

~H₂O+

WATER OASIS GROUP LIMITED

奧思集團有限公司

stock code : 1161

06

Annual Report

年報

unity out of diversity,
continuity out of change

多元中見一致 轉變中延豐姿





相輔相成 增添實力

synergy of
strength

Water Oasis has delivered on the promises it made for expansion in China market. Overall results have been very positive, with the Group enjoying a record high turnover.

奧思集團 實現年內拓展中國市場之承諾，整體表現理想，營業額創歷史新高。



~H₂O+
sea-derived skincare

Oasis水磨坊
beauty



Oasis 水之屋
spa



Aqua
beauty






oasis beauty
奧思國際美容專業學院 SCHOOL



Oasis
homme



Neutrogena®



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Corporate Profile

Water Oasis Group Limited is a skin-care and beauty group with exclusive distribution rights to the renowned ~H₂O+ brand skincare product range in the Greater China region and Singapore, as well as exclusive distribution right to the global brand Neutrogena skin care products via the department store counters in Mainland China.

The ~H₂O+ range has wide appeal for both men and women due to its water-based, oil-free formula, and the health benefits resulting from its marine-based skin care ingredients. One of the Group's major businesses derives from the retail sales of ~H₂O+ products through its retail outlets in Hong Kong and Macau (16 outlets), Mainland China (a mix of 67 self-managed and 69 franchised outlets), Taiwan (13 outlets) and, Singapore (4 outlets).



advancing continuity

In addition to its ~H₂O+ retail sales outlets, the Group operates a total of 21 spa/ beauty centres in Hong Kong. The 2 "Oasis Spa" centres provide beauty and slimming treatments, hydro bath and massage services, utilizing the full range of ~H₂O+ products. The Group also operates 15 "Oasis Beauty / Oasis Homme" centres and 4 "Aqua Beauty" centres, offering a wide range of competitively-priced beauty treatments targeting the high, mid and mass markets.

In 2005, the Group established The Oasis Beauty School with the aim of grooming professionals for the industry as well as sourcing trained staff for the Group's specialized needs.

In March 2006, renowned global brand Johnson & Johnson granted the Group the exclusive right to distribute its "Neutrogena" line of skincare and cosmetics products in department store counters throughout Mainland China. The Group currently operates a total of 41 Neutrogena outlets in China, on a self-owned or franchise basis, and is continuing to expand its distribution network.

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

CEO's Statement

A growing China presence

The 2005-06 fiscal year has been a very positive one for the Water Oasis Group in terms of achieving its stated aims. In particular, we have maintained our momentum in widening the ~H2O+ retail network in China over the year. Ever since we first established a retail presence in China we have been committed to the regular roll-out of new outlets, but we have always insisted that each location selected must clearly prove its value in terms of positioning and market potential. This policy of consistent prudence has proved its worth, with the fiscal year bringing a major increase in the profit contributed by our China ~H2O+ operations.

New developments in the China context

Having shown our ability to operate effectively and profitably in the burgeoning China market, we have, I believe, made an excellent move in taking on a China distributor role for the Neutrogena brand in the department store counters in China. The owners of the Neutrogena brand, Johnson & Johnson, targeted the Group as distributors because of our proven success in developing and expanding the retail market for quality skincare products in China. We have been able to leverage our existing business and retail networks in China to maximise exposure for Neutrogena, and we have moved rapidly to create an extensive brand presence in major China cities. We have managed to put a distribution and sales infrastructure in place very quickly, and we are now poised to reap early fruits from this new initiative.

Also in China, we are highly optimistic about the potential of our proven beauty centre model, which we will be launching in Beijing in early 2007. Our Hong Kong beauty business is in demand and typically provides excellent returns, and we are very optimistic that a similar model, adjusted for Mainland conditions, will offer shareholders and customers alike significantly added value. We are also poised to expand our beauty services in China if, as expected, the Group's Beijing beauty centre proves a success.

Growth anchored by experience

Expansion is one side of our growth strategy: the other is the continual improvement and sophistication of our existing quality products and services. For instance, our core ~H2O+ retail business will get an additional boost in the coming year with several series of exciting new ~H2O+ product offerings. This is part of our ongoing commitment to keeping the ~H2O+ brand at the head of the market, meeting the changing needs of customers, and ensuring that our product range offers maximum satisfaction to the greatest number of consumers. By balancing bold expansion initiatives in China with product excellence and a commitment to nurturing the needs of existing customers, we believe we have a model that will continue to result in strong returns for our investors.



Yu Lai Si

Executive Director and Chief Executive Officer
16th January 2007

「emerging market
diversification」

Management Discussion and Analysis

The year under review has been one in which the Group has delivered on the promises it made during the year for expansion in the China market. It has also been one in which, by acquiring distribution rights for Neutrogena products, the Group has successfully diversified its product range for the China market. The mode of the Group's major direct investment in China is now about to be replaced with a franchising model for future expansion. Hong Kong (together with Macau) continued to contribute around more than 50% of the Group's revenue for the year, due particularly to its successful beauty services business. The Group has worked hard to maximise returns from this mature and relatively stable market, while also adjusting its presence in Macau, Taiwan and Singapore to achieve optimum levels of market penetration based on the particular characteristics of each territory.

Overall results for the year under review have been very positive, with the Group enjoying a record high turnover. Excluding gains arising from changes in the fair value of investment properties, the Group's profit attributable to shareholders increased sharply to HK\$13,600,000. Specifically, turnover from the Group's Hong Kong and Macau retail outlets increased over the previous year, while its beauty businesses continued to drive earnings. Within China, the profit contribution from the Group's ~H2O+ operations represented a record high, and was double the profit contribution of the previous year.





strengthening
with collaboration

~H2O+ Retail Business

China: new initiatives in a fast-growing market

The Group has continued to roll out new outlets ahead of schedule as part of the expansion of its ~H2O+ retail presence in China. The number of outlets stood at 115 at the date of the Interim Report, and the Group is now already well on target to reach its stated goal by having 136 outlets operating by now. Having established a core group of self-owned ~H2O+ stores in key cities in China, expansion is now primarily being driven by franchising arrangements with approved distributors, keeping further expansion costs low and minimising any associated risks.

Hong Kong: maintaining the best retail positioning

The Group's expansion plans are currently focused primarily in the China market, which offers extensive growth opportunities. Within Hong Kong and Macau, the Group is continuing to emphasise the importance of guaranteeing exposure in the best retail environment while optimising rental arrangements, and that has meant adjusting the locations of its stores where necessary. For instance, the Group's Log-On ~H2O+ outlet in Taikooshing was closed in September 2006 but this was followed a month later by the opening of a new ~H2O+ outlet in the nearby Jusco department store. Changes in the past year in Hong Kong have not significantly involved any reduction in the number of outlets operating, with the number of Hong Kong and Macau retail outlets remaining steady at 16.

Elsewhere in Asia: adjusting to changing realities

At year end, the Group operated four outlets in Singapore. As intimated in the Interim Report, it has become clear that ~H2O+ department store outlets offer a better model for the Group's operations in Singapore than standalone stores. With this in mind, the Group expects to readjust its presence in Singapore in the coming year.

The economy in Taiwan, meanwhile, did not perform well in the past year and the political environment was unstable. As a result, the Group's business was affected. And the political strife there in late 2006 is expected to prolong the market downturn. The Group will continue outlet rationalisation in Taiwan to overcome market challenges in 2007.

Neutrogena Business

Neutrogena: diversification in the China context

The Group's involvement in distributing Neutrogena products in the China market, beginning from its agreement with Neutrogena's makers Johnson & Johnson in April 2006, has involved a rapid roll-out of outlets in China. Originally committed to having 40 outlets up and running by the end of 2006, as at the time of writing there are 41 in operation, 38 of those are directly operated by the Group. With this core selection of self-operated outlets in place, the Group expects most new outlets from now on to be operated on a franchise basis, which should result in further rapid growth in the number of outlets over the next few months. The franchise arrangement offers many benefits to the Group, including removing inventory and receivables risks, as all products are supplied to franchisees on a strictly cash-on-delivery basis.



Spa and Beauty Businesses

Spa and beauty businesses: positive profitability

By mid-year, the Group's Oasis Spa business had turned around from a loss-making to a profit-making position. That strong run has continued right to the end of the fiscal year, supported by ongoing success of the Oasis Beauty chain. As a result, the spa and beauty side of the Group's overall business has contributed a solid 32% and over 40% of the Group's turnover and segment results respectively for the year.

The Group is now also ready to transplant its highly successful beauty centre model into the China market. Although originally intending to open its first beauty centre in Shanghai, the Group's flagship location will now be situated in Beijing. This reconsideration came about because the Group was offered a very attractive opportunity by a major Hong Kong developer, Sun Hung Kai. The developer invited the Group to become a tenant of one of its buildings, excellently situated in a popular and prestigious retail environment near Oriental Plaza in the Beijing CBD, at very favourable rates.

The Group took possession of the premises on 16th December 2006, and they are currently being renovated and fitted out. The new beauty centre is expected to open for

business in April 2007. If the new beauty centre attracts a customer base according to forecasts, the Group targets to have a total of three beauty centres operational by the end of 2007. It is already exploring possible locations for further branches, including in Shanghai.

Oasis Beauty School

The Group's Oasis Beauty School continued its operations across the year, offering professional qualifications for those wishing to work in the beauty business. The School recorded a small loss for the year, but it continues to offer a value-added factor to the Group by giving access to high potential candidates for recruitment.



Prospects

Selected Oasis Beauty expansion

Latest assessment of the performance of the Group's beauty service centres has shown that some Oasis Beauty Centres in Hong Kong needed more capacity to meet demand during peak hours. Thus, the Group plans to integrate the three Sure Slim centres into the Oasis Beauty chain to achieve better economy of scale, more efficient use of management resources and to help cater for the increased demand in certain Oasis Beauty Centres. As certain facilities such as shower rooms, in existing Sure Slim centres are not available in most Oasis Beauty Centres, integrating Sure Slim into the Oasis Beauty chain will add value to the Group's beauty services.

Future growth for Neutrogena

The Group's involvement in distributing Neutrogena products began in early April 2006, and the latest figures (from October to December 2006) have already shown positive contributions from the existing (and still rapidly expanding) Neutrogena network in department stores in China. The Group expects this side of its business to begin contributing more significant profits in the coming fiscal year, particularly as it expands its franchise arrangements.

Using the franchise model, the Group has been pursuing an aggressive but carefully planned and realistic roll-out plan, and expects to have at least 120 Neutrogena counters in place by the end of 2007 in department stores in China. The brand's makers, Johnson & Johnson, have also committed themselves to providing more upmarket product lines from the US for distribution in China. These products, aimed at high-end customers, should further improve the Group's revenue generated from China.

Other opportunities

As reported earlier, the Group has already started renovation work for premises in Beijing where its first China beauty centre will be located. Renovations are currently underway, and the Group expects to begin operations by April 2007. Given its success in implementing the beauty centre concept in Hong Kong and its growing familiarity with the China market, the Group is optimistic that this new venture holds great promise. Indeed, as in Hong Kong,



many customers in China will see the new beauty centre in Beijing as a natural extension of the Group's popular existing retail services. The Group already has a very considerable database of Oasis Club members in China, which it expects will provide the core of a wider wave of consumers looking for more upmarket beauty services than has been previously available. Because the market for quality beauty centres is still largely undeveloped in China, the Group believes there is huge potential for its growth within this sector.

At the same time, the Group will be introducing some exciting new ~H₂O+ products in the coming year that it expects will further boost the brand's reputation for quality and effectiveness. During 2007, almost every month will see the launch of a new ~H₂O+ product, including some new high-performance skincare products that are designed to work as integrated treatment series.

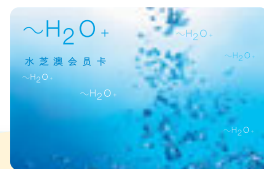
The Group also plans to launch a range of ~H₂O+ health drinks in the first half of 2007. These health drinks were initially sourced by Water Oasis from Japan, and have since been tested by H₂O Plus, L.P., in the United States and accorded ~H₂O+ branding. This product line represents the first ever ~H₂O+ health supplement product to come onto the market.

Positive macro-economic contexts

The announcement in early December 2006 that Hong Kong has abandoned possible plans to impose a GST represented good news for the Group along with the rest of the retail sector. Also at a macro level, the Group is aware of the possibility of benefits accruing to it if the RMB were to be allowed to appreciate in the coming year. As more and more of the Group's revenue originates from China, the potential of a strong RMB to boost the Group's profits is a very real one. For the year under review, 33% of the Group's total turnover originated from Mainland China, a 6% rise over the 27% recorded in the last fiscal year. With China's GDP predicted to rise sharply again in the coming year, prospects for the Group's China businesses look very positive.

Other

The group sold its Causeway Bay investment properties during the year ended 30th September 2006. Details of which has already been set out in the Company's circular to shareholders dated 7th April 2006 and the Group's 2006 Interim Report.



breakthrough
enhancement

Directors and Senior Management



Directors

Executive Directors

Ms. YU Lai Si, aged 45, is one of the founders and is the chief executive officer of the Group. Ms. Yu holds a bachelor's degree in business administration. She started her career in the services industry and then moved to the advertising industry. In 1993, she set up her own distribution business and acted as the sole distributing agent of various well-known international brands of cosmetics and fashion labels. Ms. Yu is primarily responsible for corporate policy formulation, business strategy planning, business development and the overall management of the Group. Ms. Yu is the sister of Ms. Yu Lai Chu, Eileen and Mr. Yu Kam Shui, Erastus.

Mr. TAM Chie Sang, aged 54, is one of the founders of the Group. He started his career in the retail and services industry in 1967 and has owned and managed a retail jewellery chain since 1990. Mr. Tam first became involved in the cosmetic and skin-care businesses in 1993 and was, together with Ms. Yu Lai Si, and Ms. Yu Lai Chu, Eileen, the sole agent for several well-known international brands before the founders set up the Group. Mr. Tam is primarily responsible for the strategic planning of the Group. Mr. Tam is the husband of Ms. Yu Lai Chu, Eileen.

Ms. YU Lai Chu, Eileen, aged 54, is one of the founders of the Group. Ms. Yu started her own realty agency business in 1984 and has managed a retail jewellery chain with Mr. Tam Chie Sang since 1990. In 1993, she entered into the cosmetic and skin-care market. She together with Mr. Tam Chie Sang and Ms. Yu Lai Si acted as the sole distributing agent of a number of well-known international brands of cosmetics. She is primarily responsible for the business development of the Group with particular emphasis on the spa business. Ms. Yu is the sister of Ms. Yu Lai Si and Mr. Yu Kam Shui, Erastus and is the wife of Mr. Tam Chie Sang.

Mr. YU Kam Shui, Erastus, aged 56, is one of the founders of the Group and the founder of the Group's Taiwan operations. He holds a bachelor's degree in business administration from the University of Hawaii. Mr. Yu started his career in trading in the United States in 1993. In 1999, he set up Water Babe Company Limited, through which the Group's Taiwan operations are run, and was the managing director of that company until January 2001. Mr. Yu is primarily responsible for the business development of the Group. Mr. Yu is the brother of Ms. Yu Lai Chu, Eileen and Ms. Yu Lai Si and is Ms. Lai Yin Ping's husband.

Ms. LAI Yin Ping, aged 51, is one of the founders of the Group. She holds a bachelor's degree in arts with economics as her major. Prior to founding the Group in May 1998, she co-founded a trading business with Mr. Yu Kam Shui, Erastus in the United States in 1993. Ms. Lai is primarily responsible for the strategic planning of the Group. Ms. Lai is the wife of Mr. Yu Kam Shui, Erastus.

Independent Non-executive Directors

Dr. WONG Lung Tak, Patrick, J.P., aged 58, is an independent non-executive director. Dr. Wong is a certified public accountant and is the managing director of Wong Lam Leung & Kwok CPA Limited. He has over 30 years' experience in the accountancy profession. Among his qualifications, he obtained a Doctor of Philosophy in Business in 2000, awarded a Badge of Honour in 1993 by the Queen of England and appointed a Justice of the Peace in 1998. Dr. Wong involves in many other community services, holding posts in various organisations and committees in government and voluntary agencies.

Mr. WONG Chun Nam, aged 53, is an independent non-executive director. Mr. Wong is a partner of Ho, Wong & Wong Solicitors & Notaries, practicing commercial, corporate and tax law. Mr. Wong has been a practicing solicitor in Hong Kong since 1982 and is also a notary public, a chartered secretary, an associate of the Taxation Institute of Hong Kong, and a member of the Chartered Institute of Arbitrators. He participates in many community services including being a member of the Quality Education Fund Steering Committee.

Dr. WONG Chi Keung, aged 51, is an independent non-executive director. Dr. Wong holds a doctorate degree in business and is a member of the Hong Kong Institute of Housing and Chartered Institute of Housing and a fellow of the Hong Kong Institute of Real Estate Administration. He is an honorary fellow of Guangxi Academy of Social Science as well as a member of the Chinese People's Political Consultative Conference, Nanning City, Guangxi, the People's Republic of China, and vice chairman of Hong Kong Auxiliary Medical Services Officers' Club. Dr. Wong has also held various senior executive positions with some of Hong Kong's leading property companies.

Senior Management

Mr. CHENG Chi Wai, Ellis, aged 42, is the Chief Financial Officer and Company Secretary of the Group. Mr. Cheng holds a bachelor's degree in accounting and is a fellow of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants as well as a chartered secretary. Mr. Cheng has more than 18 years' experience in auditing, financial control and corporate finance and previously worked in an international accounting firm and held key finance positions in several companies whose shares are listed on the Stock Exchange. Mr. Cheng joined the Group in 1999.

Ms. CHIEN I-Chi, Vicky, aged 39, is the General Manager of the Group's operation in Taiwan. Ms. Chien holds a MBA and a bachelor's degree in Mass Communications. Prior to joining the Group in 2006, Ms. Chien has over 10 years' experience in the cosmetic and beauty industry, with key job scope spanning over general management, operations, marketing, advertising, training and customer service. Before that, she has also worked for various global advertising agencies.

Ms. CHOW Wai Yan, Elsa, aged 33, is the Senior Marketing Manager of the Group. Ms. Chow holds a bachelor of science degree and is responsible for overseeing marketing, advertising and promotion functions for the Group. Ms. Chow has more than 9 years of experience in these areas. Prior to joining the Group in May 2002, Ms. Chow worked for various reputable advertising agencies and had served a number of international FMCG corporate clients.

Mr. HO Fai Man, Patrick, aged 38, is the General Manager overseeing the Group's operations in China since 2002. Mr. Ho holds a bachelor's degree in accounting and is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. Mr. Ho has more than 14 years' experience in auditing, finance, accounting and business development areas in international accounting firm, multinational corporations and Hong Kong listed companies. Mr. Ho joined the Group in 2002.

Ms. NIP Pui Que, Phoebe (formerly named as Ms. LIP Miu Fan, Phoebe), aged 42, is the Operations Manager overseeing the Group's spa and beauty centres' operations. Ms. Nip holds a diploma in beauty therapy and has more than 13 years' sales and management experience working for a number of well-known beauty and fitness chain centres. Ms. Nip joined the Group in 2000.

Mr. TAM Siu Kei, Alan, aged 29, is the Group's Operations Manager. Joining the Group in 1999, Mr. Tam is currently in charge of retail operations of the ~H₂O+ brand in Hong Kong and Singapore. Mr. Tam holds a Bachelor of Arts Degree in Contemporary English Language. Mr. Tam is the son of Mr. Tam Chie Sang and Ms. Yu Lai Chu, Eileen, both are directors of the Company.

Corporate Governance Report



The Board of Directors ("Board") is pleased to present this Corporate Governance Report in the Company Annual Report for the year ended 30th September 2006.

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

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

Corporate Governance

In the opinion of the directors, save as disclosed below, the Company has complied with the Code Provisions set out in the CG Code contained in Appendix 14 of the Listing Rules throughout the year ended 30th September 2006.

Code Provision A.2.1

The Board does not have any director with the title "Chairman". Presently the Company Secretary is responsible to ensure that all directors are properly briefed, either by him or by members of the Company's senior management, on issues arising at board meetings. Whereas the Chief Executive Officer is responsible to ensure all directors have received adequate, complete and reliable information in a timely manner. The Board considers that the current structure facilitates the execution of the Group's business strategies and maximises effectiveness of its operation. The Board shall nevertheless review the structure from time to time to ensure appropriate move is being taken should suitable circumstances arise.

Code Provision A.4.1

Under the Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. However, the independent non-executive directors of the Company were not appointed for a specific term because they are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the provisions of the Company's Articles of Association.

Board of Directors

Responsibilities

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

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

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

Board Composition

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

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

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

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

Board and Board Committee Meetings

Number of Meetings and Directors' Attendance

Regular Board meetings are held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The Board met 11 times during the year ended 30th September 2006.

Practices and Conduct of Meetings

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

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

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

The attendance of individual members of the Board and other Board Committees meetings during the year ended 30th September 2006 is set out in the table below:

Directors	Full Board	Meetings attended/held			AGM/EGM
		Executive Board*	Audit Committee	Remuneration Committee	
Executive Directors					
YU Lai Si	2/2	9/9			2/2
TAM Chie Sang	2/2	9/9			2/2
YU Lai Chu, Eileen	1/2	6/9			1/2
YU Kam Shui, Erastus	1/2	6/9			1/2
LAI Yin Ping	1/2	6/9			1/2
Independent Non-executive Directors					
WONG Lung Tak, Patrick, J.P.	1/2		3/4	1/1	2/2
WONG Chun Nam	2/2		4/4	1/1	2/2
WONG Chi Keung	2/2		4/4	1/1	1/2

* comprises all executive directors of the Company

Board Committees

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

Audit Committee

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

In 2006, the Audit Committee held four meetings. At the meetings, it reviewed the final results for 2005 and the interim results for 2006 respectively with the external auditors and also the activities of the Group's internal control functions.

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

Remuneration Committee

To comply with the CG Code, a Remuneration Committee was established on 26th June 2006. The members of the Remuneration Committee comprise all independent non-executive directors of the Company and the Group's Senior Human Resources Manager, Ms. Lau Mei Yin, Ivy, and is chaired by Mr. Wong Chun Nam.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

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

During the year ended 30th September 2006, one Remuneration Committee meeting was held.



Auditors' Remuneration

PricewaterhouseCoopers has been re-appointed as the independent auditors of the Company by Shareholders at the last Annual General Meeting.

The remuneration paid to the Group's independent auditor, PricewaterhouseCoopers, and its affiliated firms, for services rendered is broken down below:

<i>(In HK\$'000)</i>	2006	2005
Statutory audit	1,230	1,186
Non-audit services	418	247
Total	1,648	1,433

The non-audit services mainly comprised tax advisory services.

The responsibilities of the independent auditors with respect to the 2006 financial statements are set out in the section "Auditors' Report" on pages 28 to 29.

Directors' Responsibility for the Financial Statements

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

Internal Control

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

Model Code for Securities Transactions

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

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

Directors' Report

The directors present their Annual Report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 30th September 2006.

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, China and Singapore. Certain of its principal subsidiaries also engaged in the operation of spa and beauty centres in Hong Kong under the brand names "Oasis Spa", "Oasis Beauty", "Aqua Beauty" and "Oasis Homme", which offer wide varieties of beauty and massage services. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

Details of the Company's principal subsidiaries at 30th September 2006 are set out in note 32 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 30th September 2006 are set out in the consolidated income statement on page 30.

The directors recommended a final dividend of 4.0 HK cents per share and a special dividend of 1.0 HK cents per share (collectively the "Final Dividend") for the year ended 30th September 2006 payable to shareholders whose names appear on the Register of Members of the Company at the close of business on 22nd March 2007. Subject to the passing of the relevant resolution at the forthcoming Annual General Meeting, the Final Dividend will be payable on 3rd April 2007.

Share Capital

Details of the Company's authorised and issued share capital as at 30th September 2006 are set out in note 25 to the financial statements.

Reserves

Movements in the reserves of the Group and of the Company are set out in note 26 to the financial statements.

Investment Properties

The Group revalued its investment properties as at 30th September 2006 on an open market value basis. Details of which are set out in note 14 to the financial statements.

Property, Plant and Equipment

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

Five-Year Financial Summary

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

Directors and Directors' Services Agreements

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

Executive Directors:

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

Independent Non-executive Directors:

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

In accordance with Articles 87(1) and (2) of the Company's articles of association, Wong Lung Tak, Patrick, J.P. and Wong Chun Nam would retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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

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

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

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

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

As at 30th September 2006, the interests or short positions of the directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the percentage in the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571) (the "SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long Position in the Shares of the Company and its Associated Corporations

Name of director	The Company/name of associated corporation	Capacity	Number and class of shares				Total	Percentage of issued share capital
			Personal interests	Corporate interests	Family interests	Other interests		
Yu Lai Si	The Company	Beneficial owner	80,356,880 ordinary	-	-	-	80,356,880 ordinary	23.5%
	Water Oasis Company Limited	Beneficial owner	330,000 non voting deferred	-	-	-	330,000 non voting deferred	-
Tam Chie Sang	The Company	Interest of spouse and interest of a controlled corporation	-	-	880,000 ordinary ⁽²⁾	77,666,880 ordinary ⁽¹⁾	78,546,880 ordinary	22.9%
	Water Oasis Company Limited	Beneficial owner and interest of spouse	165,000 non voting deferred	-	165,000 non voting deferred ⁽²⁾	-	330,000 non voting deferred	-
Yu Lai Chu, Eileen	The Company	Beneficial owner and interest of a controlled corporation	880,000 ordinary	-	-	77,666,880 ordinary ⁽¹⁾	78,546,880 ordinary	22.9%
	Water Oasis Company Limited	Beneficial owner and interest of spouse	165,000 non voting deferred	-	165,000 non voting deferred ⁽³⁾	-	330,000 non voting deferred	-

Notes:

- (1) These shares are registered in the name of Zinna Group Limited, a company incorporated in Hong Kong. All voting rights over Zinna Group Limited are held by Royalion Worldwide Limited, a British Virgin Islands company which is 51% owned by Tam Chie Sang and 49% owned by his spouse Yu Lai Chu, Eileen, both are directors of the Company.
- (2) These shares are registered in the name of Yu Lai Chu, Eileen, the wife of Tam Chie Sang.
- (3) These shares are registered in the name of Tam Chie Sang, the husband of Yu Lai Chu, Eileen.

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 2006, 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 25 to the financial statements.

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

Category and name of participant	Date of grant	Exercise period	Exercise price per share HK\$	Balance as at 1 st October 2005	Granted	Exercised	Cancelled/ Lapsed	Balance as at 30 th September 2006
Directors								
Yu Lai Si	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	3,000,000	–	–	–	3,000,000
Tam Chie Sang	30 th August 2002	28 th February 2003 – 29 th August 2007	0.52	1,500,000	–	–	–	1,500,000
	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	1,500,000	–	–	–	1,500,000
Yu Lai Chu, Eileen	30 th August 2002	28 th February 2003 – 29 th August 2007	0.52	600,000	–	–	–	600,000
	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	1,500,000	–	–	–	1,500,000
Yu Kam Shui, Erastus	30 th August 2002	28 th February 2003 – 29 th August 2007	0.52	1,500,000	–	–	–	1,500,000
	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	1,500,000	–	–	–	1,500,000
Lai Yin Ping	30 th August 2002	28 th February 2003 – 29 th August 2007	0.52	1,500,000	–	–	–	1,500,000
	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	1,500,000	–	–	–	1,500,000
Wong Lung Tak, Patrick, J.P.	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	600,000	–	–	–	600,000
Wong Chun Nam	28 th January 2004	3 rd May 2004 – 31 st January 2009	0.42	600,000	–	–	–	600,000
				15,300,000	–	–	–	15,300,000



Category and name of participant	Date of grant	Exercise period	Exercise price per share HK\$	Balance as at 1 st October 2005	Granted	Exercised	Cancelled/ Lapsed	Balance as at 30 th September 2006
Supplier								
H ₂ O Plus, L.P.	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	–	200,000	–	960,000
	28 th January 2004	1 st November 2004 – 31 st January 2009	0.42	1,160,000	–	100,000	–	1,060,000
	28 th January 2004	2 nd May 2005 – 31 st January 2009	0.42	860,000	–	–	–	860,000
				10,284,000	–	300,000	–	9,984,000

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

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

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

Substantial Shareholders

As at 30th September 2006, the following persons, other than a director or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the

Company under section 336 of the SFO, or, who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Long Position in the Shares

Name of Shareholder	Capacity	Number of ordinary shares	Approximate percentage of voting power
Zinna Group Limited ⁽¹⁾	Interest of a controlled corporation	77,666,880	22.7%
Advance Favour Holdings Limited ⁽²⁾	Interest of a controlled corporation	38,833,440	11.3%
Billion Well Holdings Limited ⁽³⁾	Interest of a controlled corporation	38,833,440	11.3%

Notes:

- (1) Zinna Group Limited is a company incorporated in Hong Kong. All of its voting rights are held by Royalion Worldwide Limited, a British Virgin Islands company which is 51% owned by Tam Chie Sang and 49% owned by his spouse, Yu Lai Chu, Eileen, both are directors of the Company.
- (2) Advance Favour Holdings Limited is a British Virgin Islands company beneficially owned by Lai Yin Ling, sister of Lai Yin Ping, a director of the Company.
- (3) Billion Well Holdings Limited is a British Virgin Islands company beneficially owned by Lai Yin Ling, sister of Lai Yin Ping, a director of the Company.

Directors' Interests in Contracts

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

Directors' Interests in Competing Business

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

Major Customers and Suppliers

For the year ended 30th September 2006, 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 2006, distributable reserves of the Company amounted to approximately HK\$18,957,000.

Employees and Remuneration Policies

As at 30th September 2006, the Group employed 1,236 staff (2005: 1,030). 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 25 million shares in the Company in aggregate had been granted and are outstanding as at 30th September 2006 to certain directors and employees pursuant to the Company's share option scheme. Exercise prices of which range from HK\$0.42 to HK\$1.67.

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

During the year ended 30th September 2006, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

Pre-emptive Rights

There is no 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 Model Code

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the year.

Sufficiency of Public Float

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

Compliance with the Code of Best Practice

In the opinion of the directors, the Company has complied throughout the financial year ended 30th September 2006 with the Code of Best Practice set out in Appendix 14 to the Listing Rules except for those as detailed in the Corporate Governance Report set out in this Annual Report.

Audit Committee

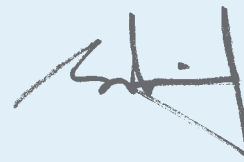
The Company's Audit Committee comprises Dr. Wong Lung Tak, Patrick, J.P., Mr. Wong Chun Nam and Dr. Wong Chi Keung who are the independent non-executive directors of the Company. In establishing the terms of reference for this committee, the directors had made reference to the "Guide for the formation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

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the audited consolidated accounts of the Group for the year ended 30th September 2006 with management and discussed with the independent auditors matters on auditing, internal control and financial reporting in respect of the Annual Report.

Auditors

The accompanying financial statements 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, 16th January 2007

Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

Independent Auditor's Report

To the Shareholders of Water Oasis Group Limited

(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Water Oasis Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 79, which comprise the consolidated and company balance sheets as at 30th September 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material

misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in

order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30th September 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other Matters

This report, including the opinion, has been prepared for and only for you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any person for the contents of this report.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 16th January 2007

Consolidated Income Statement

FOR THE YEAR ENDED
30TH SEPTEMBER

	Note	2006 HK\$'000	2005 HK\$'000
Turnover	5	484,018	413,888
Cost of inventories sold		(106,810)	(99,048)
Gross profit		377,208	314,840
Other revenues	5	3,364	2,646
Gain arising from change in fair value of investment properties		–	23,763
Staff costs	11	(153,325)	(132,367)
Depreciation		(20,628)	(16,665)
Other operating expenses, net		(193,020)	(174,281)
Profit before taxation	6	13,599	17,936
Taxation	7	733	(4,653)
Profit after taxation		14,332	13,283
Attributable to:			
Shareholders of the Company		13,600	12,762
Minority interests		732	521
		14,332	13,283
Dividends	9	27,390	22,237
Earnings per share for profit attributable to the shareholders of the Company during the year			
Basic	10	4.0 HK cents	3.7 HK cents
Diluted	10	4.0 HK cents	3.7 HK cents

Consolidated Balance Sheet

AS AT 30TH SEPTEMBER

	Note	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Intangible assets	13	516	1,264
Investment properties	14	27,000	89,000
Property, plant and equipment	15	33,374	29,863
Rental deposits and prepayment	17	13,212	13,063
Deferred tax assets	28	5,025	2,753
		79,127	135,943
Current assets			
Inventories	18	45,343	35,150
Trading investments	19	1,828	65
Accounts receivable	20	39,732	31,751
Prepayments		17,865	15,676
Other deposits and receivables		7,320	4,950
Tax recoverable		232	182
Bank deposits over three months to maturity	21	7,787	–
Bank balances and cash	21	130,293	85,680
		250,400	173,454
Current liabilities			
Accounts payable	22	6,231	11,330
Accruals and other payables		63,189	46,741
Receipts in advance	23	103,604	72,345
Long-term bank loan – current portion	24	–	1,950
Taxation payable		3,572	1,496
		176,596	133,862
Net current assets		73,804	39,592
Total assets less current liabilities		152,931	175,535
Financed by:			
Share capital	25	34,242	34,212
Reserves			
Proposed final and special dividend	9 & 26	17,121	10,263
Others	26	100,042	112,927
Shareholders' funds		151,405	157,402
Minority interests		847	209
Total equity		152,252	157,611
Non-current liabilities			
Pension obligations	27	529	620
Long-term bank loan – non-current portion	24	–	14,787
Deferred tax liabilities	28	150	2,517
		152,931	175,535

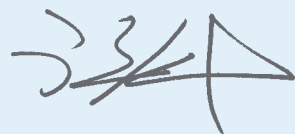

TAM Chie Sang
 Executive Director


YU Lai Si
 Executive Director

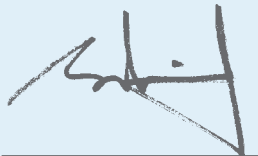
Balance Sheet

AS AT 30TH SEPTEMBER

	Note	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Investments in subsidiaries	16	3,000	3,000
Current assets			
Amounts due from subsidiaries	16	78,387	62,972
Prepayments		95	97
Other receivable		-	18
Bank balances and cash	21	1,030	10,409
		79,512	73,496
Current liabilities			
Amounts due to subsidiaries	16	1,117	2,202
Accruals and other payables		716	745
		1,833	2,947
Net current assets			
		77,679	70,549
Total assets less current liabilities			
		80,679	73,549
Financed by:			
Share capital	25	34,242	34,212
Reserves			
Proposed final and special dividend	9 & 26	17,121	10,263
Others	26	29,316	29,074
Shareholders' funds		80,679	73,549



TAM Chie Sang
Executive Director



YU Lai Si
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 30th September 2005

			Attributable to equity holders		
	Note	Share Capital HK\$'000	Reserves HK\$'000	Minority Interests HK\$'000	Total HK\$'000
At 1 st October 2004 as previously reported		34,212	122,672	–	156,884
At 1 st October 2004 as previously separately reported as minority interests		–	–	(193)	(193)
At 1 st October 2004 as restated		34,212	122,672	(193)	156,691
Currency translation differences recognised directly in equity		–	1,441	–	1,441
Profit for the year		–	12,762	521	13,283
Total recognised income for the year		–	14,203	521	14,724
Dividends	26	–	(13,685)	–	(13,685)
Dividend paid to a minority shareholder	29b	–	–	(119)	(119)
		–	(13,685)	(119)	(13,804)
At 30 th September 2005		34,212	123,190	209	157,611

For the year ended 30th September 2006

			Attributable to equity holders		
	Note	Share Capital HK\$'000	Reserves HK\$'000	Minority Interests HK\$'000	Total HK\$'000
At 1 st October 2005 as previously reported		34,212	123,190	–	157,402
At 1 st October 2005 as previously separately reported as minority interests		–	–	209	209
At 1 st October 2005 as restated		34,212	123,190	209	157,611
Currency translation differences recognised directly in equity		–	809	–	809
Profit for the year		–	13,600	732	14,332
Total recognised income for the year		–	14,409	732	15,141
Issue of shares upon exercise of share options	25	30	96	–	126
Dividends	26	–	(20,532)	–	(20,532)
Dividends paid to a minority shareholder	29b	–	–	(94)	(94)
		30	(20,436)	(94)	(20,500)
At 30 th September 2006		34,242	117,163	847	152,252

Consolidated Cash Flow Statement

FOR THE YEAR ENDED
30TH SEPTEMBER

	Note	2006 HK\$'000	2005 HK\$'000
Operating activities			
Net cash inflow generated from operations	29(a)	52,171	48,515
Interest paid		(610)	(597)
Hong Kong profits tax paid		(871)	(408)
Overseas tax paid		(1,009)	(852)
Net cash inflow from operating activities		49,681	46,658
Investing activities			
Increase of intangible assets		(102)	(667)
Purchase of property, plant and equipment		(24,189)	(20,430)
Purchase of an investment property		-	(12,637)
Proceeds from disposal of property, plant and equipment		103	121
Proceeds from disposal of investment properties		63,975	-
Interest received		1,123	316
Increase in bank deposits over three months to maturity		(7,787)	-
Purchase of trading investments		(3,102)	(65)
Proceeds from disposal of trading investments		1,396	7,352
Proceeds from redemption of other investment		-	486
Net cash inflow/(outflow) from investing activities		31,417	(25,524)
Net cash inflow before financing		81,098	21,134
Financing activities			
Repayment of long-term bank loan	29(b)	(16,737)	(1,950)
Proceeds from exercise of options		126	-
Dividends paid to a minority shareholder of a subsidiary		(94)	(119)
Dividends paid	26	(20,532)	(13,685)
Net cash outflow from financing		(37,237)	(15,754)
Increase in cash and cash equivalents		43,861	5,380
Cash and cash equivalents at beginning of the year		85,680	79,018
Effect of foreign exchange rate changes		752	1,282
Cash and cash equivalents at end of the year		130,293	85,680
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		130,293	85,680

Notes to the Financial Statements

1. Organisation and Principal Activities

Water Oasis Group Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability on 27th September 2001 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section to the Annual Report. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 11th March 2002.

The Company is an investment holding company. Its subsidiaries are principally engaged in the distribution of skin-care products in Hong Kong, Macau, Taiwan, Singapore and China and the operation of spa and beauty centres in Hong Kong.

The consolidated financial statements are presented in Hong Kong Dollars unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 16th January 2007.

2. Principal Accounting Policies

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

(a) Basis of preparation and impact of new and revised HKFRSs and HKASs

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

The accounting policies and methods of computation used in the preparation of the financial statements are consistent with those used in 2005 except that the Group has changed certain of its accounting policies following its adoption of new and revised HKFRSs and HKASs which are effective for accounting years beginning on or after 1st January 2005.

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



2. Principal Accounting Policies (Continued)

The relevant changes to the Group's accounting policies and the effect of adopting those new policies are set out below:

Effect of adopting new HKFRSs

For the year ended 30th September 2006, the Group adopted the new/revised HKFRSs below, which are relevant to its operations. The 2005 comparatives have been restated as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 33, 36, 38, HKAS-Int 15 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest and other disclosures;
- HKASs 2, 7, 8, 10, 16, 17, 23, 27, 33, 36, HKAS-Int 15 and HKFRS 3 had no material effect on the Group's accounting policies;

2. Principal Accounting Policies (Continued)

Effect of adopting new HKFRSs (Continued)

- HKAS 21 had no material effect on the Group's accounting policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements;
- HKAS 24 has affected the identification of related parties and some other related-party disclosures; and
- The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment was resulted from this reassessment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 30th September 2005 the provision of share options to employees did not result in an expense in the income statements. Effective 1st October 2005, the Group expenses the cost of share options in the income statement. The Group did not have any share options which were granted after 7th November 2002 and had not yet vested on 1st October 2005. Therefore, no adjustment was made to the Group's financial statements on the costs, if any, of these share options.



2. Principal Accounting Policies (Continued)

Effect of adopting new HKFRSs (Continued)

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application except:

- HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- HKAS 39 – the standard does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice (“SSAP”) 24 “Accounting for investments in securities” to trading investments. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and considered immaterial;
- HKAS-Int 15 – the standard does not require the recognition of incentives for leases beginning before 1st October 2005; and
- HKFRS 2 – retrospective application only applies to all equity instruments granted after 7th November 2002 and not vested at 1st October 2005.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group’s accounting periods beginning on or after 1st October 2006 or later periods. The Group has already commenced an assessment of their impact when they become effective and does not expect this will result in substantial changes to the Group’s principal accounting policies.

2. Principal Accounting Policies (Continued)

(b) Basis of consolidation

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

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

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

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

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 by the Company on the basis of dividend received and receivable.

(c) Segment reporting

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



2. Principal Accounting Policies (Continued)

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

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

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

2. Principal Accounting Policies (Continued)

(e) Investment properties

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

Investment property comprises land held under operating leases 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.

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 financial statements.

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 income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement .



2. Principal Accounting Policies (Continued)

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Depreciation of other property, plant and equipment is calculated to write off their costs less accumulated impairment losses on a straight-line basis over their estimated useful lives to the Group. 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 $\frac{1}{3}$ %

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

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

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

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

(g) Intangible assets

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

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

2. Principal Accounting Policies (Continued)

(h) Impairment of non-financial assets

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

(i) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. The initial classification will be re-evaluated at every reporting date.

(a) Financial assets at fair value through profit or loss

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

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



2. Principal Accounting Policies (Continued)

(i) Financial assets (Continued)

(b) Loans and receivables

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

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost represents invoiced value on purchases and is calculated on a weighted-average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(k) Trade and other receivables

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

(l) Cash and cash equivalents

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

(m) Trade payables

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

2. Principal Accounting Policies (Continued)

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised costs; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(o) 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 financial statements. 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.



2. Principal Accounting Policies (Continued)

(p) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

The Group's subsidiary in Taiwan participates in a defined benefit pension plan for employees joined before 1st July 2005 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 income statement in the period to which the contributions relate.

2. Principal Accounting Policies (Continued)

(p) Employee benefits (Continued)

(iii) Profit sharing and bonus plans

Share-based compensation

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

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

(q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

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



2. Principal Accounting Policies (Continued)

(r) Contingent liabilities

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

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

(s) Revenue recognition

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

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

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

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

(t) Interest income

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

(u) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the 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 income statement on a straight-line basis over the lease periods.

3. Financial Risk Management

3.1 Financial risk factors

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

(a) Foreign exchange risk

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

(b) Credit risk

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

(c) Interest rate risk

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

3.2 Fair value estimate

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values due to their current nature.



4. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Taxation

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

(b) Impairment of assets

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

(c) Estimate of fair value of investment properties

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

5. Turnover, 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:

	2006 HK\$'000	2005 HK\$'000
Turnover		
Sales of goods	327,832	284,808
Rendering of services	156,186	129,080
	484,018	413,888
Other revenues		
Interest income	1,123	316
Gross rental income from investment properties	1,703	1,720
Dividend income	–	64
Others	538	546
	3,364	2,646
Total revenues	487,382	416,534



5. Turnover, Revenue and Segment Information (Continued)

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

Primary reporting format – business segments

	Retailing		Services		Elimination		Group	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Sales to external customers	327,832	284,808	156,186	129,080	-	-	484,018	413,888
Inter-segment sales	21,563	15,088	-	-	(21,563)	(15,088)	-	-
Total	349,395	299,896	156,186	129,080	(21,563)	(15,088)	484,018	413,888
Segment results	27,033	15,394	18,504	13,990	-	-	45,537	29,384
Other revenues							3,364	2,646
Gain arising from change in fair value of investment properties							-	23,763
Unallocated corporate expenses							(35,302)	(37,857)
Profit before taxation							13,599	17,936
Taxation							733	(4,653)
Profit after taxation							14,332	13,283

5. Turnover, Revenue and Segment Information (Continued)

Primary reporting format – business segments (Continued)

	Retailing		Services		Group	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment assets	212,609	207,353	86,332	63,281	298,941	270,634
Unallocated assets					30,586	38,763
Total assets					329,527	309,397
Segment liabilities	70,349	65,710	101,565	82,388	171,914	148,098
Unallocated liabilities					5,361	3,688
Total liabilities					177,275	151,786
Depreciation	10,986	9,169	9,642	7,496	20,628	16,665
Amortisation	850	1,325	-	-	850	1,325
Capital expenditures	14,314	22,576	9,875	10,491	24,189	33,067

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



5. Turnover, Revenue and Segment Information (Continued)

Secondary reporting format – geographical segments

	Turnover		Capital expenditures		Total assets	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong and Macau	261,042	227,267	13,601	27,067	184,818	180,331
China	159,265	111,388	8,232	4,162	84,706	55,441
Taiwan	53,772	67,353	1,833	1,574	23,004	29,702
Singapore	9,939	7,880	523	264	6,413	5,160
	484,018	413,888	24,189	33,067	298,941	270,634
Unallocated assets					30,586	38,763
					329,527	309,397

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.

6. Profit before Taxation

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

	2006 HK\$'000	2005 HK\$'000
Crediting		
Gain on redemption of other investment	–	34
Gain on disposal of trading investments	57	580
Gain on disposal of investment properties	1,975	–
Net exchange gain/(loss)	803	(315)
Charging		
Amortisation of intangible assets	850	1,325
Auditors' remuneration	1,430	1,286
Loss on disposal of property, plant and equipment	4	–
Operating lease rentals in respect of land and buildings		
– minimum lease payments	43,196	40,153
– contingent rent	4,427	2,837
Interest expense on long-term bank loan	610	597

7. Taxation

	2006 HK\$'000	2005 HK\$'000
Current taxation		
Hong Kong profits tax	2,348	1,107
Overseas taxation	2,072	490
Over provision in prior years	(514)	(421)
Deferred taxation relating to the origination and reversal of temporary differences (Note 28)	(4,639)	3,477
	(733)	4,653

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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:

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	13,599	17,936
Calculated at a taxation rate of 17.5% (2005: 17.5%)	2,380	3,139
Effect of different taxation rates in other countries	(734)	(327)
Income not subject to taxation	(601)	(51)
Expenses not deductible for taxation purposes	369	2,419
Utilisation of tax losses	–	(106)
Unrecognised tax losses	3,039	–
Over provision in prior years	(514)	(421)
Reversal of temporary difference on fair value gain	(4,672)	–
Taxation (credit)/charge	(733)	4,653



8. Profit Attributable to Shareholders

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of approximately HK\$27,536,000 (2005: HK\$18,640,000).

9. Dividends

	2006 HK\$'000	2005 HK\$'000
Interim dividend declared and paid of 2.0 HK cents (2005: 1.0 HK cents) per share	6,846	3,421
Special interim dividend declared and paid of 1.0 HK cents (2005: 2.5 HK cents) per share	3,423	8,553
	10,269	11,974
Final dividend proposed after balance sheet date of 4.0 HK cents (2005: 3.0 HK cents) per share	13,697	10,263
Special final dividend proposed after balance sheet date of 1.0 HK cents (2005: nil) per share	3,424	–
	17,121	10,263
	27,390	22,237

10. Earnings per Share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$13,600,000 (2005: HK\$12,762,000) and the weighted average number of 342,173,534 (2005: 342,116,000) ordinary shares in issue during the year.

Diluted earnings per share is the same as basic earnings per share as there is no potential dilutive share.

11. Staff Costs (Including Directors' Emoluments)

	2006 HK\$'000	2005 HK\$'000
Wages and salaries	148,313	125,187
Pension costs-defined benefit plan (Note 27)	(56)	230
Pension costs-defined contribution plans	6,496	5,378
Unutilised annual leave	(1,428)	1,572
	153,325	132,367

12. Directors' Emoluments and Five Highest Paid Individuals

(a) Directors' emoluments

Name of directors	Fees HK\$'000	Basic salaries, housing allowances, other allowances and benefits-in-kinds HK\$'000	Bonuses HK\$'000	Retirement benefit costs HK\$'000	2006 Total emoluments HK\$'000	2005 Total emoluments HK\$'000
Yu Lai Si	-	5,523	-	12	5,535	5,855
Tam Chie Sang	-	897	-	12	909	1,159
Yu Lai Chu, Eileen	-	897	-	12	909	1,159
Yu Kam Shui, Erastus	-	1,375	-	12	1,387	1,596
Lai Yin Ping	-	897	-	12	909	1,159
Wong Lung Tak, Patrick, J.P. ⁽¹⁾⁽²⁾⁽³⁾	150	-	-	-	150	100
Wong Chun Nam ⁽¹⁾⁽²⁾⁽³⁾	150	-	-	-	150	100
Wong Chi Keung ⁽¹⁾⁽²⁾⁽³⁾	150	-	-	-	150	100
Total for the year 2006	450	9,589	-	60	10,099	
Total for the year 2005	300	8,868	2,000	60		11,228

⁽¹⁾ Independent non-executive directors

⁽²⁾ Members of the Company's Audit Committee

⁽³⁾ Members of the Company's Remuneration Committee



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

(a) Directors' emoluments (Continued)

Certain directors of the Company have been granted options to acquire shares of the Company. Details of share options granted, exercised and lapsed during the year are disclosed in the Directors' Report and Note 25.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2005: four) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining three (2005: one) individuals during the year are as follows:

	2006 HK\$'000	2005 HK\$'000
Basic salaries, housing allowances, other allowances and benefits-in-kinds	3,764	1,592
Bonuses	629	400
Retirement benefit costs	36	12
	4,429	2,004

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

(b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Number of individual	
	2006	2005
Emolument bands		
HK\$500,000 – HK\$1,000,000	1	–
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$2,000,001 – HK\$2,500,000	1	1
	3	1

For the years ended 30th September 2006 and 2005, no directors waived any emoluments and no emoluments have been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group and compensation for loss of office.

13. Intangible Assets

	License fees	
	2006 HK\$'000	2005 HK\$'000
At 1 st October	1,264	1,922
Additions	102	667
Amortisation charge	(850)	(1,325)
At 30 th September	516	1,264
At 30 th September		
Cost	5,280	5,178
Accumulated amortisation	(4,764)	(3,914)
Net book amount	516	1,264



14. Investment Properties

	2006 HK\$'000	2005 HK\$'000
At 1 st October	89,000	52,600
Additions	–	12,637
Disposals	(62,000)	–
Fair value gain	–	23,763
At 30 th September	27,000	89,000

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

	2006 HK\$'000	2005 HK\$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	22,000	22,000
Leases of over 50 years	5,000	67,000
	27,000	89,000

The investment properties were revalued at 30th September 2006 on the basis of their open market values by Savills Valuation and Professional Services Limited, an independent firm of chartered surveyors.

No investment property was pledged as at 30th September 2006 (2005: investment properties of HK\$62,000,000 was pledged as security for the Group's long-term bank loan).

15. Property, Plant and Equipment

	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Machinery and equipment HK\$'000	Office equipment, furniture and fixtures HK\$'000	Total HK\$'000
At cost						
As at 1 st October 2004	46,598	2,655	5,333	12,552	6,042	73,180
Additions	13,333	21	777	5,111	1,188	20,430
Disposals	(1,315)	(155)	(102)	(118)	(242)	(1,932)
Exchange adjustment	314	11	34	1	68	428
As at 30 th September 2005	58,930	2,532	6,042	17,546	7,056	92,106
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	15,527	589	1,236	10,030	2,481	29,863
At cost						
As at 1 st October 2005	58,930	2,532	6,042	17,546	7,056	92,106
Additions	17,616	673	1,744	2,346	1,810	24,189
Disposals	(1,945)	(299)	–	(12)	(470)	(2,726)
Exchange adjustment	353	9	57	–	2	421
As at 30 th September 2006	74,954	2,915	7,843	19,880	8,398	113,990
Accumulated depreciation						
As at 1 st October 2005	43,403	1,943	4,806	7,516	4,575	62,243
Charge for the year	14,939	452	985	3,262	990	20,628
Disposals	(1,945)	(299)	–	(6)	(369)	(2,619)
Exchange adjustment	315	5	45	–	(1)	364
As at 30 th September 2006	56,712	2,101	5,836	10,772	5,195	80,616
Net book value						
As at 30 th September 2006	18,242	814	2,007	9,108	3,203	33,374



16. Investments in Subsidiaries

Company

	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	3,000	3,000
Amounts due from subsidiaries	78,387	62,972
Amounts due to subsidiaries	(1,117)	(2,202)
	80,270	63,770

Details of the principal subsidiaries are set out in Note 32.

The amounts due from/to subsidiaries are unsecured, interest-free and are repayable on demand.

17. Rental Deposits and Prepayment

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

As at 30th September 2006, the carrying amounts of rental deposits approximate their fair values.

18. Inventories

	2006 HK\$'000	2005 HK\$'000
Finished goods – merchandises	45,343	35,150

19. Trading Investments

	2006 HK\$'000	2005 HK\$'000
Equity securities: Listed in Hong Kong	1,828	65

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

20. Accounts Receivable

Details of the aging analysis are as follows:

	2006 HK\$'000	2005 HK\$'000
0 to 30 days	34,263	27,349
31 days to 60 days	4,431	2,564
61 days to 90 days	921	527
Over 90 days	117	1,311
	39,732	31,751

Credit terms generally range from 30 days to 90 days.

The fair value of accounts receivable approximates its carrying amount.

Accounts receivable are mainly denominated in Hong Kong Dollars, New Taiwan Dollars and Renminbi.



21. Bank Balances and Cash

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

The short-term bank deposits carry interest at around 3% (2005: 3%) per annum and mature within 3 months. Bank deposits over three months to maturity represents certain structured bank deposits carrying interest up to 11% (2005: nil) per annum and mature in 6 months.

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

22. Accounts Payable

Details of the aging analysis are as follows:

	2006 HK\$'000	2005 HK\$'000
0 to 30 days	6,231	11,330

The fair value of accounts payable approximates its carrying amount.

Accounts payable are mainly denominated in US Dollars.

23. Receipts in Advance

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

24. Long-term Bank Loan

	2006 HK\$'000	2005 HK\$'000
Total of long-term bank loan – secured	-	16,737
Current portion of long-term bank loan	-	(1,950)
	-	14,787

The Group's long-term bank loan was repayable as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	-	1,950
In the second year	-	1,950
In the third to fifth year	-	5,850
After the fifth year	-	6,987
	-	16,737
Current portion of long-term bank loan	-	(1,950)
	-	14,787

The long-term bank loan was fully repaid in the current year. At 30th September 2005, the long-term bank loan was secured by certain investment properties of the Group (Note 14).



25. Share Capital

Company

	2006 HK\$'000	2005 HK\$'000
Authorised: 1,000,000,000 (2005: 1,000,000,000) ordinary shares of HK\$0.1 each	100,000	100,000
Issued and fully paid: 342,416,000 (2005: 342,116,000) ordinary shares of HK\$0.1 each	34,242	34,212

Issued and fully paid ordinary shares

	No. of shares	HK\$'000
At 1 st October 2005	342,116,000	34,212
Issue of new shares pursuant to the Company's share option scheme	300,000	30
At 30 th September 2006	342,416,000	34,242

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.

25. 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 2005	Granted	Exercised	Cancelled/ Lapsed	As at 30 th September 2006
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	-	200,000	-	960,000
	28 th January 2004	1 st November 2004 – 31 st January 2009	0.42	1,160,000	-	100,000	-	1,060,000
	28 th January 2004	2 nd May 2005 – 31 st January 2009	0.42	860,000	-	-	-	860,000
				10,284,000	-	300,000	-	9,984,000

Options to subscribe for a maximum of approximately 30 million shares in the Company in aggregate had been granted and are outstanding as at 30th September 2006 to a supplier, certain directors and employees pursuant to the Company's share option scheme, representing 8.6% of the existing issued share capital of the Company as at the date of this Annual Report.

As at 30th September 2006, the weighted average exercise price of share options outstanding was HK\$0.61 per share (2005: HK\$0.61 per share).

Options exercised during the year ended 30th September 2006 resulted in 300,000 shares (2005: nil) being issued at HK\$0.42 each. The related weighted average share price at the time of exercise was HK\$0.52 per share.



26. Reserves

Group

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 st October 2004	26,934	(908)	(1,766)	450	97,962	122,672
Profit for the year	–	–	–	–	12,762	12,762
2004 final dividend	–	–	–	–	(1,711)	(1,711)
2005 interim and special 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

	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 1 st October 2005	26,934	533	(1,766)	450	97,039	123,190
Profit for the year	–	–	–	–	13,600	13,600
Exercise of share options	96	–	–	–	–	96
2005 final dividend	–	–	–	–	(10,263)	(10,263)
2006 interim and special dividend	–	–	–	–	(10,269)	(10,269)
Exchange differences	–	809	–	–	–	809
At 30 th September 2006	27,030	1,342	(1,766)	450	90,107	117,163
Represented by:						
Reserves	27,030	1,342	(1,766)	450	72,986	100,042
Proposed final and special dividend	–	–	–	–	17,121	17,121
	27,030	1,342	(1,766)	450	90,107	117,163

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

26. Reserves (Continued)

Company

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



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

Actuarial valuation has been performed on the pension liability as at 30th September 2006 and 2005 by an independent qualified actuary, Actuarial Consulting Company Limited using projected unit credit method. The deficit between the pension asset and present value of the obligation as at 30th September 2006 is recognised in the income statement in 2006.

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

	2006 HK\$'000	2005 HK\$'000
Present value of funded obligations	431	656
Fair value of plan assets	(625)	(581)
Present value of (overfunded)/unfunded obligations	(194)	75
Unrecognised actuarial gains	723	545
Liability in the balance sheet	529	620

The amounts recognised in the income statement were as follows:

	2006 HK\$'000	2005 HK\$'000
Current service costs	–	250
Interest cost	24	22
Expected return on plan assets	(16)	(11)
Net actuarial gain	(64)	(31)
Total (gain)/expenses recognised in the income statement (Note 11)	(56)	230

27. Pension Obligations (Continued)

The movement in the liability recognised in the balance sheet:

	2006 HK\$'000	2005 HK\$'000
At 1 st October	620	620
Total (gain)/expense, included in staff costs (Note 11)	(56)	230
Contributions paid	(35)	(230)
At 30 th September	529	620

The principal actuarial assumptions used were as follows:

	2006 %	2005 %
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

28. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

The movement in the deferred tax assets is as follows:

	2006 HK\$'000	2005 HK\$'000
At 1 st October	2,753	4,266
Credited/(charged) to income statement	2,272	(1,529)
Exchange differences	–	16
At 30 th September	5,025	2,753



28. Deferred Taxation (Continued)

The movement in the deferred tax liabilities is as follows:

	2006 HK\$'000	2005 HK\$'000
At 1 st October	(2,517)	(569)
Credited/(charged) to income statement	2,367	(1,948)
At 30 th September	(150)	(2,517)

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	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
At 1 st October	926	618	5,162	3,648	(569)	(569)	(5,283)	-	236	3,697
Credited/(charged) to income statement	129	305	(731)	1,501	569	-	4,672	(5,283)	4,639	(3,477)
Exchange differences	-	3	-	13	-	-	-	-	-	16
At 30 th September	1,055	926	4,431	5,162	-	(569)	(611)	(5,283)	4,875	236

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:

	2006 HK\$'000	2005 HK\$'000
Deferred tax assets	5,025	2,753
Deferred tax liabilities	(150)	(2,517)
	4,875	236

28. Deferred Taxation (Continued)

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

	2006 HK\$'000	2005 HK\$'000
Tax losses	5,095	2,056

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

29. Note to the Consolidated Cash Flow Statement

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

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	13,599	17,936
Depreciation	20,628	16,665
Amortisation of intangible assets	850	1,325
Interest income	(1,123)	(316)
Interest expenses	610	597
Gain on disposal of trading investments	(57)	(580)
Gain on redemption of other investment	–	(34)
Loss on disposal of property, plant and equipment	4	–
Gain on disposal of investment properties	(1,975)	–
Gain arising from change in fair value of investment properties	–	(23,763)
Increase in inventories	(10,193)	(4,093)
Increase in accounts receivable	(7,981)	(6,579)
Increase in rental deposits and prepayment, prepayments, other deposits and receivables	(4,708)	(3,285)
(Decrease)/increase in accounts payable	(5,099)	4,747
Increase in accruals and other payables	16,448	18,435
Increase in receipts in advance	31,259	27,460
Decrease in pension obligations	(91)	–
Net cash inflow generated from operations	52,171	48,515



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

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

	Long-term bank loan		Share capital including share premium and capital reserve		Minority interests	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
At 1 st October	16,737	18,687	59,380	59,380	209	(193)
Repayment of long-term bank loan	(16,737)	(1,950)	-	-	-	-
Proceeds from exercise of share options	-	-	126	-	-	-
Minority interests' in share of net profit	-	-	-	-	732	521
Dividends paid to a minority shareholder of a subsidiary	-	-	-	-	(94)	(119)
At 30 th September	-	16,737	59,506	59,380	847	209

30. Commitments

Group

(a) Capital commitments for property, plant and equipment

	2006 HK\$'000	2005 HK\$'000
Contracted but not provided for	-	230

(b) Commitments under operating leases

At 30th September 2006 and 2005, the Group had total future aggregate minimum lease receipts and payments under non-cancellable operating leases in respect of investment properties and land and buildings as follows:

As lessors	2006 HK\$'000	2005 HK\$'000
Rental receipts		
Not later than one year	964	1,035
Later than one year and not later than five years	264	-
	1,228	1,035
As lessees		
Rental payments		
Not later than one year	40,628	40,120
Later than one year and not later than five years	22,707	31,621
	63,335	71,741

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

Company

The Company did not have any capital commitments or operating leases commitments at 30th September 2006 (2005: nil).

31. Banking Facilities

As at 30th September 2006, the Group was granted banking facilities amounting to approximately HK\$18,000,000 by a bank (2005: HK\$37,000,000) under guarantee provided by the Company. As at 30th September 2005, the outstanding long-term bank loan was secured by certain investment properties of the Group.



32. 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 Taiwan
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

32. Particulars of Subsidiaries (Continued)

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
INDIRECTLY HELD: (Continued)				
Water Oasis Company Limited	Hong Kong 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
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
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%	Advertising agency in Hong Kong



32. Particulars of Subsidiaries (Continued)

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
INDIRECTLY HELD: (Continued)				
Water Oasis (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
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
奧思美容品(上海) 有限公司	China 9 th February 2002	US\$200,000	90.1%	Retail sales of skin-care products in China
奧思美容品(深圳) 有限公司	China 10 th October 2002	HK\$3,000,000	90.1%	Inactive
奧泉(上海)商貿 有限公司	China 9 th March 2006	US\$200,000	100%	Retail sale of skin-care products in China

32. Particulars of Subsidiaries (Continued)

Name	Country/place and date of incorporation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities and place of operation
INDIRECTLY HELD: (Continued)				
Water Oasis (Singapore) Pte. Limited	Singapore 6 th November 2003	Ordinary shares S\$300,000	100%	Retail sales of skin-care products in Singapore
Top Distinct Limited	Hong Kong 26 th January 2006	Ordinary shares HK\$2,000,000	100%	Operation of beauty salons and provision of other related services in Hong Kong

33. Related Party Transactions

Key management personnel compensation

	2006 HK\$'000	2005 HK\$'000
Basic salaries, housing allowances, other allowances and benefits-in-kinds	9,589	8,868
Bonuses	–	2,000
Retirement benefit costs	60	60
	9,649	10,928

Five-Year Financial Summary

	Year ended 30 th September				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
RESULTS					
Turnover	484,018	413,888	357,553	310,236	308,449
Gain arising from change in fair value of investment properties	–	23,763	1,300	(350)	(949)
Profit/(loss) before taxation	13,599	17,936	3,577	(7,710)	10,992
Taxation	733	(4,653)	(1,678)	(41)	(4,434)
Profit/(loss) after taxation	14,332	13,283	1,899	(7,751)	6,558
Minority interests	(732)	(521)	(205)	654	418
Profit/(loss) attributable to shareholders	13,600	12,762	1,694	(7,097)	6,976
BALANCE SHEETS					
Total assets	329,527	309,397	259,980	199,684	217,835
Total liabilities	(177,275)	(151,786)	(103,289)	(55,671)	(56,953)
Minority interests	(847)	(209)	193	(362)	(1,166)
Net assets	151,405	157,402	156,884	143,651	159,716

Corporate Information 公司資料

DIRECTORS 董事

EXECUTIVE DIRECTORS 執行董事

YU Lai Si
余麗絲
TAM Chie Sang
譚次生
YU Lai Chu, Eileen
余麗珠
YU Kam Shui, Erastus
余金水
LAI Yin Ping
黎燕屏

INDEPENDENT NON-EXECUTIVE DIRECTORS 獨立非執行董事

WONG Lung Tak, Patrick, J.P.
黃龍德太平紳士
WONG Chun Nam
黃鎮南
WONG Chi Keung
黃志強

AUDIT COMMITTEE 審核委員會

WONG Lung Tak, Patrick, J.P.
黃龍德太平紳士
WONG Chun Nam
黃鎮南
WONG Chi Keung
黃志強

REMUNERATION COMMITTEE 薪酬委員會

WONG Chun Nam
黃鎮南
WONG Lung Tak, Patrick, J.P.
黃龍德太平紳士
WONG Chi Keung
黃志強
LAU Mei Yin, Ivy
劉美燕

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT 公司秘書及合資格會計師

CHENG Chi Wai, Ellis FCCA, FCPA, FCIS, FCS
鄭志偉 FCCA, FCPA, FCIS, FCS

AUDITORS 核數師

PricewaterhouseCoopers
羅兵咸永道會計師事務所

LEGAL ADVISOR 法律顧問

Richards Butler
齊伯禮律師行

PRINCIPAL BANKERS 主要往來銀行

The Hongkong and Shanghai Banking
Corporation Limited
香港上海滙豐銀行有限公司
Hang Seng Bank Limited
恆生銀行有限公司

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE 主要股份登記及過戶處

Butterfield Fund Services (Cayman) Limited
Butterfield House
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Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH TRANSFER OFFICE 股份過戶香港分處

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28 Queen's Road East
Wanchai
Hong Kong
標準證券登記有限公司
香港灣仔
皇后大道東28號
金鐘匯中心26樓

REGISTERED OFFICE 註冊辦事處

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