

Notes to the Accounts

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. 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 and the Mainland China (the "PRC") and the operation of spa and beauty centers in Hong Kong.

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

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

In current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

The effect of adopting these new/revised SSAPs is set out in the accounting policies below.

The 2002 comparative figures presented herein have incorporated the effect on the adoption of new/revised SSAPs.

(b) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th September. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Intangible assets

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

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

(d) Investment properties

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

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

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

(e) Fixed assets

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Fixed assets *(Continued)*

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

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

(f) Operating leases

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

(g) 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.

(h) Investments

(i) Trading investments

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

(ii) Other investments

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Accounts receivable

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

(j) Cash and cash equivalents

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

(k) 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.

(l) 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. This represents a change in accounting policy as, in previous years, no provision was made for the liability.

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 the PRC 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 in accordance with the local statutory regulations. Pension costs are assessed using the projected unit credit method. 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. 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 profit and loss account in the period to which the contributions relate. This represents a change in accounting policy as, in previous years, pension costs were charged to the profit and loss accounts only based on the contribution payable in the year.

The above changes in accounting policies as stated in (i) and (ii) above have been applied retrospectively as prior year adjustments in the Group's accounts. In this connection, the Group's profit attributable to shareholders for the year ended 30th September 2002 was decreased by approximately HK\$977,000 and the retained profits as at 1st October 2001 was decreased by approximately HK\$510,000.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) **Employee benefits** *(Continued)*

(iii) *Profit sharing and bonus plans*

The expected cost of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(m) **Contingent liabilities**

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

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

(n) **Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(o) **Translation of foreign currencies**

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

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at average rates. Exchange differences are dealt with as a movement in reserves.

(p) **Revenue recognition**

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Segment reporting

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

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

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

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

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sales of goods	220,531	260,953
Rendering of services	89,705	47,496
	<u>310,236</u>	<u>308,449</u>
Other revenues		
Interest income	651	936
Gross rental income from an investment property	273	288
Income from expired gift coupons	135	307
Others	190	55
	<u>1,249</u>	<u>1,586</u>
Total revenues	<u>311,485</u>	<u>310,035</u>

Notes to the Accounts

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

Primary reporting format – business segments

	Retailing		Services		Elimination		Group	
	As restated		As restated		As restated		As restated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to external customers	220,531	260,953	89,705	47,496	–	–	310,236	308,449
Inter-segment sales	4,032	697	–	–	(4,032)	(697)	–	–
Total	<u>224,563</u>	<u>261,650</u>	<u>89,705</u>	<u>47,496</u>	<u>(4,032)</u>	<u>(697)</u>	<u>310,236</u>	<u>308,449</u>
Segment results	<u>1,727</u>	<u>30,277</u>	<u>23,960</u>	<u>12,869</u>	<u>–</u>	<u>–</u>	<u>25,687</u>	<u>43,146</u>
Other revenues							1,249	1,586
Unallocated corporate expenses							(34,646)	(33,740)
Operating (loss)/profit							(7,710)	10,992
Taxation							(2,848)	(5,063)
(Loss)/profit after taxation							(10,558)	5,929
Minority interests							774	418
(Loss)/profit attributable to shareholders							<u>(9,784)</u>	<u>6,347</u>
	Retailing		Services				Group	
	As restated		As restated				As restated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	98,928	103,478	27,461	27,135			126,389	130,613
Unallocated assets							69,859	86,459
Total assets							<u>196,248</u>	<u>217,072</u>
Segment liabilities	27,684	32,898	25,455	17,939			53,139	50,837
Unallocated liabilities (including minority interests)							2,774	7,148
Total liabilities							<u>55,913</u>	<u>57,985</u>
Depreciation	<u>8,735</u>	<u>7,019</u>	<u>5,051</u>	<u>3,032</u>			<u>13,786</u>	<u>10,051</u>
Amortisation	<u>1,009</u>	<u>411</u>	<u>–</u>	<u>–</u>			<u>1,009</u>	<u>411</u>
Capital expenditures	<u>8,041</u>	<u>5,892</u>	<u>8,117</u>	<u>8,073</u>			<u>16,158</u>	<u>13,965</u>

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

Secondary reporting format – geographical segments

	Turnover		Capital expenditures		Total assets	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong and Macau	190,772	210,769	10,113	9,456	57,529	68,265
PRC	50,323	8,469	5,326	2,783	40,138	28,594
Taiwan	69,141	89,211	719	1,726	28,722	33,754
	<u>310,236</u>	<u>308,449</u>	<u>16,158</u>	<u>13,965</u>	<u>126,389</u>	<u>130,613</u>
Unallocated assets					69,859	86,459
					<u>196,248</u>	<u>217,072</u>

4. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after crediting and charging the following:

	2003 HK\$'000	2002 HK\$'000
Crediting		
Gain on disposal of other investment	<u>69</u>	<u>–</u>
Charging		
Amortisation of intangible assets	1,009	411
Auditors' remuneration	823	677
Operating leases rental on land and buildings	45,918	46,571
Unrealised loss on trading investments	17	173
(Gain)/loss on disposal of fixed assets	(102)	156
Net exchange (gain)/losses	(89)	137
Revaluation deficit on an investment property	<u>350</u>	<u>949</u>

Notes to the Accounts

5. TAXATION

	2003 HK\$'000	2002 HK\$'000
Current taxation		
Hong Kong profits tax	1,074	3,028
Overseas taxation	872	2,129
Under/(over) provision in prior years	223	(94)
Deferred taxation (Note 23)	679	–
	<u>2,848</u>	<u>5,063</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2002:16%) 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.

6. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately HK\$5,184,000 (2002: HK\$8,025,000).

7. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim, paid, of 0.5 HK cents per ordinary share (2002: 1.3 HK cents)	1,610	4,243
Final, proposed on 14th January 2004, of 1.0 HK cents per ordinary share (2002: 1.0 HK cents)	<u>3,219</u>	<u>3,219</u>
	<u>4,829</u>	<u>7,462</u>

8. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of approximately HK\$9,784,000 (2002: profit attributable to shareholders of approximately HK\$6,347,000 as restated) and the weighted average number of 322,330,137 (2002: 301,674,082) ordinary shares in issue during the year.

No diluted (loss)/earnings per share is calculated for the years ended 30th September 2003 and 2002 since the exercise prices of the Company's outstanding options were higher than the average fair value per share of the Company during the year and the potential ordinary shares would have no dilutive effect.

9. STAFF COSTS (including directors' emoluments)

	2003 HK\$'000	As restated 2002 HK\$'000
Wages and salaries	80,969	67,542
Pension costs-defined benefit plan (Note 22)	154	400
Pension costs-defined contribution plans	3,387	1,891
Unutilised annual leave	258	577
	<u>84,768</u>	<u>70,410</u>

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

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

	2003 HK\$'000	2002 HK\$'000
Fees	200	157
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits-in-kinds	8,617	8,672
Retirement benefit costs	60	55
	<u>8,877</u>	<u>8,884</u>

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

Notes to the Accounts

10. 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.

The emoluments of the directors fell within the following bands:

	Number of Directors	
	2003	2002
Emolument bands		
HK\$ nil – HK\$1,000,000	5	5
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$4,500,000	–	–
HK\$4,500,001 – HK\$5,000,000	1	1
	<u>7</u>	<u>7</u>

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2002: three) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining one (2002: two) individuals during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, housing allowances, other allowances and benefits-in-kinds	1,381	2,168
Bonuses	–	602
Retirement benefit costs	12	12
	<u>1,393</u>	<u>2,782</u>

The emoluments of employees fell within the following bands:

	Number of Employees	
	2003	2002
Emolument bands		
HK\$ nil – HK\$1,000,000	–	–
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	–	1
	<u>1</u>	<u>2</u>

For the years ended 30th September 2003 and 2002, no directors waived any emoluments and no emoluments have been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group as compensation for loss of office.

11. INTANGIBLE ASSETS

Group

	License fees	
	2003	2002
	HK\$'000	HK\$'000
Beginning of year	3,256	–
Additions	478	3,667
Amortisation charge	(1,009)	(411)
End of year	<u>2,725</u>	<u>3,256</u>
End of year		
Cost	4,145	3,667
Accumulated amortisation	<u>(1,420)</u>	<u>(411)</u>
Net book amount	<u>2,725</u>	<u>3,256</u>

12. FIXED ASSETS

Group

	Investment property HK\$'000	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
Cost or valuation							
As at 1st October 2002	5,950	29,160	3,503	3,444	6,447	4,845	53,349
Additions	–	11,055	–	984	3,522	597	16,158
Disposals	–	(1,321)	(246)	(14)	(399)	–	(1,980)
Revaluation	(350)	–	–	–	–	–	(350)
Exchange adjustment	–	(178)	(8)	–	(2)	(97)	(285)
As at 30th September 2003	<u>5,600</u>	<u>38,716</u>	<u>3,249</u>	<u>4,414</u>	<u>9,568</u>	<u>5,345</u>	<u>66,892</u>
Accumulated depreciation							
As at 1st October 2002	–	14,712	2,267	2,081	1,574	1,937	22,571
Charge for the year	–	9,703	721	848	1,495	1,019	13,786
Disposals	–	(1,321)	(246)	(3)	(205)	–	(1,775)
Exchange adjustment	–	(123)	(4)	–	–	(44)	(171)
As at 30th September 2003	<u>–</u>	<u>22,971</u>	<u>2,738</u>	<u>2,926</u>	<u>2,864</u>	<u>2,912</u>	<u>34,411</u>
Net book value							
As at 30th September 2003	<u>5,600</u>	<u>15,745</u>	<u>511</u>	<u>1,488</u>	<u>6,704</u>	<u>2,433</u>	<u>32,481</u>
As at 30th September 2002	<u>5,950</u>	<u>14,448</u>	<u>1,236</u>	<u>1,363</u>	<u>4,873</u>	<u>2,908</u>	<u>30,778</u>

Notes to the Accounts

12. FIXED ASSETS *(Continued)*

The analyse of the cost or valuation as at 30th September 2003 and 2002 of the above assets are as follows:

2003

	Investment property HK\$'000	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	–	38,716	3,249	4,414	9,568	5,345	61,292
At valuation	5,600	–	–	–	–	–	5,600
	<u>5,600</u>	<u>38,716</u>	<u>3,249</u>	<u>4,414</u>	<u>9,568</u>	<u>5,345</u>	<u>66,892</u>

2002

At cost	–	29,160	3,503	3,444	6,447	4,845	47,399
At valuation	5,950	–	–	–	–	–	5,950
	<u>5,950</u>	<u>29,160</u>	<u>3,503</u>	<u>3,444</u>	<u>6,447</u>	<u>4,845</u>	<u>53,349</u>

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

The investment property was revalued at 30th September 2003 on the basis of their open market value by American Appraisal China Limited, an independent firm of chartered surveyors.

13. INVESTMENTS IN SUBSIDIARIES

Company

	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	3,000	3,000
Amount due from a subsidiary	<u>5,000</u>	<u>–</u>
	8,000	3,000
Amounts due from subsidiaries	44,948	51,222
Amounts due to subsidiaries	<u>(2,151)</u>	<u>(7,112)</u>
	<u>50,797</u>	<u>47,110</u>

Details of the principal subsidiaries are set out in Note 28.

The amount due from a subsidiary of HK\$5,000,000 (2002: Nil) is unsecured, non-interest bearing, and not repayable within one year.

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

14. OTHER INVESTMENT

Group

Other investment represents investment in a capital guaranteed fund stated at cost. As at 30th September 2003, the market value of other investment was approximately HK\$462,000 (2002: HK\$2,055,000).

15. INVENTORIES

Group

	2003 HK\$'000	2002 HK\$'000
Finished goods – merchandises	<u>32,906</u>	<u>36,901</u>

As at 30th September 2003 and 2002, all inventories were stated at cost.

16. TRADING INVESTMENTS

Group

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

17. ACCOUNTS RECEIVABLE

Group

Details of the ageing analysis are as follows:

	2003 HK\$'000	2002 HK\$'000
0 to 30 days	21,048	18,152
31 days to 60 days	729	875
61 days to 90 days	1,012	468
Over 90 days	<u>250</u>	<u>36</u>
	<u>23,039</u>	<u>19,531</u>

Credit terms generally range from 30 days to 90 days.

18. ACCOUNTS PAYABLE

Group

Details of the ageing analysis are as follows:

	2003 HK\$'000	2002 HK\$'000
0 to 30 days	<u>3,943</u>	<u>8,239</u>

Notes to the Accounts

19. RECEIPTS IN ADVANCE

Group

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

20. SHARE CAPITAL

Company

	2003 HK\$'000	2002 HK\$'000
Authorised:		
1,000,000,000 (2002: 1,000,000,000) ordinary shares of HK\$0.1 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
321,900,000 (2002: 326,400,000) ordinary shares of HK\$0.1 each	<u>32,190</u>	<u>32,640</u>

Movement in issued and fully paid share capital of the Company is as follow:

	Issued and fully paid ordinary shares	
	No. of shares	HK\$'000
At 1st October 2002	326,400,000	32,640
Repurchase of shares (Note (a))	<u>(4,500,000)</u>	<u>(450)</u>
At 30th September 2003	<u>321,900,000</u>	<u>32,190</u>

Note:

- (a) A total of 4,500,000 ordinary shares of HK\$0.1 each of the Company were repurchased through the Stock Exchange at prices ranging from HK\$0.68 to HK\$0.83 per share for a total cash outlay of approximately HK\$3.3 million. The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares was transferred from retained profits to the capital redemption reserve and the premium paid on the repurchased shares was charged against the share premium account.

20. SHARE CAPITAL *(Continued)*

- (b) 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.

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 2002	Granted	Cancelled/ Lapsed	As at 30th September 2003
Directors	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>
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	<u>–</u>	<u>976,000</u>	<u>–</u>	<u>976,000</u>
				<u>3,264,000</u>	<u>976,000</u>	<u>–</u>	<u>4,240,000</u>
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	3,820,000	–	840,000	2,980,000
	30th August 2002	31st August 2003 – 29th August 2007	0.52	3,820,000	–	840,000	2,980,000
	30th August 2002	29th February 2004 – 29th August 2007	0.52	<u>2,820,000</u>	<u>–</u>	<u>840,000</u>	<u>1,980,000</u>
				<u>11,960,000</u>	<u>–</u>	<u>2,520,000</u>	<u>9,440,000</u>

Notes to the Accounts

21. RESERVES

Group

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	
At 1st October 2001 as previously reported	–	(666)	(25,694)	105,089	78,729	
Effect of the adoption of SSAP 34	–	–	–	(510)	(510)	
At 1st October 2001, as restated	–	(666)	(25,694)	104,579	78,219	
Profit attributable to shareholders, as restated	–	–	–	6,347	6,347	
Proceeds from initial public offer	55,978	–	–	–	55,978	
Initial public offer expenses	(10,100)	–	–	–	(10,100)	
Capitalisation issue	(23,928)	–	23,928	–	–	
2002 interim dividend	–	–	–	(4,243)	(4,243)	
Exchange differences	–	246	–	–	246	
At 30th September 2002	21,950	(420)	(1,766)	106,683	126,447	
Represented by:						
Reserves as restated	21,950	(420)	(1,766)	103,464	123,228	
Proposed final dividend	–	–	–	3,219	3,219	
	21,950	(420)	(1,766)	106,683	126,447	
	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 2002, as restated	21,950	(420)	(1,766)	–	106,683	126,447
Loss attributable to shareholders	–	–	–	–	(9,784)	(9,784)
2002 final dividend	–	–	–	–	(3,219)	(3,219)
Repurchase of shares (Note 20 (a))	(2,902)	–	–	450	(450)	(2,902)
2003 interim dividend	–	–	–	–	(1,610)	(1,610)
Exchange differences	–	(787)	–	–	–	(787)
At 30th September 2003	19,048	(1,207)	(1,766)	450	91,620	108,145
Represented by:						
Reserves	19,048	(1,207)	(1,766)	450	88,401	104,926
Proposed final dividend	–	–	–	–	3,219	3,219
	19,048	(1,207)	(1,766)	450	91,620	108,145

21. RESERVES (Continued)

Note:

- (a) 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.

Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st October 2001	—	—	—	—
Profit for the year	—	—	8,025	8,025
Proceeds from initial public offer	55,978	—	—	55,978
Initial public offer expenses	(10,100)	—	—	(10,100)
Capitalisation issue	(23,928)	—	—	(23,928)
2002 interim dividend	—	—	(4,243)	(4,243)
	<u>21,950</u>	<u>—</u>	<u>3,782</u>	<u>25,732</u>
At 30th September 2002	21,950	—	3,782	25,732
Represented by:				
Reserves	21,950	—	563	22,513
Proposed final dividend	—	—	3,219	3,219
	<u>21,950</u>	<u>—</u>	<u>3,782</u>	<u>25,732</u>
At 1st October 2002	21,950	—	3,782	25,732
Profit for the year	—	—	5,184	5,184
2002 final dividend	—	—	(3,219)	(3,219)
Repurchase of shares	(2,902)	450	(450)	(2,902)
2003 interim dividend	—	—	(1,610)	(1,610)
	<u>19,048</u>	<u>450</u>	<u>3,687</u>	<u>23,185</u>
At 30th September 2003	19,048	450	3,687	23,185
Represented by:				
Reserves	19,048	450	468	19,966
Proposed final dividend	—	—	3,219	3,219
	<u>19,048</u>	<u>450</u>	<u>3,687</u>	<u>23,185</u>

Notes to the Accounts

22. PENSION OBLIGATIONS

The pension obligations (included in accruals) represent the net liability of defined benefit plan in Taiwan. A subsidiary of the Group in Taiwan participates in a pension plan as stipulated by the local statutory regulations. 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 2003 and 30th September 2002 by an independent qualified actuary using projected unit credit method. The deficit between the pension asset and present value of the obligation as at 30th September 2003 is recognised in the profit and loss account in 2003. Prior year adjustment has been made to recognise the net deficit as at 30th September 2002 and the pension costs for that year.

The amounts recognised in the balance sheet are determined as follows:

	2003 HK\$'000	2002 HK\$'000
Present value of funded obligations	652	346
Fair value of plan assets	(104)	–
	<u>548</u>	<u>346</u>
Present value of unfunded obligations	548	346
Unrecognised actuarial (losses)/gains	(98)	54
	<u>450</u>	<u>400</u>
Liability in the balance sheet	<u>450</u>	<u>400</u>

The amounts recognised in the profit and loss account were as follows:

	2003 HK\$'000	2002 HK\$'000
Current service costs	142	174
Interest cost	13	10
Recognition of transitional liability	–	216
Net actuarial gain	(1)	–
	<u>154</u>	<u>400</u>
Expenses recognised in the profit and loss account (Note 9)	<u>154</u>	<u>400</u>

22. PENSION OBLIGATIONS *(Continued)*

Movement in the liability recognised in the balance sheet:

	2003 HK\$'000	2002 HK\$'000
Beginning of year	400	–
Total expense, included in staff costs (Note 9)	154	400
Contributions paid	(104)	–
	<u>450</u>	<u>400</u>
End of year	<u>450</u>	<u>400</u>

The principal actuarial assumptions used were as follows:

	2003 %	2002 %
Discount rate	3.25	4.00
Expected rate of return on plan assets	2.00	3.50
Expected rate of future salary increases	<u>2.50</u>	<u>3.00</u>

23. DEFERRED TAXATION

	2003 HK\$'000	2002 HK\$'000
Beginning of year	–	–
Charged to profit and loss account (Note 5)	<u>679</u>	<u>–</u>
End of year	<u>679</u>	<u>–</u>
Provided for in respect of:		
Accelerated depreciation allowances	<u>679</u>	<u>–</u>

No other potential deferred taxation has been provided in the accounts as the effect is not material to the Group.

Notes to the Accounts

24. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating (loss)/profit to net cash inflow generated from operations

	2003 HK\$'000	As restated 2002 HK\$'000
Operating (loss)/profit	(7,710)	10,992
Depreciation	13,786	10,051
Amortisation of license fees	1,009	411
Interest income	(651)	(936)
Gain on disposal of other investment	(69)	–
Unrealised loss on trading investments	17	173
(Gain)/loss on disposal of fixed assets	(102)	156
Revaluation deficit on an investment property	350	949
Decrease/(increase) in inventories	3,995	(18,219)
Increase in accounts receivable	(3,508)	(11,085)
Decrease/(increase) in rental deposits, prepayments, other deposits and receivables	10,216	(6,387)
(Decrease)/increase in accounts payable	(4,296)	1,061
(Decrease)/increase in accruals and other payables	(1,697)	17,108
Increase in receipts in advance	3,909	9,703
Increase in pension obligations	50	400
Net cash inflow generated from operations	<u>15,299</u>	<u>14,377</u>

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

	Share capital including premium and capital reserve		Minority interests	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Beginning of year	52,824	1,234	1,166	2,610
Proceeds from initial public offer	–	61,690	–	–
Initial public offer expenses	–	(10,100)	–	–
Minority interests' in share of net losses	–	–	(774)	(418)
Advance from a minority shareholder	–	–	–	284
Dividends paid to a minority shareholder of a subsidiary	–	–	(89)	(43)
Acquisition of further interest in a subsidiary	–	–	–	(1,267)
Repurchase of shares	(3,352)	–	–	–
Effect of foreign exchange rate changes	–	–	(61)	–
End of year	<u>49,472</u>	<u>52,824</u>	<u>242</u>	<u>1,166</u>

25. COMMITMENTS

(a) Capital commitments for fixed assets

	Group	
	2003	2002
	HK\$'000	HK\$'000
Contracted but not provided for	<u>—</u>	<u>315</u>

(b) Commitments under operating leases

At 30th September 2003 and 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Not later than one year	34,421	34,766
Later than one year and not later than five years	<u>27,012</u>	<u>19,916</u>
	<u>61,433</u>	<u>54,682</u>

26. BANKING FACILITIES

As at 30th September 2003, the Group was granted banking facilities amounted to HK\$18,000,000 by a bank (2002: HK\$18,000,000) under guarantee provided by the Company.

27. RELATED PARTY TRANSACTIONS

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

	2003	2002
	HK\$'000	HK\$'000
Acquisition of further interest in a subsidiary (note (a))	<u>—</u>	<u>1,000</u>

Note:

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

Notes to the Accounts

28. PARTICULARS OF SUBSIDIARIES

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
<i>Directly held:</i>				
Water Oasis Group (BVI) Limited	British Virgin Islands 16th December 1999	Ordinary shares US\$30,000	100%	Investment holding in Hong Kong
<i>Indirectly held:</i>				
Water Oasis Holdings Limited	British Virgin Islands 16th December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Oasis Spa Holdings Limited	British Virgin Islands 16th December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Oasis-Beauty.com Holdings Limited	British Virgin Islands 16th December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Water Oasis (Labuan) Holdings Limited	Labuan, Malaysia 28th June 2000	Ordinary shares US\$10,000	100%	Investment holding in Hong Kong
Water Oasis China (BVI) Limited	British Virgin Islands 12th October 2000	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Water Oasis (China) Company Limited	Hong Kong 26th July 2000	Ordinary shares HK\$2	100%	Dormant
Water Oasis Company Limited	Hong Kong 6th May 1998	Non-voting deferred shares HK\$1,000,000 Ordinary shares HK\$10,000	100%	Retail sales of skin-care products in Hong Kong

28. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
<i>Indirectly held (Continued):</i>				
Oasis Spa Company Limited	Hong Kong 24th December 1999	Ordinary shares HK\$1,000,000	100%	Operating of beauty salon, spa and other related services in Hong Kong
Oasis-Beauty.com Limited	Hong Kong 24th December 1999	Ordinary shares HK\$10,000	100%	Sale of skin-care products via the retail outlet in Hong Kong
水貝兒股份有限公司 (Water Babe Company Limited)	Taiwan 17th September 1999	Common stock NT\$20,000,000	90%	Retail sales of skin-care products in Taiwan
Water Oasis (China) Holdings Limited	Samoa 5th April 2000	Ordinary shares US\$101	90.1%	Investment holding in Hong Kong
Claire International Limited	Hong Kong 22nd October 1999	Ordinary shares HK\$2	100%	Inactive
Oasis Advertising Agency Company Limited	Hong Kong 18th October 2000	Ordinary shares HK\$2	100%	Advertising agency in Hong Kong
Water Oasis (Macau) Company Limited	Macau 19th July 2001	Ordinary shares Mop\$25,000	100%	Retail sales of skin-care products in Macau

Notes to the Accounts

28. PARTICULARS OF SUBSIDIARIES *(Continued)*

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

29. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 14th January 2004.