

[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, Singapore and China and the operation of spa and beauty centres 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 Institute of Certified Public Accountants (the “HKICPA”). They have been prepared under the historical cost convention except that investment properties and trading investments are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKAS”) (collectively the “HKFRSs”) which are effective for accounting periods commencing on or after 1st January 2005. In current year, the Group early adopted HKAS 40 “Investment Property”.

In prior years, 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 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; and any subsequent increases are credited to operating profit up to the amount previously debited.

Pursuant to the fair value model of HKAS 40, which the Group has elected to apply, fair value changes in investment properties are to be recognised in the accounts during the year in which they arise. As a result of the adoption of this accounting standard, the Group’s operating profit for the current year has included approximately HK\$23.8 million as gain arising from change in fair value of investment properties.

The effect of adopting the new accounting standard was adjusted to the opening balance of investment properties revaluation reserve and retained profits of approximately HK\$6.4 million, respectively, as at 1st October 2004 in accordance with the transitional provisions of HKAS 40. Comparative information has not been restated. Certain comparative figures have been reclassified to conform to current year’s presentation.

The Group has not early adopted other new and revised HKFRSs in the accounts for the year ended 30th September 2005. The Group has already commenced an assessment of the impact of these new and revised HKFRSs and considered it as insignificant on the Group’s results of operation and financial position.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th September. Subsidiaries are those entities in which the 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.

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

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

(c) Intangible assets

Expenditure on acquiring licenses for sale of products in China 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

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

Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

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

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Investment properties (continued)

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

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the accounts.

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

Changes in fair values are recognised in 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 ¹ / ₃ %
Computer equipment	33 ¹ / ₃ %
Machinery and equipment	20%
Office equipment, furniture and fixtures	20% to 33 ¹ / ₃ %

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

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

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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(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.

(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 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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(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.

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

The Group's subsidiary in Taiwan participates in a defined benefit pension plan 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.

(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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

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

(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 Statement of Standard Accounting Practice 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. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to fixed assets.

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 other related services. Revenues recognised during the year are as follows:

	2005 HK\$'000	2004 HK\$'000
Turnover		
Sales of goods	284,808	254,664
Rendering of services	129,080	102,889
	413,888	357,553
Other revenues		
Interest income	316	340
Gross rental income from investment properties	1,720	903
Income from expired gift coupons	284	493
Dividend income	64	58
Others	262	200
	2,646	1,994
Total revenues	416,534	359,547

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments

	Retailing		Services		Elimination		Group	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Sales to external customers	284,808	254,664	129,080	102,889	–	–	413,888	357,553
Inter-segment sales	15,088	7,110	–	–	(15,088)	(7,110)	–	–
Total	299,896	261,774	129,080	102,889	(15,088)	(7,110)	413,888	357,553
Segment results	15,394	19,205	13,990	12,307	–	–	29,384	31,512
Other revenues							2,646	1,994
Gain arising from change in fair value of investment properties							23,763	1,300
Unallocated corporate expenses							(37,857)	(31,229)
Operating profit							17,936	3,577
Taxation							(4,653)	(1,678)
Profit after taxation							13,283	1,899
Minority interests							(521)	(205)
Profit attributable to shareholders							12,762	1,694

	Retailing		Services		Group	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment assets	207,353	172,305	63,281	44,872	270,634	217,177
Unallocated assets					38,763	42,803
Total assets					309,397	259,980
Segment liabilities	65,710	50,120	82,388	50,975	148,098	101,095
Unallocated liabilities (including minority interests)					3,897	2,001
Total liabilities					151,995	103,096
Depreciation	9,169	8,678	7,496	6,747	16,665	15,425
Amortisation	1,325	1,169	–	–	1,325	1,169
Capital expenditures	22,576	47,222	10,491	6,968	33,067	54,190

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments

	Turnover		Capital expenditures		Total assets	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong and Macau	227,267	210,433	27,067	49,032	180,331	145,160
China	111,388	75,869	4,162	1,632	55,441	39,424
Taiwan	67,353	68,915	1,574	2,029	29,702	29,515
Singapore	7,880	2,336	264	1,497	5,160	3,078
	413,888	357,553	33,067	54,190	270,634	217,177
Unallocated assets					38,763	42,803
					309,397	259,980

4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2005 HK\$'000	2004 HK\$'000
Crediting		
Gain on disposal of fixed assets	–	566
Gain on redemption of other investment	34	–
Gain/(loss) on disposal of trading investments	580	(47)
Charging		
Amortisation of intangible assets	1,325	1,169
Auditors' remuneration	1,286	933
Operating leases rental on land and buildings	42,990	40,033
Unrealised loss on trading investments	–	70
Net exchange loss	315	466
Interest expense on long-term bank loan	597	140

5. TAXATION

	2005 HK\$'000	2004 HK\$'000
Current taxation		
Hong Kong profits tax	1,107	1,550
Overseas taxation	490	1,131
Over provision in prior years	(421)	(63)
Deferred taxation relating to the origination and reversal of temporary differences (Note 24)	3,477	(940)
	4,653	1,678

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year after setting off available tax losses brought forward from prior years. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries/ places in which the Group operates.

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

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	17,936	3,577
Calculated at a taxation rate of 17.5% (2004: 17.5%)	3,139	626
Effect of different taxation rates in other countries	(327)	160
Income not subject to taxation	(51)	(398)
Expenses not deductible for taxation purposes	2,419	1,636
Utilisation of tax losses	(106)	(283)
Over provision in prior years	(421)	(63)
Taxation charge	4,653	1,678

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately HK\$18,640,000 (2004: HK\$8,413,000).

7. DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
Interim, paid, of 1.0 HK cents (2004: 0.5 HK cents) per ordinary share	3,421	1,711
Special, paid, of 2.5 HK cents (2004: nil) per ordinary share	8,553	–
Final, proposed on 13 th January 2006, of 3.0 HK cents (2004: 0.5 HK cents) per ordinary share	10,263	1,711
	22,237	3,422

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$12,762,000 (2004: HK\$1,694,000) and the weighted average number of 342,116,000 (2004: 333,845,271) ordinary shares in issue during the year.

No diluted earnings per share is calculated for the years ended 30th September 2005 and 2004 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)

	2005 HK\$'000	2004 HK\$'000
Wages and salaries	125,187	97,663
Pension costs-defined benefit plan (Note 23)	230	395
Pension costs-defined contribution plans	5,378	3,668
Unutilised annual leave	1,572	492
	132,367	102,218

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Name of directors	Fees HK\$'000	Basic salaries, housing allowances, other allowances and benefits-in-kinds HK\$'000	Bonuses HK\$'000	Retirement benefit costs HK\$'000	2005 Total emoluments HK\$'000	2004 Total emoluments HK\$'000
Yu Lai Si	–	4,843	1,000	12	5,855	4,627
Tam Chie Sang	–	897	250	12	1,159	909
Yu Lai Chu, Eileen	–	897	250	12	1,159	909
Yu Kam Shui, Erastus	–	1,334	250	12	1,596	1,286
Lai Yin Ping	–	897	250	12	1,159	909
Wong Lung Tak, Patrick, J.P. ⁽²⁾⁽³⁾	100	–	–	–	100	100
Wong Chun Nam ⁽²⁾⁽³⁾	100	–	–	–	100	100
Wong Chi Keung ⁽¹⁾⁽²⁾⁽³⁾	100	–	–	–	100	25
Total for the year 2005	300	8,868	2,000	60	11,228	
Total for the year 2004	225	8,580	–	60		8,865

(1) Wong Chi Keung was appointed as an independent non-executive director on 1st July 2004

(2) Independent non-executive directors

(3) Members of the Company's audit committee

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	
	2005	2004
Emolument bands		
HK\$ nil – HK\$1,000,000	3	6
HK\$1,000,001 – HK\$2,000,000	4	1
HK\$2,000,001 – HK\$4,000,000	–	–
HK\$4,000,001 – HK\$5,000,000	–	1
HK\$5,000,001 – HK\$6,000,000	1	–
	8	8

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2004: four) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining one (2004: one) individual during the year are as follows:

	2005 HK\$'000	2004 HK\$'000
Basic salaries, housing allowances, other allowances and benefits-in-kinds	1,592	1,520
Bonuses	400	300
Retirement benefit costs	12	12
	2,004	1,832

The emoluments fell within the following bands:

	Number of individual	
	2005	2004
Emolument bands		
HK\$ nil – HK\$1,500,000	–	–
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	1	–
	1	1

For the years ended 30th September 2005 and 2004, 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	
	2005 HK\$'000	2004 HK\$'000
Beginning of year	1,922	2,725
Additions	667	366
Amortisation charge	(1,325)	(1,169)
End of year	1,264	1,922
End of year		
Cost	5,178	4,511
Accumulated amortisation	(3,914)	(2,589)
Net book amount	1,264	1,922

12. FIXED ASSETS

Group

	Investment properties 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 1 st October 2004	52,600	46,598	2,655	5,333	12,552	6,042	125,780
Additions	12,637	13,333	21	777	5,111	1,188	33,067
Disposals	–	(1,315)	(155)	(102)	(118)	(242)	(1,932)
Revaluation	23,763	–	–	–	–	–	23,763
Exchange adjustment	–	314	11	34	1	68	428
As at 30 th September 2005	89,000	58,930	2,532	6,042	17,546	7,056	181,106
Accumulated depreciation							
As at 1 st October 2004	–	32,944	1,683	3,871	4,848	3,765	47,111
Charge for the year	–	11,564	376	976	2,768	981	16,665
Disposals	–	(1,313)	(123)	(57)	(100)	(218)	(1,811)
Exchange adjustment	–	208	7	16	–	47	278
As at 30 th September 2005	–	43,403	1,943	4,806	7,516	4,575	62,243
Net book value							
As at 30 th September 2005	89,000	15,527	589	1,236	10,030	2,481	118,863
As at 30 th September 2004	52,600	13,654	972	1,462	7,704	2,277	78,669

12. FIXED ASSETS (continued)

An analysis of the cost or valuation as at 30th September 2005 and 2004 of the above assets are as follows:

	Investment properties 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
2005							
At cost	–	58,930	2,532	6,042	17,546	7,056	92,106
At valuation	89,000	–	–	–	–	–	89,000
	89,000	58,930	2,532	6,042	17,546	7,056	181,106
2004							
At cost	–	46,598	2,655	5,333	12,552	6,042	73,180
At valuation	52,600	–	–	–	–	–	52,600
	52,600	46,598	2,655	5,333	12,552	6,042	125,780

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

	2005 HK\$'000	2004 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	67,000	45,300
Leases of between 10 to 50 years	22,000	7,300
	89,000	52,600

The investment properties were revalued at 30th September 2005 on the basis of their open market values by Savills (Hong Kong) Limited, an independent firm of chartered surveyors.

At 30th September 2005, the net book value of an investment property of HK\$62,000,000 (2004: HK\$41,000,000) was pledged as security for the Group's long-term bank loan (Note 20).

13. INVESTMENTS IN SUBSIDIARIES

Company

	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	3,000	3,000
Amount due from a subsidiary	–	5,000
	3,000	8,000
Amounts due from subsidiaries	62,972	43,987
Amounts due to subsidiaries	(2,202)	(7,203)
	63,770	44,784

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

The amount due from a subsidiary was unsecured, non-interest bearing, and was fully repaid during the 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 represented investment in a capital guaranteed fund stated at cost. As at 30th September 2005, no other investment was held by the Group (2004: market value of other investment was approximately HK\$487,000).

15. INVENTORIES

Group

	2005 HK\$'000	2004 HK\$'000
Finished goods – merchandises	35,150	31,057

As at 30th September 2005 and 2004, all inventories were stated at cost.

16. TRADING INVESTMENTS

Group

	2005 HK\$'000	2004 HK\$'000
Equity securities: Listed in Hong Kong	65	6,772

Trading investments are stated at market value at the balance sheet date.

17. ACCOUNTS RECEIVABLE

Group

Details of the aging analysis are as follows:

	2005 HK\$'000	2004 HK\$'000
0 to 30 days	27,349	22,277
31 days to 60 days	2,564	1,205
61 days to 90 days	527	1,610
Over 90 days	1,311	80
	31,751	25,172

Credit terms generally range from 30 days to 90 days.

18. ACCOUNTS PAYABLE

Group

Details of the aging analysis are as follows:

	2005 HK\$'000	2004 HK\$'000
0 to 30 days	11,330	6,583

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, skin-care and other related services.

20. LONG-TERM BANK LOAN

Group

	2005 HK\$'000	2004 HK\$'000
Total of long-term bank loan – secured	16,737	18,687
Current portion of long-term bank loan	(1,950)	(1,950)
	14,787	16,737

At 30th September 2005, the Group's long-term bank loan was repayable as follows:

	2005 HK\$'000	2004 HK\$'000
Within one year	1,950	1,950
In the second year	1,950	1,950
In the third to fifth year	5,850	5,850
After the fifth year	6,987	8,937
	16,737	18,687
Current portion of long-term bank loan	(1,950)	(1,950)
	14,787	16,737

The long-term bank loan was secured by an investment property of the Group (Note 12).

21. SHARE CAPITAL

Company

	2005 HK\$'000	2004 HK\$'000
Authorised: 1,000,000,000 (2004: 1,000,000,000) ordinary shares of HK\$0.1 each	100,000	100,000
Issued and fully paid: 342,116,000 (2004: 342,116,000) ordinary shares of HK\$0.1 each	34,212	34,212

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.

21. SHARE CAPITAL (continued)

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

Category	Date of grant	Exercise period	Exercise price per share HK\$	As at 1 st October 2004	Granted	Exercised	Cancelled/ Lapsed	As at 30 th September 2005
Directors	30 th August 2002	28 th February 2003 – 29 th August 2007	0.52	5,100,000	–	–	–	5,100,000
	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	10,200,000	–	–	–	10,200,000
				15,300,000	–	–	–	15,300,000
Supplier	11 th March 2002	11 th March 2002 – 10 th March 2012	1.18	3,264,000	–	–	–	3,264,000
	12 th March 2003	12 th March 2003 – 11 th March 2013	0.54	976,000	–	–	–	976,000
				4,240,000	–	–	–	4,240,000
Employees (in aggregate)	26 th April 2002	26 th October 2002 – 25 th April 2007	1.67	750,000	–	–	–	750,000
	26 th April 2002	26 th April 2003 – 25 th April 2007	1.67	750,000	–	–	–	750,000
	30 th August 2002	28 th February 2003 – 29 th August 2007	0.52	1,484,000	–	–	–	1,484,000
	30 th August 2002	31 st August 2003 – 29 th August 2007	0.52	2,560,000	–	–	–	2,560,000
	30 th August 2002	29 th February 2004 – 29 th August 2007	0.52	1,560,000	–	–	–	1,560,000
	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	1,160,000	–	–	–	1,160,000
	28 th January 2004	1 st November 2004 – 31 st January 2009	0.42	1,160,000	–	–	–	1,160,000
	28 th January 2004	2 nd May 2005 – 31 st January 2009	0.42	860,000	–	–	–	860,000
				10,284,000	–	–	–	10,284,000

22. RESERVES

Group

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 st October 2003	19,048	(1,207)	(1,766)	450	–	94,936	111,461
Profit attributable to shareholders	–	–	–	–	–	1,694	1,694
Proceeds from placing of new shares	6,000	–	–	–	–	–	6,000
Expenses on placing of new shares	(305)	–	–	–	–	–	(305)
Exercise of share options	2,191	–	–	–	–	–	2,191
2003 final dividend	–	–	–	–	–	(3,391)	(3,391)
2004 interim dividend	–	–	–	–	–	(1,711)	(1,711)
Revaluation of investment properties	–	–	–	–	6,434	–	6,434
Exchange differences	–	299	–	–	–	–	299
At 30 th September 2004	26,934	(908)	(1,766)	450	6,434	91,528	122,672
Represented by:							
Reserves	26,934	(908)	(1,766)	450	6,434	89,817	120,961
Proposed final dividend	–	–	–	–	–	1,711	1,711
	26,934	(908)	(1,766)	450	6,434	91,528	122,672
	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 st October 2004, as previously reported	26,934	(908)	(1,766)	450	6,434	91,528	122,672
Effect of the adoption of HKAS 40	–	–	–	–	(6,434)	6,434	–
At 1 st October 2004, as restated	26,934	(908)	(1,766)	450	–	97,962	122,672
Profit attributable to shareholders	–	–	–	–	–	12,762	12,762
2004 final dividend	–	–	–	–	–	(1,711)	(1,711)
2005 interim dividend	–	–	–	–	–	(11,974)	(11,974)
Exchange differences	–	1,441	–	–	–	–	1,441
At 30 th September 2005	26,934	533	(1,766)	450	–	97,039	123,190
Represented by:							
Reserves	26,934	533	(1,766)	450	–	86,776	112,927
Proposed final dividend	–	–	–	–	–	10,263	10,263
	26,934	533	(1,766)	450	–	97,039	123,190

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.

22. RESERVES (continued)

Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 st October 2003	19,048	450	3,687	23,185
Profit for the year	–	–	8,413	8,413
Proceeds from placing of new shares	6,000	–	–	6,000
Expenses on placing of new shares	(305)	–	–	(305)
Exercise of share options	2,191	–	–	2,191
2003 final dividend	–	–	(3,391)	(3,391)
2004 interim dividend	–	–	(1,711)	(1,711)
At 30 th September 2004	26,934	450	6,998	34,382
Represented by:				
Reserves	26,934	450	5,287	32,671
Proposed final dividend	–	–	1,711	1,711
	26,934	450	6,998	34,382
At 1 st October 2004	26,934	450	6,998	34,382
Profit for the year	–	–	18,640	18,640
2004 final dividend	–	–	(1,711)	(1,711)
2005 interim dividend	–	–	(11,974)	(11,974)
At 30 th September 2005	26,934	450	11,953	39,337
Represented by:				
Reserves	26,934	450	1,690	29,074
Proposed final dividend	–	–	10,263	10,263
	26,934	450	11,953	39,337

23. PENSION OBLIGATIONS

The pension obligations 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 2005 and 2004 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 2005 is recognised in the profit and loss account in 2005.

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

	2005 HK\$'000	2004 HK\$'000
Present value of funded obligations	656	551
Fair value of plan assets	(581)	(334)
Present value of unfunded obligations	75	217
Unrecognised actuarial gains	545	403
Liability in the balance sheet	620	620

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

	2005 HK\$'000	2004 HK\$'000
Current service costs	250	373
Interest cost	22	22
Expected return on plan assets	(11)	(2)
Net actuarial gain	(31)	–
Loss on curtailments and settlements	–	2
Expenses recognised in the profit and loss account (Note 9)	230	395

23. PENSION OBLIGATIONS (continued)

Movement in the liability recognised in the balance sheet:

	2005 HK\$'000	2004 HK\$'000
Beginning of year	620	450
Total expense, included in staff costs (Note 9)	230	395
Contributions paid	(230)	(225)
End of year	620	620

The principal actuarial assumptions used were as follows:

	2005 %	2004 %
Discount rate	3.75	3.75
Expected rate of return on plan assets	2.75	2.75
Expected rate of future salary increases	2.50	2.50

24. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement in the deferred tax assets is as follows:

	2005 HK\$'000	2004 HK\$'000
Beginning of year	4,266	3,436
(Charged)/credited to profit and loss account	(1,529)	830
Exchange differences	16	–
End of year	2,753	4,266

The movement in the deferred tax liabilities is as follows:

	2005 HK\$'000	2004 HK\$'000
Beginning of year	(569)	(679)
(Charged)/credited to profit and loss account	(1,948)	110
End of year	(2,517)	(569)

24. DEFERRED TAXATION (continued)

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

	Decelerated tax depreciation		Tax losses		Accelerated tax depreciation		Fair value gain		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Beginning of year	618	536	3,648	2,900	(569)	(679)	-	-	3,697	2,757
(Charged)/credited to profit & loss account	305	82	1,501	748	-	110	(5,283)	-	(3,477)	940
Exchange differences	3	-	13	-	-	-	-	-	16	-
End of year	926	618	5,162	3,648	(569)	(569)	(5,283)	-	236	3,697

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

	2005 HK\$'000	2004 HK\$'000
Deferred tax assets	2,753	4,266
Deferred tax liabilities	(2,517)	(569)
	236	3,697

25. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2005 HK\$'000	2004 HK\$'000
Operating profit	17,936	3,577
Depreciation	16,665	15,425
Amortisation of intangible assets	1,325	1,169
Interest income	(316)	(340)
Interest paid	597	140
(Gain)/loss on disposal of trading investments	(580)	47
Unrealised loss on trading investments	–	70
Gain on redemption of other investment	(34)	–
Gain on disposal of fixed assets	–	(566)
Gain arising from change in fair value of investment properties	(23,763)	(1,300)
(Increase)/decrease in inventories	(4,093)	1,849
Increase in accounts receivable	(6,579)	(2,133)
Increase in rental deposits, prepayments, other deposits and receivables	(3,285)	(6,926)
Increase in accounts payable	4,747	2,640
Increase in accruals and other payables	18,435	3,629
Increase in receipts in advance	27,460	20,636
Increase in pension obligations	–	170
Net cash inflow generated from operations	48,515	38,087

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

	Long-term bank loan		Share capital including share premium and capital reserve		Minority interests	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Beginning of year	18,687	–	59,380	49,472	(193)	362
Addition of long-term bank loan	–	19,500	–	–	–	–
Repayment of long-term bank loan	(1,950)	(813)	–	–	–	–
Proceeds from placing of new shares	–	–	–	7,500	–	–
Expenses on placing of new shares	–	–	–	(305)	–	–
Proceeds from exercise of share options	–	–	–	2,713	–	–
Minority interests' in share of net profit	–	–	–	–	521	205
Repayment to a minority shareholder	–	–	–	–	–	(669)
Dividends paid to a minority shareholder of a subsidiary	–	–	–	–	(119)	(91)
End of year	16,737	18,687	59,380	59,380	209	(193)

26. COMMITMENTS

Group

(a) Capital commitments for fixed assets

	2005 HK\$'000	2004 HK\$'000
Contracted but not provided for	230	9,744

The Company did not have any capital commitments at 30th September 2005 (2004: Nil).

(b) Commitments under operating leases

At 30th September 2005 and 2004, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2005 HK\$'000	2004 HK\$'000
Not later than one year	40,120	38,232
Later than one year and not later than five years	31,621	35,892
	71,741	74,124


The above lease commitments only include commitments for basic rentals, and do not include commitments for additional rental payable, if any, when the amounts determined by applying pre-determined percentages to turnover exceeds the basic rentals of the respective leases as it is not possible to determine in advance the amount of such additional rentals.

The Company did not have any operating leases commitments at 30th September 2005 (2004: Nil).

27. BANKING FACILITIES

As at 30th September 2005, the Group and its subsidiaries were granted banking facilities amounting to approximately HK\$37,000,000 by a bank (2004: HK\$37,000,000) under guarantee provided by the Company and secured by an investment property of the Group.

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
DIRECTLY HELD: Water Oasis Group (BVI) Limited	British Virgin Islands 16 th December 1999	Ordinary shares US\$30,000	100%	Investment holding in Hong Kong
INDIRECTLY HELD: Water Oasis Holdings Limited	British Virgin Islands 16 th December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Oasis Spa Holdings Limited	British Virgin Islands 16 th December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Oasis–Beauty.com Holdings Limited	British Virgin Islands 16 th December 1999	Ordinary shares US\$1	100%	Investment holding in Hong Kong
Water Oasis (Labuan) Holdings Limited	Labuan, Malaysia 28 th June 2000	Ordinary shares US\$10,000	100%	Investment holding in Hong Kong
Water Oasis China (BVI) Limited	British Virgin Islands 12 th October 2000	Ordinary shares US\$1	100%	Investment holding in Hong Kong
OBS Company Limited	Hong Kong 26 th July 2000	Ordinary shares HK\$2	100%	Operating of skin-care and beauty training centre in Hong Kong
Water Oasis Company Limited	Hong Kong 6 th 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
INDIRECTLY HELD: (continued)				
Oasis Spa Company Limited	Hong Kong 24 th 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 24 th December 1999	Ordinary shares HK\$10,000	100%	Inactive
水貝兒股份有限公司 (Water Babe Company Limited)	Taiwan 17 th September 1999	Common stock NT\$20,000,000	90%	Retail sales of skin-care products in Taiwan
Water Oasis (China) Holdings Limited	Samoa 5 th April 2000	Ordinary shares US\$101	90.1%	Investment holding in Hong Kong
Claire International Limited	Hong Kong 22 nd October 1999	Ordinary shares HK\$2	100%	Inactive
Oasis Advertising Agency Company Limited	Hong Kong 18 th October 2000	Ordinary shares HK\$2	100%	Inactive
Water Oasis (Macau) Company Limited	Macau 19 th July 2001	Ordinary shares MOP\$25,000	100%	Retail sales of skin-care products in Macau
Oasis Beauty Company Limited	Hong Kong 13 th March 2002	Ordinary shares HK\$1,000,000	100%	Operating of beauty salons and provision of other related services 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
INDIRECTLY HELD: (continued)				
Aricon Investments Limited	British Virgin Islands 8 th March 2002	Ordinary shares US\$1	100%	Inactive
Master Advance Limited	Hong Kong 28 th June 2002	Ordinary shares HK\$1,000,000	100%	Investment holding in Hong Kong
奥思美容品(上海) 有限公司	China 9 th February 2002	US\$200,000	90.1%	Retail sales of skin-care products in China
奥思美容品(深圳) 有限公司	China 10 th October 2002	HK\$3,000,000	90.1%	Inactive
Water Oasis (Singapore) Pte. Limited	Singapore 6 th November 2003	Ordinary shares S\$300,000	100%	Retail sales of skin-care products in Singapore

29. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 13th January 2006.