

11 interim report

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Water **Oasis** Group Limited

奧思集團有限公司

Stock Code 股份代號 : 1161



匯聚實力
展現豐碩成果

Energies
Channelled into
Abundance



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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, 2011.

The unaudited consolidated results have been reviewed by the Company’s Audit Committee and the Company’s auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The auditor, on the basis of their review, concluded that nothing has come to their attention that causes them to believe that the condensed consolidated interim financial information (“Interim Financial Information”) is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

Results and Dividend

For the six months ended 31st March, 2011, the Group’s turnover increased by 16.0% to approximately HK\$515.5 million by comparison with the same period last year. The primary cause of this increase was a steady improvement in the performance of the Group’s major brands. For the period under review, the overall contribution from the Group’s retail and service operations, in terms of total turnover and segment results, performed at a better level as in the same period last year. As last year, for the period under review the Group had to absorb some non-cash accounting costs of around HK\$10.4 million, which included the costs relating to its share options and convertible bond, as well as costs arising from the closure of its Yves Rocher operations. Even all the above-mentioned costs are included within the Group’s results for the period, it still managed to have the profit before taxation higher than that of the same period last year. However, higher taxation meant that the Group’s profit after taxation was lower when compared to that of the same period last year.

The Board has resolved to declare an interim dividend of 3.0 HK cents per share.

Management Discussion and Analysis

Rationalising the brand portfolio

Overall, the six months from 1st October, 2010 to 31st March, 2011 have been characterised by steady improvement in turnover and a generally good performance from the Group’s spectrum of brands and services. In this period the Group achieved an increase in turnover of 16.0% over the same period last year, along with a small rise in its gross profit margin, to 77.2% for the period under review from 75.7% in the previous period. These figures speak of ongoing expansion on the part of the Group, and of the high value in its range of products and services.

This success springs partly from the Group's new role as brand owner and distributor, rather than simply brand distributor, which has changed the ways in which it operates and generates profit. Now, besides its classic ~H₂O+ brand which underpinned results in its early years, the Group is able to draw on sales from a mix of self-owned and distributed brands, including Glycel and Erno Laszlo in Hong Kong respectively, as well as its self-owned JM Makeup brand in Mainland China. At the same time, it continues to operate a strong and stable series of beauty and spa services operations, backed by more recent and highly successful initiatives such as the Oasis Medical Centres. This level of diversification has given the Group a wider customer portfolio and a more extensive geographical range, and protects it against market fluctuations in any one segment or brand.

This diversification has enabled the Group to deal swiftly with one under-performing brand. As it became clear that Yves Rocher was not delivering on its brand-building efforts, the Group made the decision to terminate all its Yves Rocher operations at the end of March 2011. Management believes that this move to be a prudent and timely response. By divesting itself of the Yves Rocher brand, the Group has freed up valuable resources and cleared the decks for a much stronger second-half performance.

Brand ownership and distribution

The Group has seen ongoing growth in turnover from sales of ~H₂O+ products in the period under review. It has also managed to reduce its advertising costs for ~H₂O+ marketing, leading to improved results for this segment of its operations. Sales have been very stable, and the scale of our Group's ~H₂O+ operations has meant that this brand will remain the primary business driver for the coming year. To capture stronger Hong Kong demand, the Group had opened a new ~H₂O+ retail outlet in Times Square in April 2011.

The Group's Glycel brand has been performing exceptionally well in the period under review, achieving profitability despite the relatively short period it has been under the Group's ownership. In December 2010, the Group opened a new Glycel outlet in Times Square, Causeway Bay's premium shopping centre, and it is currently looking for other suitable locations in Hong Kong for expanding retail coverage for the brand. The Group is also currently in the final stage of the accreditation process in preparation for selling Glycel products in the Mainland, after which a China launch is expected to take place in the first quarter of next year.

Gradually building momentum is the Erno Laszlo brand, following its revival and repositioning by the Group for today's consumers. Last year the Group's efforts were still at the foundation stage, and the brand generated a loss as expected. In the first six months of 2010/11, however, Erno Laszlo has arranged to achieve more than a break-even position, at a small profit, and the Group is expecting it to move forward from here to post higher positive returns in the second half of the year. Plans to launch Erno Laszlo operations in Mainland China are also afoot; currently the Group is looking at a provisional timing of the first quarter of next year.

The Group's own JM Makeup brand, targeted at mass-market teenagers and being marketed as an affordable but super trendy brand, is already building up its momentum on the Mainland. With the belief that this brand holds plenty of potential for Hong Kong consumers also, the Group plans to launch it in LCX, Harbour City in Tsim Sha Tsui, a prime location for the brand's target market, in the middle of June 2011. Given the influence of Hong Kong trends on China, management is optimistic that a good Hong Kong response to this brand will help drive further sales and expansion in China, where currently JM Makeup is sold through a total of 16 outlets as at 31st of March 2011.

As at the end of March 2011, the Group's retail outlets for all its brands excluding Yves Rocher numbered 321, an increase of 45 outlets compared with the number at the same point last year. Its ~H₂O+ outlets in China numbered 265 as at the end of March 2011.

Spa & Beauty services

As at the end of March 2011, the Group's beauty service businesses (which includes its Oasis Beauty in Hong Kong and Beijing, Aqua Beauty, Oasis Homme, Oasis Spa, Oasis Medical Centre and Glycel) operated a total of 28 centres in Hong Kong and China. Its beauty services had exceptionally good performance during the period under review, and maintained a loyal customer base. The standout performer on the services side of the business has been the Oasis Medical Centres, for which demand has been very strong. These centres have clearly found an underexploited niche in Hong Kong for high-end, specialised beauty treatment, as can be seen from the success of the latest such centre to open in Harbour City last year. Such is the popularity of the Group's three Oasis Medical Centres that it is now looking at the possibility of opening a fourth centre later in the year.

Costs and expenses

Rising property prices have not significantly impacted on the Group in the past six months, and the rental costs to revenue ratio remains within the normal range. Other cost increases have arisen partly due to its increase in turnover in the period, and the fact that as the Group expands, the turnover of its operations is expanding too. Mainland China costs in particular have risen, especially salary costs, however, these rises are in line with the market and are affecting all retailers alike.

Outlook

With resources previously absorbed by Yves Rocher now freed up, the Group's second half prospects appear very bright, and general performance in the next six months is expected to pick up further. In the period under review, the Group did better in terms of turnover and profitability than in the same period last year, and this speaks well of its underlying strength and its potential for further growth. Besides looking for new marketing and distribution arrangements that can expand the impact of its existing brands further, the Group will, as always, remain alert for new mergers and acquisitions opportunities as they arise.



Report on Review of Interim Financial Information

To the Board of Directors of Water Oasis Group Limited

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the Interim Financial Information set out on pages 6 to 22, which comprises the condensed consolidated statement of financial position of Water Oasis Group Limited and its subsidiaries as of 31st March, 2011 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on Interim Financial Information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this Interim Financial Information in accordance with HKAS 34. Our responsibility is to express a conclusion on this Interim Financial Information based on our review, 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.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of Interim Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 26th May, 2011

Condensed Consolidated Income Statement

Unaudited
Six months ended
31st March,

	Notes	2011 HK\$'000	2010 HK\$'000
Turnover	4	515,502	444,275
Purchases and changes in inventories of finished goods		(117,718)	(108,151)
Other income		4,042	1,700
Other gains or losses		12,196	15,173
Staff costs		(151,253)	(123,623)
Depreciation of property, plant and equipment		(13,989)	(13,941)
Finance costs		(2,966)	(444)
Other expenses		(208,337)	(182,614)
Profit before taxation		37,477	32,375
Taxation	5	(20,613)	(8,032)
Profit for the period	6	16,864	24,343
Profit for the period attributable to:			
Owners of the Company		21,126	24,199
Non-controlling interests		(4,262)	144
		16,864	24,343
Earnings per share			
Basic	7	2.8 HK cents	3.3 HK cents
Diluted	7	2.7 HK cents	3.2 HK cents

Condensed Consolidated Statement of Comprehensive Income

	Unaudited Six months ended 31st March,	
	2011 HK\$'000	2010 HK\$'000
Profit for the period	16,864	24,343
Other comprehensive income (expense):		
Exchange differences arising on translation and other comprehensive income (expense) for the period	1,480	(24)
Total comprehensive income for the period	18,344	24,319
Total comprehensive income attributable to:		
Owners of the Company	22,606	24,175
Non-controlling interests	(4,262)	144
	18,344	24,319

Condensed Consolidated Statement of Financial Position

	Notes	Unaudited As at 31st March, 2011 HK\$'000	Audited As at 30th September, 2010 HK\$'000
Non-current assets			
Intangible assets		59,341	59,553
Goodwill		3,978	3,978
Investment properties	9	176,520	163,220
Property, plant and equipment	9	42,068	44,033
Rental deposits		27,474	28,048
Deferred tax assets		4,103	11,126
		313,484	309,958
Current assets			
Inventories		60,739	71,472
Trade receivables	10	89,334	77,880
Prepayments		39,431	33,735
Other deposits and receivables		22,911	19,518
Tax recoverable		105	105
Bank balances and cash		260,995	217,536
		473,515	420,246
Current liabilities			
Trade payables	11	11,396	11,231
Accruals and other payables		136,733	121,106
Amount due to a non-controlling shareholder of subsidiaries		6,989	6,989
Receipts in advance		262,141	224,648
Secured mortgage loan	12	38,249	39,588
Tax payable		15,797	12,274
		471,305	415,836
Net current assets		2,210	4,410
Total assets less current liabilities		315,694	314,368
Capital and reserves			
Share capital	13	76,395	76,395
Reserves		161,731	160,881
Equity attributable to owners of the Company		238,126	237,276
Non-controlling interests		7,843	12,105
Total equity		245,969	249,381
Non-current liabilities			
Pension obligations		274	274
Convertible bond		40,975	39,409
Deferred tax liabilities		28,476	25,304
		69,725	64,987
		315,694	314,368

Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Company										Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Statutory fund reserve HK\$'000	Share options reserve HK\$'000	Convertible bond equity reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		
At 1st October, 2009 (audited)	36,956	39,318	12,986	(1,766)	450	1,797	-	-	93,919	183,660	12,930	196,590
Profit for the period	-	-	-	-	-	-	-	-	24,199	24,199	144	24,343
Other comprehensive expense for the period	-	-	(24)	-	-	-	-	-	-	(24)	-	(24)
Total comprehensive income for the period	-	-	(24)	-	-	-	-	-	24,199	24,175	144	24,319
Capital contribution from a non-controlling shareholder of subsidiaries	-	-	-	-	-	-	-	-	-	-	1,853	1,853
Bonus issue of shares	36,956	(36,956)	-	-	-	-	-	-	-	-	-	-
2009 final dividend paid	-	-	-	-	-	-	-	-	(36,956)	(36,956)	-	(36,956)
Recognition of equity-settled share-based payment expenses	-	-	-	-	-	-	5,096	-	-	5,096	-	5,096
Dividend payable to a non-controlling shareholder	-	-	-	-	-	-	-	-	-	-	(891)	(891)
At 31st March, 2010 (unaudited)	73,912	2,362	12,962	(1,766)	450	1,797	5,096	-	81,162	175,975	14,036	190,011

	Attributable to owners of the Company										Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Statutory fund reserve HK\$'000	Share options reserve HK\$'000	Convertible bond equity reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		
At 1st October, 2010 (audited)	76,395	38,879	13,069	(1,766)	450	1,797	13,880	1,347	93,225	237,276	12,105	249,381
Profit for the period	-	-	-	-	-	-	-	-	21,126	21,126	(4,262)	16,864
Other comprehensive income for the period	-	-	1,480	-	-	-	-	-	-	1,480	-	1,480
Total comprehensive income for the period	-	-	1,480	-	-	-	-	-	21,126	22,606	(4,262)	18,344
2010 final dividend paid	-	-	-	-	-	-	-	-	(30,558)	(30,558)	-	(30,558)
Recognition of equity-settled share-based payment expenses	-	-	-	-	-	-	8,802	-	-	8,802	-	8,802
At 31st March, 2011 (unaudited)	76,395	38,879	14,549	(1,766)	450	1,797	22,682	1,347	83,793	238,126	7,843	245,969

Condensed Consolidated Statement of Cash Flows

Unaudited
Six months ended
31st March,

	2011 HK\$'000	2010 HK\$'000
Net cash from operating activities	88,544	48,915
Net cash used in investing activities:		
Purchase of property, plant and equipment	(11,873)	(11,875)
Other investing cash flows	(1,519)	354
	(13,392)	(11,521)
Net cash used in financing activities:		
Dividends paid	(30,558)	(36,956)
Other financing cash flows	(2,739)	7,530
	(33,297)	(29,426)
Net increase in cash and cash equivalents	41,855	7,968
Cash and cash equivalents at beginning of the period	217,536	145,794
Effect of foreign exchange rate changes	1,604	(24)
Cash and cash equivalents at end of the period, represented by bank balances and cash	260,995	153,738

Notes to the Condensed Consolidated Financial Statements

1. General Information

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 addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section to the Interim Report. The shares of the Company 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 Mainland China and the operation of beauty salons, spa and medical beauty centres in Hong Kong and Mainland China.

The condensed consolidated financial statements are presented in Hong Kong Dollars (“HK\$”) which is the functional currency of the Company. The condensed consolidated financial statements were approved for issue by the Board of Directors on 26th May, 2011.

2. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable 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 HKAS 34 issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 30th September, 2010.

3. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties which are measured at fair values.

The accounting policies used in the preparation of the condensed consolidated financial statements are consistent with those used in the preparation of the annual financial statements of the Group for the year ended 30th September, 2010.

In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's accounting period beginning on 1st October, 2010.

HKFRSs (Amendments)	Improvements to HKFRSs 2009 (except for amendment to paragraph 80 of HKAS 39)
HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 32 (Amendment)	Classification of Rights Issues
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of new and revised HKFRSs has had no material effect on how the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of such new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. Turnover and Segment Information

The Group's operating segments, based on information reported to the chief operating decision maker, the Group's Executive Directors, for the purpose of allocating resources to segments and assessing their performance are as follows:

- (i) Retail segment – the retail sales of skin-care products
- (ii) Services segment – provision of services in beauty salons, spa, medical beauty centres and other businesses

The following is an analysis of the Group's turnover and results by operating segment for the period under review:

	Retail segment Six months ended 31st March,		Services segment Six months ended 31st March,		Elimination Six months ended 31st March,		Total Six months ended 31st March,	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Sales to external customers	330,116	318,534	185,386	125,741	-	-	515,502	444,275
Inter-segment sales	13,910	13,463	-	-	(13,910)	(13,463)	-	-
Total	344,026	331,997	185,386	125,741	(13,910)	(13,463)	515,502	444,275
Segment results	26,981	31,599	41,376	20,296	-	-	68,357	51,895
Other income							4,042	1,700
Other gains or losses							12,196	15,173
Finance costs							(2,966)	(444)
Central administrative costs							(44,152)	(35,949)
Profit before taxation							37,477	32,375

Segment results represent the profit earned by each segment without allocation of income, gains or losses of the corporation function, central administrative costs, directors' emoluments and finance costs. This is the measure reported to the Group's directors for the purposes of resource allocation and performance assessment.

5. Taxation

	Six months ended 31st March,	
	2011 HK\$'000	2010 HK\$'000
Current taxation		
Hong Kong Profits Tax	5,045	1,204
Overseas taxation	5,638	4,165
Overprovision in prior years	(176)	(2)
	10,507	5,367
Deferred taxation	10,106	2,665
	20,613	8,032

Hong Kong Profits Tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the period after setting off available tax losses brought forward from prior years.

The People's Republic of China (the "PRC") Enterprise Income Tax was calculated at the statutory income tax rate of 25% (2010: 25%) on the assessable profits except those profits derived from the Waigaoqiao Free Trade Zone and Pudong New Area which were taxed at a preferential rate of 24% (2010: 22%). The preferential rate would gradually increase to 25% by the year 2012 pursuant to the relevant governmental notices.

On 28th November, 2008, a subsidiary of the Group in Waigaoqiao Free Trade Zone has been qualified as an "operating centre" and entitled to certain tax reductions.

Withholding tax has been imposed on dividends payable to foreign shareholders out of profits generated by companies established in the PRC. Deferred taxation has been provided for in respect of the undistributed profits from the Group's PRC subsidiaries accordingly.

Taxation on profits generated outside Hong Kong/the PRC has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries/places in which the Group operates.

During the period, deferred taxation previously recognised as deferred tax assets was reversed as a result of the discontinuation of a business line of certain group entities where future profits in related to this discontinued business line will not be available for utilising such related deferred tax assets.

6. Profit for the Period

	Six months ended 31st March,	
	2011 HK\$'000	2010 HK\$'000
Profit for the period is stated at after charging:		
Amortisation of intangible assets	212	224
Amortisation of prepaid lease payments	–	30
Effective interest expenses on convertible bond	2,550	–
Equity-settled share-based payment expenses	8,802	5,096
Interest expenses on secured mortgage loan	416	444
Net exchange losses	–	165
and after crediting:		
Gain on fair value change of investment properties	11,250	15,343
Interest income on bank deposits	530	354
Rental income from investment properties	648	1,057
Net exchange gains	954	–

7. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 31st March,	
	2011 HK\$'000	2010 HK\$'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share	21,126	24,199
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	763,952,764	739,112,000
Effect of dilutive potential ordinary shares in respect of share options	7,202,210	9,115,251
Weighted average number of ordinary shares for the purpose of diluted earnings per share	771,154,974	748,227,251

Diluted earnings per share for the six months period ended 31st March, 2011 does not include the effect of the convertible bond because it would result in an increase in earnings per share.

8. Dividends

	Six months ended 31st March, 2011 HK\$'000	2010 HK\$'000
Interim dividend proposed of 3.0 HK cents (2010: 3.0 HK cents) per share	22,919	22,919

During the six months period ended 31st March, 2011, a dividend of 4.0 HK cents (2010: 10.0 HK cents) totalled approximately HK\$30,558,000 (2010: HK\$36,956,000) was paid to shareholders as the final dividend for the year ended 30th September, 2010.

At the Board meeting held on 26th May, 2011, the directors declared an interim dividend of 3.0 HK cents (2010: 3.0 HK cents) per share. This proposed interim dividend is not reflected as dividend payable in the condensed consolidated financial statements as it was declared after the end of the reporting period.

9. Capital Expenditures

During the six months period ended 31st March, 2011, the Group incurred capital expenditure of approximately HK\$11,873,000 for property, plant and equipment (six months period ended 31st March, 2010: HK\$11,875,000).

The Group's investment properties were revalued as of 31st March, 2011 on the basis of their open market values by Dynasty Premium Asset Valuation & Real Estate Consultancy Limited ("Dynasty Premium"), an independent qualified professional valuer not connected with the Group. The resulting increase in fair value of investment properties of approximately HK\$11,250,000 (six months period ended 31st March, 2010: HK\$15,343,000) has been recognised directly in the condensed consolidated income statement.

10. Trade Receivables

The Group allows credit terms of 30 days to 90 days to its trade debtors. The following is an aging analysis of trade receivables, presented based on the payment due date, net of allowance for bad and doubtful debts, as at the end of the reporting period:

	As at 31st March, 2011 HK\$'000	As at 30th September, 2010 HK\$'000
0 to 30 days	84,139	67,375
31 days to 60 days	3,900	6,487
61 days to 90 days	113	1,774
Over 90 days	1,182	2,244
	89,334	77,880

11. Trade Payables

The following is an aging analysis of trade payables, presented based on the payment due date, as at the end of the reporting period:

	As at 31st March, 2011 HK\$'000	As at 30th September, 2010 HK\$'000
0 to 30 days	11,318	11,076
31 days to 60 days	78	155
	11,396	11,231

12. Secured Mortgage Loan

	As at 31st March, 2011 HK\$'000	As at 30th September, 2010 HK\$'000
Analysed for reporting purpose as current liabilities	38,249	39,588

The scheduled principal repayment dates of the Group with reference to the mortgage loan agreements are as follows:

	As at 31st March, 2011 HK\$'000	As at 30th September, 2010 HK\$'000
Within 1 year	2,716	2,688
1 year to less than 2 years	2,778	2,746
2 years to less than 3 years	2,836	2,807
3 years to less than 4 years	2,898	2,867
4 years to less than 5 years	2,960	2,929
5 years or more	24,061	25,551
	38,249	39,588

As the above loan facility is subject to the relevant bank's customary right to repayment on demand, the entire mortgage loan is classified as a current liability.

The mortgage loan is secured by one of the Group's investment properties. It bears interest at 2.85% (as at 30th September, 2010: 2.85%) per annum below the bank's Best Lending Rate. The effective interest rate is approximately 2.15% (as at 30th September, 2010: 2.15%) per annum.

13. Share Capital

	As at 31st March, 2011 HK\$'000	As at 30th September, 2010 HK\$'000
Authorised: 2,000,000,000 (2010: 1,000,000,000) ordinary shares of HK\$0.1 each (<i>Note</i>)	200,000	100,000
Issued and fully paid: 763,952,764 (2010: 763,952,764) ordinary shares of HK\$0.1 each	76,395	76,395

Note: By an ordinary resolution duly passed by shareholders on 8th February, 2011, the authorised share capital of the Company was increased from HK\$100,000,000 divided into 1,000,000,000 ordinary shares of HK\$0.1 each to HK\$200,000,000 divided into 2,000,000,000 ordinary shares by the creation of an additional 1,000,000,000 ordinary shares of HK\$0.1 each.

	Issued and fully paid ordinary shares	
	No. of shares	HK\$'000
At 1st October, 2009	369,556,000	36,956
Bonus issue of shares on a one-to-one basis	369,556,000	36,956
Issue of new shares upon subscription	24,840,764	2,483
At 30th September, 2010 and 31st March, 2011	763,952,764	76,395

14. Share Options

- (i) 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 consultants, distributors, suppliers, agents, customers, partners, joint venture partners, promoters, service providers 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 shares 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.

As at 31st March, 2011 and 30th September, 2010, there were no outstanding share options available to subscribe for shares under the Share Option Scheme as options were fully exercised during the year ended 30th September, 2009.

- (ii) On 18th December, 2009, the Company entered into a consultancy agreement with independent third parties, Luminary Capital Limited (the "Advisor") and Mr. Francis Leung, in granting an option to the Advisor in return for its general consultancy and financial advisory services provided to the Group (the "Option") for a period of 24 months. The Option entitles the Advisor the rights, as adjusted by the Company's bonus issue in March 2010, to require the Company to issue up to 73,911,200 shares at an option price of HK\$1.13 per share during a 36 months' period from 18th December, 2009 to 17th December, 2012.

The fair value of the Option determined at the date of grant using the Binomial Option Pricing Model was approximately HK\$35,305,000. An option expense of approximately HK\$8,802,000 was recognised and charged to the condensed consolidated income statement for the period.

15. Commitments and Arrangements

(a) Capital commitments

	As at 31st March, 2011 HK\$'000	As at 30th September, 2010 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	494	5,099

(b) Commitments and arrangements under operating leases

At 31st March, 2011 and 30th September, 2010, 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 Rental receipts	As at 31st March, 2011 HK\$'000	As at 30th September, 2010 HK\$'000
Not later than 1 year	987	1,194
More than 1 year and not later than 5 years	347	788
	1,334	1,982

There was no contingent lease arrangement for the Group.

As lessees Rental payments	As at 31st March, 2011 HK\$'000	As at 30th September, 2010 HK\$'000
Not later than 1 year	86,383	88,897
More than 1 year and not later than 5 years	110,943	130,618
More than 5 years	6,287	1,849
	203,613	221,364

Operating lease payments represent rentals payable by the Group for certain of its leased properties. Leases terms are negotiated and fixed for an average term of two to three years.

The above lease commitments only include commitments for basic rentals, and do not include commitments for additional rental payable, if any, where the amounts are determined by applying predetermined 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.

16. Related Party Transactions

Key management personnel compensation

	Six months ended 31st March,	
	2011 HK\$'000	2010 HK\$'000
Basic salaries and housing allowances	6,093	5,809
Bonuses	4,700	6,400
Retirement benefit costs	30	30
	10,823	12,239

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, 2011 payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on 21st June, 2011. The Register of Members will be closed from 17th June, 2011 to 21st June, 2011, 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, Tricor Standard 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 16th June, 2011. The relevant dividend warrants will be dispatched to shareholders on 28th June, 2011.

Liquidity and Financial Resources

As at 31st March, 2011, the Group had net current assets of approximately HK\$2.2 million (as at 30th September, 2010: HK\$4.4 million).

The Group generally finances its operations with internally generated resources. As at 31st March, 2011, the Group had cash reserves of approximately HK\$261.0 million (as at 30th September, 2010: HK\$217.5 million).

The gearing ratio, expressed as a percentage of the secured mortgage loan and convertible bond over total equity of approximately HK\$246.0 million (as at 30th September, 2010: HK\$249.4 million) is approximately 32.2% (as at 30th September, 2010: 31.7%).

The Group continues to follow the practice of prudent cash management. The Group has little exposure on foreign currency fluctuations as most of its assets, receipts and payments are principally denominated in the functional currency of the relevant territory, United States Dollars and Japanese Yen. 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, 2011, the Group employed 1,499 staff (as at 30th September, 2010: 1,638 staff). The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses and share options will also be granted to eligible staff based on individual's and Group's performances. Other employee benefits include provident fund, insurance and medical cover, educational allowances and training programs.

The Group is committed to nurturing a learning culture in the organisation. 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, B.B.S., J.P., Mr. Wong Chun Nam, Duffy, J.P. and Dr. Wong Chi Keung who are the independent non-executive directors of the Company.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the unaudited consolidated results of the Group for the six months ended 31st March, 2011 with management and discussed with the independent auditor on reviewing internal control and financial reporting matters in respect of the Interim Financial Information.

Remuneration Committee

To comply with the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules, 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 Human Resources Director, Ms. Kiu Wai Kei, and is chaired by Mr. Wong Chun Nam, Duffy, J.P..

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.

Investment Advisory Committee

To establish better control on the Group's investment portfolio, an Investment Advisory Committee was established on 15th November, 2007. The members of the Investment Advisory Committee comprise all independent non-executive directors of the Company and Ms. Yu Lai Si, executive director and chief executive officer of the Company, and is chaired by Dr. Wong Chi Keung.

The objectives of this Committee are to set guidelines on the portfolio mix of the Group's investments for the daily execution of investment decisions and monitoring of the investment portfolio. The Committee members meet and review the investment directions and the portfolio mix as well as evaluating the performance of the investment portfolio.

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

As at 31st March, 2011, 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 Issuers (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	Personal interests	Number and class of shares			Percentage of issued share capital	
				Corporate interests	Family interests	Other interests	Total	
Yu Lai Si	The Company	Beneficial owner	166,113,760 ordinary	–	–	–	166,113,760 ordinary	21.7%
	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	–	–	5,960,000 ordinary ⁽²⁾	155,333,760 ordinary ⁽¹⁾	161,293,760 ordinary	21.1%
	Water Oasis Company Limited	Beneficial owner and interest of spouse	165,000 non-voting deferred	–	165,000 non-voting deferred ⁽²⁾	–	330,000 non-voting deferred	–
Yu Lai Chu, Eileen	The Company	Beneficial owner and interest of a controlled corporation	5,960,000 ordinary	–	–	155,333,760 ordinary ⁽¹⁾	161,293,760 ordinary	21.1%
	Water Oasis Company Limited	Beneficial owner and interest of spouse	165,000 non-voting deferred	–	165,000 non-voting deferred ⁽³⁾	–	330,000 non-voting deferred	–

Name of director	The Company/ name of associated corporation	Capacity	Personal interests	Number and class of shares			Percentage of issued share capital	
				Corporate interests	Family interests	Other interests	Total	
Yu Kam Shui, Erastus	The Company	Beneficial owner and interest of spouse	4,000,000 ordinary	–	6,000,000 ordinary ⁽⁴⁾	–	10,000,000 ordinary	1.3%
Lai Yin Ping	The Company	Beneficial owner and interest of spouse	6,000,000 ordinary	–	4,000,000 ordinary ⁽⁵⁾	–	10,000,000 ordinary	1.3%
Wong Lung Tak, Patrick, B. B. S., J.P.	The Company	Beneficial owner	1,200,000 ordinary	–	–	–	1,200,000 ordinary	0.2%
Wong Chun Nam, Duffy, J.P.	The Company	Beneficial owner	1,200,000 ordinary	–	–	–	1,200,000 ordinary	0.2%

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.
- (4) These shares are registered in the name of Lai Yin Ping, the wife of Yu Kam Shui, Erastus.
- (5) These shares are registered in the name of Yu Kam Shui, Erastus, the husband of Lai Yin Ping.

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, 2011, save as disclosed therein, none of the directors, chief executive 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

As at 31st March, 2011, there were no outstanding share options available to subscribe for shares under the Share Option Scheme as options were fully exercised during the year ended 30th September, 2009.

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, 2011, 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	155,333,760	20.3%
Advance Favour Holdings Limited ⁽²⁾	Interest of a controlled corporation	77,666,880	10.2%
Billion Well Holdings Limited ⁽³⁾	Interest of a controlled corporation	77,666,880	10.2%
Luminary Capital Limited ⁽⁴⁾	Interest of a controlled corporation	73,911,200	9.7%
Darby Overseas Investments, Ltd. ⁽⁵⁾	Interest of a controlled corporation	42,487,822	5.6%

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.
- (4) Luminary Capital Limited is a company incorporated in Hong Kong and is beneficially owned by Leung Pak To, Francis.
- (5) Darby Overseas Investments, Ltd. is a company incorporated in Delaware, United States of America and is beneficially owned by Franklin Resources, Inc.

Purchase, Sale or Redemption of the Company's 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 Provisions") set out in the CG Code during the period.

Code Provision A.2.1

Code Provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same person. Presently, the Board does not have any director with the title "Chairman", whereas Ms. Yu Lai Si, the Chief Executive Officer of the Group, has been carrying out the duties of both the Chairman and Chief Executive Officer since the establishment of the Group and the Company. 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 the 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.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Following a specific enquiry by the Company, each of the directors confirmed that he/she complied with the Model Code for transactions in the Company's securities throughout the review period.

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

By order of the Board

Yu Lai Si

*Executive Director
and Chief Executive Officer*

Hong Kong, 26th May, 2011

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, B.B.S., J.P.
Wong Chun Nam, Duffy, J.P.
Wong Chi Keung

Audit Committee

Wong Lung Tak, Patrick, B.B.S., J.P.
Wong Chun Nam, Duffy, J.P.
Wong Chi Keung

Remuneration Committee

Wong Chun Nam, Duffy, J.P.
Wong Lung Tak, Patrick, B.B.S., J.P.
Wong Chi Keung
Kiu Wai Kei

Investment Advisory Committee

Wong Chi Keung
Wong Lung Tak, Patrick, B.B.S., J.P.
Wong Chun Nam, Duffy, J.P.
Yu Lai Si

Company Secretary and Qualified Accountant

Mo Yuen Yee, FCCA, FCPA

Auditor

Deloitte Touche Tohmatsu

Legal Advisors

Deacons
Richards Butler in Association with
Reed Smith LLP

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited

Principal Share Registrar and Transfer Office

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