th September 2003, 4,500,000 ordinary shares of HK\$0.1 each of the Company were repurchased at prices ranging from HK\$0.68 to HK\$0.83 per share through the Stock Exchange. The repurchase involved a total cash outlay of approximately HK\$3.3 million.

Saved as disclosed above, none of the Company's subsidiaries purchased or sold any of the Company's listed securities during the year ended 30th September 2003.

PRE-EMPTIVE RIGHTS

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied throughout the financial year ended 30th September 2003 with the Code of Best Practice set out in Appendix 14 to the Listing Rules except that 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.

AUDIT COMMITTEE

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

The audit committee of the Company has reviewed the accounting principles and policies adopted by the Company and discussed with management the internal control, auditing and financial reporting matters in respect of the annual report including review of the audited consolidated accounts of the Group for the year ended 30th September 2003.

AUDITORS

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

On behalf of the Board

YU Lai Si

Executive Director and Chief Executive Officer

Hong Kong, 14th January 2004