~H2O+

WATER**OASIS** GROUP LIMITED
奧 思 集 團 有 限 公 司

stock code : 1161

06
Interim Report
中 期 報 告

advancing in unison
圓滿協奏 實力更強

Corporate Information

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

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

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISOR

Richards Butler

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Bank (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH TRANSFER OFFICE

Standard Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

18th Floor, World Trade Centre
280 Gloucester Road
Causeway Bay
Hong Kong

STOCK CODE

1161

Contents

The Board of Directors (the "Board") of Water Oasis Group Limited (the "Company") herein announces the unaudited consolidated results of the Company and its subsidiaries (collectively known as the "Group") for the six months ended 31st March 2006.

The unaudited consolidated results have been reviewed by the Company's audit committee and the Company's auditors, PricewaterhouseCoopers, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" ("SAS 700") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The auditors, on the basis of their review, concluded that they are not aware of any material modifications that should be made to the interim report.

Results and Dividend

The Group recorded turnover of approximately HK$243.6 million for the period under review. Profit after taxation was approximately HK$6.6 million. An interim dividend of 2.0 HK cents per share and a special dividend of 1.0 HK cent per share have been declared and payable to the shareholders.

Business Review

During the period under review the Group has begun to reap the fruits of its heavy recent expansion and investment in China. For example, excluding gain arising from change in fair value of investment properties, the figures for both profit after taxation and EBITDA for the six-month period ended 31st March 2006 represented improved performances over those of recent years. These figures have been achieved on the back of significantly improved results in the market, with retail sales contributing double-digit growth and the Group's service businesses performing even better than its retail sales.

The Group expects this positive trend in sales and earnings to continue in the foreseeable future. One of the reasons for the growth is that the Group's China business investment is beginning to pay off, and China is now contributing an ever-larger share of profits. For the period under review, Hong Kong still contributed the largest proportion to the Group's turnover due to its combination of income from both retail and service businesses. This situation is expected to change by next year, however, when China should overtake Hong Kong as the Group's prime source of income.

~H_2O+ Retail Business

China

By the end of May 2006, the Group had 115 ~H_2O+ outlets in operation in China and expects to open between 20 and 30 more by the end of the year. Its China retail network is now extensive and its ~H_2O+ brand well-established, giving rise to higher volumes of sales and greater profits. This was reflected in solid growth in the Group's China retail business, which reported encouraging double digit growth for the period under review.

In March 2006, the Group set up a wholly foreign-owned trading company in China, thus enabling it to legally operate a China retail business without the necessity of forming a partnership with a local enterprise. This new retail capability gives it the option, if it wishes, to independently open standalone retail outlets in China to sell its products, and exercise sole control over their operations. The new retail capability will thus greatly boost the Group's flexibility when it comes to expanding in China. For example, it is planning shortly to launch its first self-owned Beauty Centre in the Mainland.

Hong Kong

The Group's Hong Kong retail business was not able to match the levels of growth of its China counterpart in the period under review, although it made the most of renewed confidence in the Hong Kong economy to achieve a satisfactory performance overall. By the end of May 2006, the Group had a total of 15 ~H_2O+ retail outlets in Hong Kong. Some rationalization of the Group's retail network continues to be carried out to maximize sales effectiveness.

Taiwan, Singapore

In Taiwan sales have shown a slight downturn, and hoped to maintain a steady position for the rest of the year. The number of ~H_2O+ counters operating in Taiwan department stores in the period was the same as last year at 15, and this number will remain stable, although one or two counters may be relocated to maximize sales. As for Singapore, it currently has two standalone ~H_2O+ stores, one department store counter, and one kiosk. The Group's experience in the Singapore market has shown that department store sales are the most successful retail option for its products there. With this in mind, the Group may adjust its mode of operations in Singapore at some future point.

New Neutrogena Business

One of the Group's recent highlights was its signing of an agreement with Johnson & Johnson whereby the Group has obtained the exclusive rights to distribute Johnson & Johnson's Neutrogena brand products in China department store outlets. The agreement, finalized in March 2006, gives the Group an exclusive three-year right to China department store distribution, with an option for a further three-year renewal. Besides operating Neutrogena counters in department stores, the Group will also have the right to offer value-added services such as direct-mail promotions, VIP programmes, and product trials. On their side, Johnson & Johnson will be responsible for all marketing and promotion in China, an arrangement of high media value from the Group's perspective. In addition, the arrangement also helps to take away a major distributing cost from the Group which will enhance the Group's profitability in this venture.

The Group has opened 10 Neutrogena counters to date, and expects to open a total of around 40 by the end of the year. The brand has very high profit potential once adequate sales volumes have been generated. This new venture indicates too the respect in which the Group is held by global businesses looking to expand in Asia. Johnson & Johnson selected the Group on the basis of its strong and experienced management team, and its proven ability of operating successfully in China within the highly competitive skin care industry. The expectation of Johnson & Johnson is that its Neutrogena brand will quickly become established as a top China skin care brand under the care of the Group.

Spa and Beauty Businesses

The Group's Spa and Beauty businesses did very well during the year. The Group benefited in particular from a major turnaround in its Oasis Spa business, which moved from a loss-making to a profit-making position as compared to the prior period. As Oasis Spa targets a specific high-income group, its performance can be a good indicator of wider economic trends in Hong Kong. Oasis Spa has a very strong VIP customer group which offers a good basis for future growth.

During the period under review, the Group's existing Causeway Bay Oasis Spa outlet was expanded to cope with increasing demand, with an extra 3,000 sq ft of space being added. In April 2006, the Group also opened a new Aqua Beauty outlet in Causeway Bay. Its Oasis Homme outlet performed quietly, but the Group sees this as an important component in its efforts to offer health and beauty service options to every segment of the population.

Oasis Beauty School

The Oasis Beauty School has continued to operate successfully. It has been awarded as a recognized examination centre of various international professional beauty organizations like ITEC, CIBTAC and City & Guilds. The Group regards the School primarily as a nurturing ground for new talents, and a pool for potential staff. At the end of 2005, students taking the School's courses achieved an average pass rate of over 95% in the international recognized examinations. With the government tightening up on the provision of beauty services, it is possible that international beauty qualifications such as those offered at the School may become mandatory for practitioners of beauty services. If this occurs, the Group will be in a strong position thanks to its established Beauty School operations.

Other

The Group sold its Causeway Bay investment properties in March 2006. It benefited from the recent recovery of the Hong Kong property market, recording an investment gain of approximately HK$30 million over the two years that it had held the property. The entire transaction will be completed before the end of the current fiscal year.

Prospects

Sure Slim

In May 2006, the Group launched a new initiative in the Hong Kong market with the opening of three new mass-market slimming outlets in Causeway Bay, Tsuen Wan and Tuen Mun. The new slimming chain, branded as "Sure Slim"is targeting the mass market by offering extremely competitive package prices for its slimming services. Costs of establishing the centres were kept tight, with around HK$2 million spent on each set-up. The centres are located in commercial buildings with comparatively lower rental costs, again helping to keep expenses low. Because of these cost-saving measures, the Group expects to achieve cash flow break-even on this enterprise within just six months of operations.

Neutrogena

The Group sees its new Neutrogena distribution arrangement as having extremely good prospects for the future once a strong sales network has been established in China. Because Neutrogena products are relatively low-priced, a high volume of sales is important. Currently the Group has 10 outlets in China department stores, but it expects to expand this number rapidly to around 40 by year end. This means that profits from the Neutrogena line will be low in the first year of operations, but are expected to rise quickly in the second and third years to the point where they will contribute a great deal to the Group's bottom line.

The fact that the Group now has two independent brands to distribute, ~H_2O+ and Neutrogena, means that its bargaining and negotiating power with China department stores has been considerably enhanced. It expects to achieve better sales terms, and be able to move more quickly in expanding its distribution base. It also has a wide network of outlets currently stocking ~H_2O+ products that constitute a ready-made network for introducing the Neutrogena brand.

China Beauty Centre

The Group is utilizing its new China retail capability in the first instance by building its first Beauty Centre in China. The Centre, which will open in Shanghai in the last quarter of 2006, is currently at the planning stage, and is expected to be from 2,000 to 3,000 sq ft in size. It is being based on the successful Hong Kong beauty business model, with adjustments for China conditions.

The new Beauty Centre is designed to test market response to the concept in urban China, with a view to the opening of further Beauty Centres if it is favourably received. The Group undertook extensive market research before deciding to launch the Shanghai Beauty Centre, and is very optimistic about its prospects. In particular, the Beauty Centre will benefit from the fact that the Group has a strong existing brand in the China market, along with a large pre-established retail outlet network that can be used to attract potential customers.

Other developments

Other developments planned include the launch of a secondary line of ~H_2O+ skincare products to further diversify its product range, and the continued expansion of the ~H_2O+ retail network in China, with from 20 to 30 new outlets planned for opening. The China environment is now becoming a major source of profitability for the Group, and much of its focus in the coming months will be on maximizing its exposure there, expanding its market presence and the number of its retail outlets. It is confident that its efforts to date have laid a solid foundation for excellent results over the next couple of years, through its diverse product lines and its new Beauty Centre business. In Hong Kong, the launch of Sure Slim has added another string to the Group's bow, and is a further move believed to have great future potential. These new initiatives are working in tandem with the Group's established retail and service operations in Hong Kong and elsewhere, creating a multi-layered business enterprise with many opportunities for investor gains.

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INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF WATER OASIS GROUP LIMITED (THE "COMPANY")

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report of the Company and its subsidiaries (collectively the "Group") set out on pages 9 to 29.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 31st March 2006.

We draw your attention to Note 1 to the interim financial report which indicates that the comparative information for the six months ended 31st March 2005 was neither reviewed in accordance with SAS 700 nor audited by us.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 20th June 2006

Condensed Consolidated Income Statement

	Notes	Unaudited Six months ended 31st March 2006 HK$'000	2005 HK$'000
Turnover	2	**243,583**	199,585
Cost of inventories sold		**(54,966)**	(49,611)
Gross profit		**188,617**	149,974
Other revenues	2	**1,647**	1,287
Operating expenses		**(181,549)**	(148,654)
Operating profit	2, 3	**8,715**	2,607
Gain arising from change in fair value of investment properties		**–**	15,563
Profit before taxation		**8,715**	18,170
Taxation	4	**(2,115)**	(5,050)
Profit after taxation		**6,600**	13,120
Attributable to:			
Shareholders of the Company		**6,179**	12,601
Minority interests		**421**	519
		6,600	13,120
Dividends	5	**10,263**	11,974
Earnings per share for profit attributable to the shareholders of the Company during the period			
– Basic	6	**1.8 HK cents**	3.7 HK cents
– Diluted	6	**N/A**	N/A

Condensed Consolidated Balance Sheet

	Notes	Unaudited As at 31st March 2006 HK$'000	Audited As at 30th September 2005 HK$'000
Non-current assets			
Intangible assets	7	666	1,264
Investment properties		89,000	89,000
Property, plant and equipment	7	27,932	29,863
Rental deposits and prepayments	8	12,945	13,063
Deferred tax assets	14	1,853	2,753
		132,396	135,943
Current assets			
Inventories		39,330	35,150
Trading investments		65	65
Accounts receivable	9	35,324	31,751
Prepayments		18,420	15,676
Other deposits and receivables		6,097	4,950
Tax recoverable		181	182
Bank balances and cash		84,756	85,680
		184,173	173,454
Current liabilities			
Accounts payable	10	6,656	11,330
Accruals and other payables		52,896	46,741
Receipts in advance		89,484	72,345
Long-term bank loan – current portion	11	1,950	1,950
Taxation payable		1,759	1,496
		152,745	133,862
Net current assets		31,428	39,592
Total assets less current liabilities		163,824	175,535
Financed by:			
Share capital	12	34,212	34,212
Reserves		118,544	123,190
Shareholders' funds		152,756	157,402
Minority interests		536	209
Total equity		153,292	157,611
Non-current liabilities			
Pension obligations		620	620
Long-term bank loan – non-current portion	11	7,948	14,787
Deferred tax liabilities	14	1,964	2,517
		163,824	175,535

Condensed Consolidated Statement of Changes in Equity

	Unaudited							
	Attributable to shareholders of the Company							
	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Minority interests HK$'000	Total HK$'000
At 1st October 2004 as previously reported	34,212	26,934	(908)	(1,766)	450	97,962	–	156,884
At 1st October 2004 as previously separately reported as minority interests	–	–	–	–	–	–	(193)	(193)
At 1st October 2004 as restated	34,212	26,934	(908)	(1,766)	450	97,962	(193)	156,691
Profit for the period	–	–	–	–	–	12,601	519	13,120
2004 final dividend	–	–	–	–	–	(1,711)	–	(1,711)
Dividend paid to a minority shareholder	–	–	–	–	–	–	(119)	(119)
Exchange differences	–	–	798	–	–	–	–	798
At 31st March 2005	34,212	26,934	(110)	(1,766)	450	108,852	207	168,779

	Unaudited							
	Attributable to shareholders of the Company							
	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Minority interests HK$'000	Total HK$'000
At 1st October 2005 as previously reported	34,212	26,934	533	(1,766)	450	97,039	–	157,402
At 1st October 2005 as previously separately reported as minority interests	–	–	–	–	–	–	209	209
At 1st October 2005 as restated	34,212	26,934	533	(1,766)	450	97,039	209	157,611
Profit for the period	–	–	–	–	–	6,179	421	6,600
2005 final dividend	–	–	–	–	–	(10,263)	–	(10,263)
Dividend paid to a minority shareholder	–	–	–	–	–	–	(94)	(94)
Exchange differences	–	–	(562)	–	–	–	–	(562)
At 31st March 2006	34,212	26,934	(29)	(1,766)	450	92,955	536	153,292

Condensed Consolidated Cash Flow Statement

	Unaudited Six months ended 31st March	
	2006 HK$'000	2005 HK$'000
Net cash inflow from operating activities	**24,039**	22,438
Net cash outflow from investing activities	**(7,231)**	(13,086)
Net cash outflow from financing activities	**(17,196)**	(2,804)
(Decrease)/increase in cash and cash equivalents	**(388)**	6,548
Cash and cash equivalents at 1st October	**85,680**	79,018
Effect of foreign exchange rate changes	**(536)**	681
Cash and cash equivalents at 31st March	**84,756**	86,247
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**84,756**	86,247

Notes to Condensed Consolidated Financial Statements

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements ("Interim Financial Statements") have been prepared in accordance with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA.

The Group had not appointed the auditors to carry out any review of the comparative interim financial statements for the six months ended 31st March 2005 in accordance with SAS 700 in respect of the comparative figures.

The Interim Financial Statements should be read in conjunction with the annual financial statements of the Group for the year ended 30th September 2005.

The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those used in the annual financial statements for the year ended 30th September 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and HKASs which are effective for accounting periods commencing on or after 1st January 2005.

The Interim Financial Statements have been prepared in accordance with those HKFRSs and HKASs and interpretations issued and effective as at the time of preparing this information.

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

Effect of adopting new HKFRSs and HKASs

For the six months ended 31st March 2006, the Group adopted the new/revised HKFRSs and HKASs 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;

– 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.

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 recognize, derecognize 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 – restrospective application only applies to all equity instruments granted after 7th November 2002 and not vested at 1st October 2005.

New Accounting Policies

The accounting policies used for the Interim Financial Statements for the six months ended 31st March 2006 are the same as those set out in note 2 to the financial statements for the year ended 30th September 2005 as contained in the Company's 2005 Annual Report except for the following:

(I) FOREIGN CURRENCY TRANSLATION

(a) 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.

(b) 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 recognized in the income statement.

(c) 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:

(i) assets and liabilities at each balance sheet are translated at the closing rate at the date of that balance sheet;

(ii) 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

(iii) all resulting exchange differences are recognized 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 recognized in the income statement as part of the gain or loss on sale.

(II) PROPERTY, PLANT AND EQUIPMENT

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

(III) IMPAIRMENT OF ASSETS

Assets that have an indefinite useful life are not subject to amortization, 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 amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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.

(IV) INVESTMENTS

The Group classifies its investments 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 realized within 12 months of the balance sheet date.

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

(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 9).

(V) TRADE AND OTHER RECEIVABLES

Trade and other receivables are recongnized initially at fair value and subsequently measured at amortized 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 recognized in the income statement.

(VI) BORROWINGS

Borrowings are recognized 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 amortized costs; any difference between the proceeds (net of transaction costs) and the redemption value is recognized 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.

(VII) SHARE-BASED COMPENSATION

The Group operates an equity-settled, share-based compensation plan. The fair value of the options granted is recongnized 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 recognizes 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.

(VIII) INTEREST INCOME

Interest income is recognized 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 recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

2. TURNOVER 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. An analysis of the Group's turnover and contribution to operating profit for the period by business segments is as follows:

(a) 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	**167,930**	144,936	**75,653**	54,649	**–**	–	**243,583**	199,585
Inter-segment sales	**10,445**	6,794	**–**	–	**(10,445)**	(6,794)	**–**	–
Total	**178,375**	151,730	**75,653**	54,649	**(10,445)**	(6,794)	**243,583**	199,585
Segment results	**16,116**	14,297	**11,461**	5,313	**–**	–	**27,577**	19,610
Other revenues							**1,647**	1,287
Unallocated corporate expenses							**(20,509)**	(18,290)
Operating profit							**8,715**	2,607

(b) Secondary reporting format – geographical segments

The geographical analysis of the Group's turnover for the period is as follows:

	Turnover Six months ended 31st March	
	2006 HK$'000	2005 HK$'000
Hong Kong and Macau	**133,285**	104,228
China	**71,466**	52,139
Taiwan	**34,232**	39,753
Singapore	**4,600**	3,465
	243,583	199,585

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 31st March	
	2006 HK$'000	2005 HK$'000
Crediting		
Gain on disposals of property, plant and equipment	**–**	16
Gain on disposals of trading investments	**–**	580
Gain on redemption of other investment	**–**	34
Gross rental income from investment properties	**1,035**	860
Charging		
Amortization of intangible assets	**700**	637
Depreciation	**9,342**	7,958
Loss on disposals of property, plant and equipment	**71**	–
Staff costs	**74,899**	61,967
Interest expenses on bank loan	**421**	203

4. TAXATION

	Six months ended 31st March	
	2006 HK$'000	2005 HK$'000
Hong Kong profits tax	**1,106**	129
Overseas taxation	**1,162**	1,560
Overprovision in prior years	**(500)**	–
Deferred taxation (Note 14)	**347**	3,361
	2,115	5,050

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the period, after setting off available tax losses brought forward from prior year. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the territories in which the Group operates.

5. DIVIDENDS

At the Board meeting held on 20th June 2006, the directors declared an interim dividend of 2.0 HK cents per share (2005: 1.0 HK cent per share) and a special dividend of 1.0 HK cent per share (2005: 2.5 HK cents per share) collectively the "Interim Dividend"). This proposed Interim Dividend is not reflected as a dividend payable in the Interim Financial Statements, but will be reflected as an appropriation of retained profits for the year ending 30th September 2006.

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately HK$6,179,000 (2005: HK$12,601,000) and the weighted average number of 342,116,000 (2005: 342,116,000) ordinary shares in issue during the six months ended 31st March 2006.

No diluted earnings per share is calculated for the period ended 31st March 2006 (2005: Nil) since the exercise prices of the Company's outstanding options were higher than the average fair value per share of the Company during the period and the potential ordinary shares would have no dilutive effect.

7. CAPITAL EXPENDITURE

During the period ended 31st March 2006, the Group incurred capital expenditure of approximately HK$7,578,000 for property, plant and equipment and certain intangible assets (30th September 2005: HK$33,734,000). No significant disposal of property, plant and equipment was made during the period.

8. RENTAL DEPOSITS AND PREPAYMENTS

Rental deposits are carried at amortized cost using the effective interest rate of 2% per annum. As at 31st March 2006, the carrying amounts of rental deposits approximate their fair values.

9. ACCOUNTS RECEIVABLE

Details of the ageing analysis are as follows:

	As at 31st March 2006 HK$'000	As at 30th September 2005 HK$'000
0 to 30 days	**31,849**	27,349
31 days to 60 days	**2,029**	2,564
61 days to 90 days	**618**	527
Over 90 days	**828**	1,311
	35,324	31,751

Credit terms generally range from 30 days to 90 days.

The fair value of accounts receivable approximate its carrying amount.

10. ACCOUNTS PAYABLE

Details of the ageing analysis are as follows:

	As at 31st March 2006 HK$'000	As at 30th September 2005 HK$'000
0 to 30 days	**6,656**	11,330

The fair value of accounts payable approximate its carrying amount.

11. LONG-TERM BANK LOAN

	As at 31st March 2006 HK$'000	As at 30th September 2005 HK$'000
Total of long-term bank loan – secured	**9,898**	16,737
Current portion of long-term bank loan	**(1,950)**	(1,950)
	7,948	14,787

At 31st March 2006, the Group's long-term bank loan was repayable as follows:

	As at 31st March 2006 HK$'000	As at 30th September 2005 HK$'000
Within one year	**1,950**	1,950
In the second year	**1,950**	1,950
In the third to fifth year	**5,850**	5,850
After the fifth year	**148**	6,987
	9,898	16,737
Current portion of long-term bank loan	**(1,950)**	(1,950)
	7,948	14,787

The long-term bank loan was secured by certain investment properties of the Group.

The average effective interest rates at the balance sheet date was 5.5% (2005: 3.4%).

The carrying amounts of long-term bank loan approximately their fair values.

12. SHARE CAPITAL

	Authorised ordinary shares of HK$0.1 each	
	No. of shares	HK$'000
At 31st March 2006	1,000,000,000	100,000

	Issued and fully paid ordinary shares of HK$0.1 each	
	No. of shares	HK$'000
At 1st October 2005 and 31st March 2006	342,116,000	34,212

13. SHARE OPTIONS

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 of Hong Kong Limited (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.

The movements in the number of share options granted, exercised and lapsed pursuant to the Share Option Scheme during the period were as follows:–

Category	Date of grant	Exercise period	Exercise price per share HK$	As at 1st October 2005	Granted	Exercised	Cancelled/ Lapsed	As at 31st March 2006
Directors	30th August 2002	28th February 2003 – 29th August 2007	0.52	5,100,000	–	–	–	5,100,000
	28th January 2004	3rd May 2004 – 31st January 2009	0.42	10,200,000	–	–	–	10,200,000
				15,300,000	–	–	–	15,300,000
Supplier	11th March 2002	11th March 2002 – 10th March 2012	1.18	3,264,000	–	–	–	3,264,000
	12th March 2003	12th March 2003 – 11th March 2013	0.54	976,000	–	–	–	976,000
				4,240,000	–	–	–	4,240,000
Employees (in aggregate)	26th April 2002	26th October 2002 – 25th April 2007	1.67	750,000	–	–	–	750,000
	26th April 2002	26th April 2003 – 25th April 2007	1.67	750,000	–	–	–	750,000
	30th August 2002	28th February 2003 – 29th August 2007	0.52	1,484,000	–	–	–	1,484,000
	30th August 2002	31st August 2003 – 29th August 2007	0.52	2,560,000	–	–	–	2,560,000
	30th August 2002	29th February 2004 – 29th August 2007	0.52	1,560,000	–	–	–	1,560,000
	28th January 2004	3rd May 2004 – 31st January 2009	0.42	1,160,000	–	–	–	1,160,000
	28th January 2004	1st November 2004 – 31st January 2009	0.42	1,160,000	–	–	–	1,160,000
	28th January 2004	2nd May 2005 – 31st January 2009	0.42	860,000	–	–	–	860,000
				10,284,000	–	–	–	10,284,000

As at 31st March 2006, the weighted average exercise price of share options outstanding is HK$0.61 per share (30th September 2005: HK$0.61 per share).

14. DEFERRED TAXATION

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

The movement in deferred tax assets was as follows:

	As at 31st March 2006 HK$'000	As at 30th September 2005 HK$'000
Beginning of period/year	2,753	4,266
Charged to income statement	(900)	(1,529)
Exchange differences	–	16
End of period/year	1,853	2,753

The movement in deferred tax liabilities was as follows:

	As at 31st March 2006 HK$'000	As at 30th September 2005 HK$'000
Beginning of period/year	(2,517)	(569)
Credited/(charged) to income statement	553	(1,948)
End of period/year	(1,964)	(2,517)

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:

	As at 31st March 2006 HK$'000	As at 30th September 2005 HK$'000
Deferred tax assets	1,853	2,753
Deferred tax liabilities	(1,964)	(2,517)
	(111)	236

15. COMMITMENTS

(a) Capital commitments for property, plant and equipment

	As at 31st March 2006 HK$'000	As at 30th September 2005 HK$'000
Contracted but not provided for	1,236	230

(b) Commitments under operating leases

The Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at 31st March 2006 HK$'000	As at 30th September 2005 HK$'000
Not later than one year	38,500	40,120
Later than one year and not later than five years	24,465	31,621
	62,965	71,741

16. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31st March 2006 (30th September 2005: Nil).

17. RELATED PARTY TRANSACTIONS

Key management personnel compensation:

	Six months ended 31st March	
	2006 HK$'000	2005 HK$'000
Basic salaries, housing allowances, other allowances and benefits-in-kinds	5,109	4,614
Bonuses	–	2,000
Retirement benefit costs	30	30
	5,139	6,644

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The directors have declared an Interim Dividend of 3.0 HK cents per share for the six months ended 31st March 2006 payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on 12th July 2006. The Register of Members will be closed from 10th July 2006 to 12th July 2006, both days inclusive, during which period no transfer of shares will be registered. To qualify for the Interim Dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Standard Registrars Limited whose share registration public offices are located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 7th July 2006. The relevant dividend warrants will be dispatched to shareholders on 21st July 2006.

LIQUIDITY AND FINANCIAL RESOURCES

At 31st March 2006, the Group had net current assets of approximately HK$31 million (30th September 2005: HK$40 million).

The Group generally finances its operation with internally generated resources. As at 31st March 2006, the Group had cash reserves of approximately HK$85 million (30th September 2005: HK$86 million).

As at 31st March 2006, the Group has a bank loan of approximately HK$10 million (30th September 2005: HK$17 million). This bank loan was used to finance the purchase of certain investment properties which in turn are pledged as security for such loan.

The Group's gearing ratio, expressed as a percentage of the bank loan over the shareholders' fund of approximately HK$153 million (30th September 2005: HK$157 million), is approximately 6% (30th September 2005: 11%).

The Group has little exposure to foreign currency fluctuations as most of its assets, receipts and payments are principally denominated in the functional currency of the relevant territory and US dollars. As at 31st March 2006, all of the Group's bank borrowings were in Hong Kong dollars. The Group's bank borrowings were on floating rate basis at short-term inter-bank offer rates. The Group will continue to monitor its foreign exchange position and if necessary will hedge its foreign exchange exposure by entering forward foreign exchange contracts.

HUMAN RESOURCES

As at 31st March 2006, the Group employed 1,091 staff (30th September 2005: 1,030). The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses and share options will also grant to eligible staff based on individual and Group performance. Other employee benefits include provident fund, insurance and medical cover, educational allowances and training programs. Options to subscribe for a maximum of approximately 26 million shares in the Company in aggregate had been granted to certain directors and employees pursuant to the Company's share option scheme. Exercise prices of which ranges from HK$0.42 to HK$1.67.

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

AUDIT COMMITTEE

The Company's audit committee comprises Dr. Wong Lung Tak, Patrick, 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 HKICPA in December 1997.

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and the unaudited consolidated results of the Group for the six months period ended 31st March 2006 with management. Prior to the review work carried out by the independent auditors, the audit committee had discussed with the independent auditors the scope of their review and subsequently the results of their review including matters on statutory compliance, internal control and financial reporting in respect of the Interim Financial Statements.

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

As at 31st March 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 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

			Number and class of shares					
Name of director	The Company/ name of associated corporation	Capacity	Personal interests	Corporate interests	Family interests	Other interests	Total	Percentage of issued share capital
Yu Lai Si	The Company	Beneficial owner	80,666,880 ordinary	–	–	–	80,666,880 ordinary	23.6%
	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	–	–	900,000 ordinary[2]	77,666,880 ordinary[1]	78,566,880 ordinary	23.0%
	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	900,000 ordinary	–	–	77,666,880 ordinary[1]	78,566,880 ordinary	23.0%
	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. All voting rights over Zinna Group Limited are held by Royalion Worldwide Limited, which is wholly owned by Hitchin Trading Limited as trustee of Hitchin Unit Trust which in turn is ultimately held by Trident Trust Company (Cayman) Limited, which forms part of the discretionary trust set up by Tam Chie Sang and Yu Lai Chu, Eileen. Trident Trust Company (Cayman) Limited is the trustee of the discretionary trust, the beneficiaries of which are the family members of Tam Chie Sang and Yu Lai Chu, Eileen.

(2) These shares are registered in the name of Yu Lai Chu, Eileen, the wife of Tam Chie Sang.

(3) These shares are registered in the name of Tam Chie Sang, the husband of Yu Lai Chu, Eileen.

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 31st March 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

Movements in the Company's share options during the period were as follows:

Category and name of participant	Date of grant	Exercise period	Exercise price per share HK$	Balance as at 1st October 2005	Granted	Exercised	Cancelled/ Lapsed	Balance as at 31st March 2006
Directors								
Yu Lai Si	28th January 2004	3rd May 2004 – 31st January 2009	0.42	3,000,000	–	–	–	3,000,000
Tam Chie Sang	30th August 2002	28th February 2003 – 29th August 2007	0.52	1,500,000	–	–	–	1,500,000
	28th January 2004	3rd May 2004 – 31st January 2009	0.42	1,500,000	–	–	–	1,500,000
Yu Lai Chu, Eileen	30th August 2002	28th February 2003 – 29th August 2007	0.52	600,000	–	–	–	600,000
	28th January 2004	3rd May 2004 – 31st January 2009	0.42	1,500,000	–	–	–	1,500,000
Yu Kam Shui, Erastus	30th August 2002	28th February 2003 – 29th August 2007	0.52	1,500,000	–	–	–	1,500,000
	28th January 2004	3rd May 2004 – 31st January 2009	0.42	1,500,000	–	–	–	1,500,000
Lai Yin Ping	30th August 2002	28th February 2003 – 29th August 2007	0.52	1,500,000	–	–	–	1,500,000
	28th January 2004	3rd May 2004 – 31st January 2009	0.42	1,500,000	–	–	–	1,500,000
Wong Lung Tak, Patrick, J.P.	28th January 2004	3rd May 2004 – 31st January 2009	0.42	600,000	–	–	–	600,000
Wong Chun Nam	28th January 2004	3rd May 2004 – 31st 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 1st October 2005	Granted	Exercised	Cancelled/ Lapsed	Balance as at 31st March 2006
Supplier								
H_2O Plus, L.P.	11th March 2002	11th March 2002 – 10th March 2012	1.18	3,264,000	–	–	–	3,264,000
	12th March 2003	12th March 2003 – 11th March 2013	0.54	976,000	–	–	–	976,000
				4,240,000	–	–	–	4,240,000
Employees (In aggregate)								
	26th April 2002	26th October 2002 – 25th April 2007	1.67	750,000	–	–	–	750,000
	26th April 2002	26th April 2003 – 25th April 2007	1.67	750,000	–	–	–	750,000
	30th August 2002	28th February 2003 – 29th August 2007	0.52	1,484,000	–	–	–	1,484,000
	30th August 2002	31st August 2003 – 29th August 2007	0.52	2,560,000	–	–	–	2,560,000
	30th August 2002	29th February 2004 – 29th August 2007	0.52	1,560,000	–	–	–	1,560,000
	28th January 2004	3rd May 2004 – 31st January 2009	0.42	1,160,000	–	–	–	1,160,000
	28th January 2004	1st November 2004 – 31st January 2009	0.42	1,160,000	–	–	–	1,160,000
	28th January 2004	2nd May 2005 – 31st January 2009	0.42	860,000	–	–	–	860,000
				10,284,000	–	–	–	10,284,000

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.

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

SUBSTANTIAL SHAREHOLDERS

As at 31st March 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	11.4%
Billion Well Holdings Limited [3]	Interest of a controlled corporation	38,833,440	11.4%

Notes:

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

(2) Advance Favour Holdings Limited is a British Virgin Islands company 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period under review, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

CORPORATE GOVERNANCE

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

Code Provision A.2.1

The Board of the Company 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 his own 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 maximizes 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.

Code Provision B.1

Under the Code Provision B.1, a remuneration committee with specific written terms of reference which deal clearly with its authority and duties should be established. The Company did not have a remuneration committee during the period. However, the Company has an established policy for fixing remuneration packages for all directors and the senior management depending on the individuals' performance and responsibility, market trend and Company performance. To comply with the Code Provision, the Board is in the process of establishing a remuneration committee with specific terms of reference no less exacting terms than the Code Provision and expects to be formed by the end of year 2006.

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 review period.

By order of the Board
Yu Lai Si
Executive Director
and Chief Executive Officer

Hong Kong, 20th June 2006

Hong Kong 香港 • Macau 澳門 • China 中國 • Taiwan 台灣 • Singapore 新加坡

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