# B.A.L.

## B.A.L. Holdings Limited

*(Incorporated in the Cayman Islands with limited liability)*
*(Stock Code : 8079)*

ANNUAL REPORT
2007

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

**This report, for which the directors (the "Directors") of B.A.L. Holdings Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.**

**The Stock Exchange takes no responsibility for the contents of this report, makes on representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of this report.**

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# Financial Summary

***Annual results for the three years ended 31 October 2007***

| | Results for the year ended | | |
|---|---|---|---|
| | **31 October** | 31 October | 31 October |
| | **2007** | 2006 | 2005 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Turnover | **170,822** | 146,381 | 101,664 |
| Profit from operations | **22,334** | 20,842 | 20,208 |
| Profit attributable to the equity holders of the Company | **15,931** | 17,052 | 17,030 |

| | As at 31 October | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | **301,235** | 111,196 | 71,339 |
| Total liabilities | **(126,830)** | (29,594) | (24,813) |
| | **174,405** | 81,602 | 46,526 |

*Notes:*

(1) The Company was incorporated in the Cayman Islands on 6 March 2001 and became the holding company of the Group with effect from 21 September 2001.

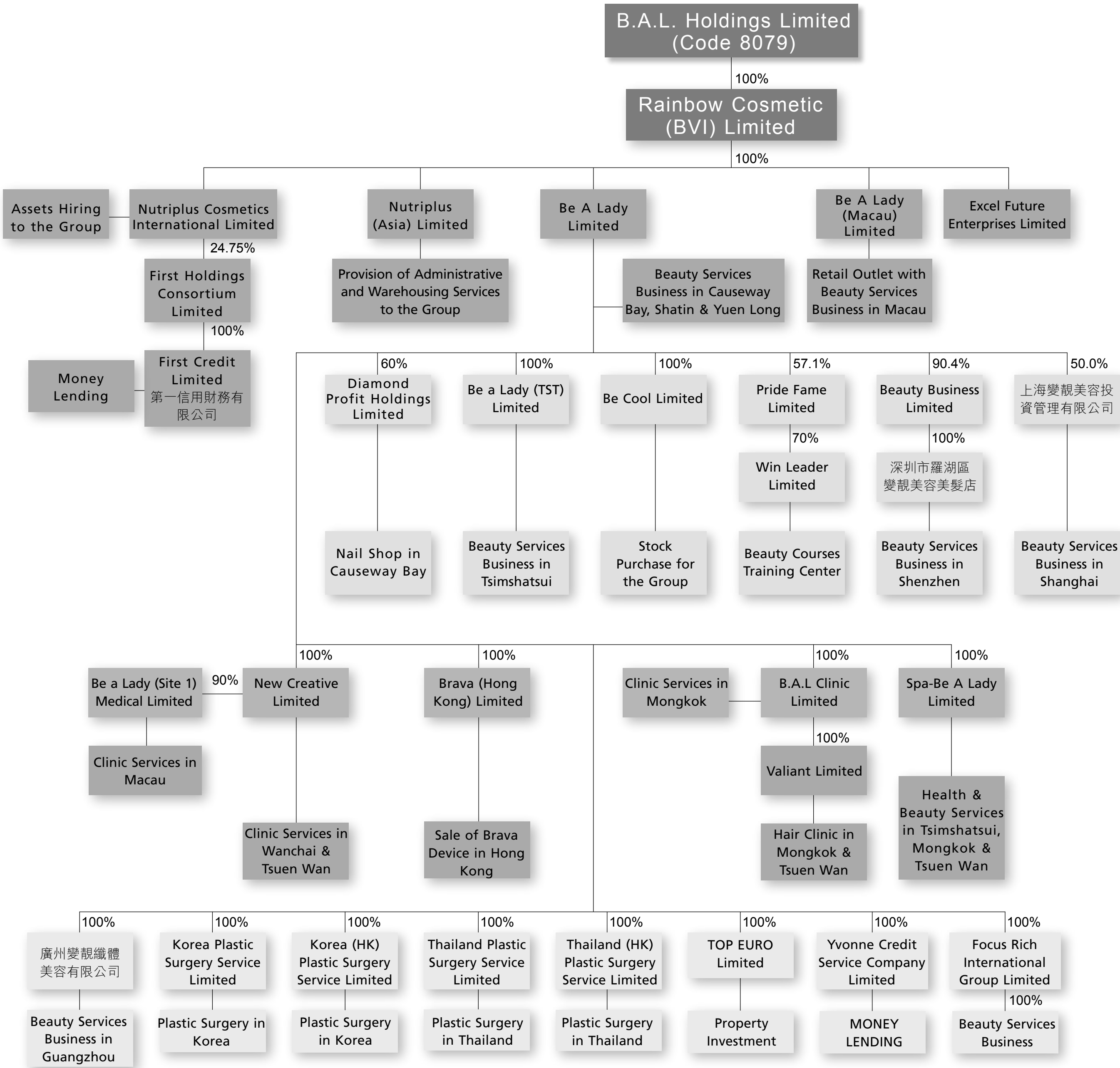
(2) The results for the year ended 31 October 2007 have been extracted from the consolidated income statement as set out on page 24.

# Corporate Profile

B.A.L. Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") is principally engaged in the retails of beauty products in Hong Kong and also in the provision of beauty services, clinical services and beauty courses in Hong Kong, Macau and China.

During the year, the Group have been operating 10 beauty services centers/direct sales centers in Hong Kong, Macau and China, one nail shop, one beauty course training centre, four medical clinics, one property investment Company and one warehouse in Hong Kong.

As at 31 October 2007, the organisation chart of the Group is set out below:–



# Corporate Information

### Directors

#### *Executive Directors*

Ms. SIU York Chee, Doreen – Chairperson
Mr. LEUNG Kwok Kui

#### *Independent Non-Executive Directors and Members of Audit Committee of the Board of Directors*

Mr. HUNG Anckes Yau Keung
*Ph.D, MBA, FCPA (Practising), CICPA, ACMA, CGA*
Mr. SIU Yim Kwan, Sidney *S.B.St.J.*
Mr. TSUI Pui Hung, Walter *LL.B. (Hons), LL.M. BSc (Hons)*

### Company Secretary

Mr. LO Gun Yuen, Raymond, *CPA*

### Compliance Officer

Ms. SIU York Chee, Doreen

### Qualified Accountant

Mr. LO Gun Yuen, Raymond, *CPA*

### Authorised Representatives

Ms. SIU York Chee, Doreen
Mr. LEUNG Kwok Kui

### Audit Committee

Mr. HUNG Anckes Yau Keung *(Chairman)*
*Ph.D, MBA, FCPA (Practising), CICPA, ACMA, CGA*
Mr. SIU Yim Kwan, Sidney *S.B.St.J.*
Mr. TSUI Pui Hung, Walter *LL.B. (Hons), LL.M. BSc (Hons)*

### Remuneration Committee

Mr. HUNG Anckes Yau Keung *(Chairman)*
*Ph.D, MBA, FCPA (Practising), CICPA, ACMA, CGA*
Mr. SIU Yim Kwan, Sidney *S.B.St.J.*
Mr. TSUI Pui Hung, Walter *LL.B. (Hons), LL.M. BSc (Hons)*
Ms. SIU York Chee, Doreen
Mr. LEUNG Kwok Kui

### Legal Advisers on the Cayman Islands Law

Maples and Calder Asia

### Auditors

Grant Thornton
Certified Public Accountants
13th Floor Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

### Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Ltd
P.O. Box 705
Butterfield House, Fort Street
George Town, Grand Cayman
Cayman Islands
British West Indies

### Hong Kong Branch Share Registrar and Transfer Office

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

### Registered Office

P.O. Box 309, Ugland House
South Church Street, George Town
Grand Cayman
Cayman Islands
British West Indies

### Head Office and Principal Place of Business in Hong Kong

14th Floor
Guardian House
32 Oi Kwan Road
Wanchai
Hong Kong

### Principal Bankers

Bank of China (Hong Kong) Limited
409-415 Hennessy Road, Wanchai
Hong Kong

DBS Bank (Hong Kong) Limited
16th Floor, The Center
99 Queen's Road Central
Hong Kong

### Stock Code

8079

### Website

http://www.hkbealady.com

# Chairperson's Statement

On behalf of the board of Directors (the "Board"), I am pleased to present to the Shareholders the audited combined results of the Company and its subsidiaries for the year ended 31 October 2007.

## REVIEW OF OPERATIONS

During the fiscal year 2007, the slimming and beauty business in Hong Kong has been regressing and some chains in similar field have even been closed down. However, the Group has been able to maintain a majority of its slimming and beauty business with only a decrease in turnover of approximately 24%. As at the date hereof, we have closed down the Wan Chai center and the Spa located in Tsim Sha Tsui. The beauty center located at Grand Central Plaza, Shatin has been closed and merged with the shop located at Citylink Plaza, Shatin.

For the business of the Medical Clinic, we now have 3 Clinics, with respective location in Causeway Bay, Mong Kok and Tsuen Wan. Comparing with last year, we have achieved a business growth of approximately 670%. The Group has acquired the minority's interest of an existing Medical company (60% owned), which then becomes a fully owned subsidiary of the Group.

In November 2007, the Group has engaged with Dr. Wilson Ho, a registered Plastic Surgeon and opened a Plastic Surgery Center located at New World Tower, Central, Hong Kong. The Directors expect the business of the center will contribute significantly to the Group's profit. During the year, the Group has also invested in a money-lending company, and up till the end of the fiscal year the rate of return is higher than 1% per month. To broaden our business activities, the Group has dealt with activities in properties and quoted shares investment. With the surplus funding of the company, we expect such activities will become a part of the core business of the Group, and so far the result has been encouraging. We are not satisfied with only the present achievement and the Group will continue to seek for investment opportunities in future.

## DIVIDEND

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 October 2007 (2006: Nil).

## PROSPECTS

Looking forward, the management expects that the body slimming business will still be unfavourable in the coming year. However, the Group is confident that 2008 will be a prosperous year of good business growth, subsequent to our expansion of the business scope.

## APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation to our staff members for their support in the past year and cheer them as we tackle future challenges successfully.

**Ms. Siu York Chee, Doreen**
*Chairperson*

Hong Kong, 28 January 2008

# Management Discussion and Analysis

## Business Review

***Beauty Services and Sale of Beauty Products Operations***

The Group's beauty services and sale of beauty products operations recorded a negative growth during the period under review. Turnover from this segment amounted to approximately HK$99 million for the year ended 31 October 2007 representing approximately 24% decrease as compared with the previous financial year.

As the Group is committed to provide excellent service at reasonable price to customers, continued professional training of beauticians and consultants will be carried on. Under the gradual expansion, the Group had invested approximately HK$10 million on the acquisition of new equipments during the year.

***Clinical Services***

The performance of our medical clinics is encouraging during the financial year. Turnover from this segment amounted to approximately HK$68 million, representing 40% of the Group's turnover. The management is confident that its result of the coming year will be very favourable.

***Beauty Course***

As a majority of the course receipts fell into last year's revenue thus making a current year decrease of approximately 52%. Besides the introduction of new beauty courses in 2006 with good profit margin also contributed significantly to the revenue receipts of last year.

As at 31 October 2007, the Group have been operating 9 beauty services centers/direct sales centers and four medical clinics in Hong Kong, Macau, China; one beauty course training centre, one property Investment Company and one warehouse in Hong Kong. Details of these operations including the locations and the staff headcount in each of the respective operating units of the Company are summarised as follows:

| | Operated by | Name | Principal Activities | Location | No. of Employees |
|---|---|---|---|---|---|
| 1. | Nutriplus (Asia) Limited | N/A | Administrative Services to the Group | 14th Floor, Guardian House, 32, Oi Kwan Road, Wan Chai, Hong Kong | 47 |
| 2. | Be A Lady Limited/ Spa-Be A Lady Limited | Mongkok Beauty Services Center with Direct Sales Centre | Beauty Services & Direct Sales | 25th Floor, Wu Sang House, 655 Nathan Road, Kowloon | 29 |
| 3. | Be A Lady Limited | Causeway Bay Beauty Services Center with Direct Sales Centre | Beauty Services & Direct Sales | 23rd Floor, Island Centre, 1 Great George Street, Causeway Bay, Hong Kong | 26 |
| 4. | Be A Lady Limited | Shatin Beauty Services Center | Beauty Services & Direct Sales | Unit 610-613, 6/F, Citylink Plaza, Shatin, N.T. | 17 |
| 5. | Be A Lady (TST) Limited | Tsimshatsui Beauty Services Centre | Beauty Services & Direct Sales | 5/F. & 18/F., Mass Resources, Development Bldg, 12 Humphrey's Avenue, Tsimshatsui, Kowloon | 29 |
| 6. | Be Cool Limited | N/A | Group stock purchase | 14th Floor, Guardian House, 32 OI Kwan Road, Wan Chai, Hong Kong | 1 |
| 7. | B.A.L. Holdings Limited | N/A | Head office | 14th Floor Guardian House, 32, Oi Kwan Road, Wan Chai, Hong Kong | N/A |
| 8. | Nutriplus (Asia) Limited | Chai Wan Warehouse | Warehouse | Unit 8, 17/F., Chai Wan Industrial City, Phase 1, No. 60, Wing Tai Road, H.K. | N/A |
| 9. | B.A.L. Clinic Limited | B.A.L. Medical Centre, Mongkok | Non-surgical Beauty Services | 23/F., Wu Sang House, 655, Nathan Road, Kowloon | 18 |
| 10. | Nutriplus Cosmetics International Limited | N/A | Assets hiring to the Group | 14th Floor, Guardian House, 32, Oi Kwan Road, Wan Chai, Hong Kong | N/A |

| | Operated by | Name | Principal Activities | Location | No. of Employees |
|---|---|---|---|---|---|
| 11. | Be A Lady Limited/ Spa-Be A Lady Limited | Tsuen Wan Beauty Services Centre | Beauty Services & Direct Sales | Units 1701-04 & 1707-08, City Landmark 1, Office Tower, 68 Chung On Street, Tsuen Wan, N.T. | 28 |
| 12. | Be A Lady Limited | Yuen Long Beauty Services Centre | Beauty Services of Direct Sales | Shop 5,G/F, Room 4-5, 8-9, 9th Floor, Kwong Wah Plaza, 11. Tai Tong Road, Yuen Long, N.T. | 16 |
| 13. | New Creative Limited | B.A.L. Medical Centre Causeway Bay | Non-surgical Beauty Services | 22/F., Island Centre, No. 1 Great George Street, Causeway Bay Hong Kong | 19 |
| | | B.A.L. Medical Centre, Tsuen Wan | Non-surgical Beauty Services | 1204-1206 12/F, City Landmark I, 68 Chung On Street, Tsuen Wan | 7 |
| 14. | Win Leader Limited | N/A | Beauty Course Training Centre | Room 2502, 25/F., Park In Commercial Centre, 56 Dundas Street, Mongkok Kowloon | 5 |
| 15. | Be A Lady (Macau) Limited | Macau Beauty Services Centre | Beauty Services & Direct Sales | AVENIDA DE ALMEIDA RIBEIRO N˚s. 89a 99. Edificio Commercial Nai Wa. 3˚ andar EM Macau | 22 |
| 16. | Be A Lady (site 1) Medical Limited | Macau Medical Centre | Non-surgical Beauty Services | AVENIDA DE ALMEIDA RIBEIRO N˚s. 89a 99. Edificio Commercial Nai Wa. 4˚ andar EM Macau | 3 |
| 17. | 深圳市羅湖區 變靚美容美髮店 | Shenzhen Beauty Services Centre | Beauty Services | 深圳市羅湖區紅岭中路 荔園酒店三樓 | 35 |
| 18. | 廣州市變靚纖體 美容有限公司 | Guangzhou Beauty Services Centre | Beauty Services | 廣州市天河區天河北路僑林街59號三層 | 50 |
| Total employees of the Group as at 31 October 2007 | | | | | 352 |

## Financial Review

For the year ended 31 October 2007, the Group's consolidated turnover amounted to approximately HK$171 million, representing an increase of approximately 17%, as compared with the previous financial year.

The Group recorded profit for the financial year ended 31 October 2007 amounted to approximately HK$16 million.

The Group's cash and bank balances as at 31 October 2007 was approximately HK$16 million.

The Directors do not recommend the payment of a dividend.

**Liquidity and financial resources**

The Group generally financed its operations with internally generated cash flows. As at 31 October 2007, the Group had cash and cash equivalents of approximately HK$16 million as compared to approximately HK$20 million as at 31 October 2006.

As at 31 October 2007 the Group had amounts due to minority shareholders of approximately HK$1 million.

**Gearing Ratio**

As at 31 October 2007, the Group's gearing ratio, expressed as a percentage of total borrowings, (Comprising amounts due to related companies and minority shareholders, borrowings) over total assets, was approximately 33%.

**Hedging**

Since most of the transactions of the Group are denominated in Hong Kong dollars, no hedging or other arrangements to reduce the currency risk have been implemented.

**Significant investments**

As at 31 October 2007, the Group had significant investments in listed securities.

**Future plans for material investments or capital assets**

Subsequent to the year end date of 31 October 2007, the Group had opened a new medical centre in central at favourable rental expenses.

**Capital Structure**

During the year under review, movement of share capital of the Company was as follows:

On 1 March 2007, the Company entered into a subscription agreement with shares subscribers to subscribe an aggregate of 111,400,000 shares at the subscription price of HK$0.33 per share.

On 18 July 2007, the Company entered into a top-up placing and subscription agreement to place an aggregate of 101,000,000 shares at the subscription price of HK$0.221 per share.

On 9 August 2007, share subdivision of one existing issued and unissued shares of the Company be subdivided into two subdivided shares was completed.

On 24 August 2007, the Company entered into a placing agreement to place an aggregate of 270,000,000 shares at HK$0.067 per share.

On 31 August 2007, 271,536,180 bonus shares have been issued on the basis of two bonus shares for every ten subdivided shares held on the record date 20 August 2007.

During the year ended 31 October 2007, 2,000,000 share options were exercised at HK$0.373 per share.

As at 31 October 2007, 1,899,217,082 shares of the Company were issued and fully paid.

**Contingent Liabilities**

As at 31 October 2007, the Company has given corporate guarantees to third parties for securing a tenancy agreement and an advertising contract of subsidiary companies.

Apart from the above, the Group and the Company had no other material contingent liabilities as at 31 October 2007 and up to the date of the approval of the audited results of the Group for the year ended 31 October 2007.

**Employees**

As at 31 October 2007, the Group had 352 (2006: 437) full-time employees. The total of employee remuneration, including that of the Directors, for the year ended 31 October 2007 amounted to HK$58 million (2006: HK$54 million). The Group remunerates its employees based on their performance, experience and the prevailing commercial practice.

**Share Option Scheme**

On 24 September 2001, the shareholders of the Company approved a share option scheme ("the Scheme") under which its Board of Directors may, at its discretion, offer full-time or part time employees and executive, non-executive and independent non-executive directors of the Company and/or any of its subsidiaries, options to subscribe for shares of the Company. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 30% of the issued share capital of the Company. The subscription price will be determined by the Company's Board of Directors and will be the highest of (i) the nominal value of the shares, (ii) the quoted closing price of the Company's shares on the date of offer of the options, and (iii) the average of the quoted closing prices of the Company's shares on the five trading days immediately preceding the date of offer of the options.

Details of the Scheme of the Group are set out in note 34 to the financial statements.

# Directors and Senior Management of the Group

## DIRECTORS

**Executive Directors**

**Ms. SIU York Chee, Doreen**, aged 63, is the executive director since 16 June 2003 and being the chairperson of the Group since 17 September 2003. With extensive professional knowledge and many years of experience in the commercial field, Ms. Siu plays a positive role in the re-organising and development of the Group. Prior to joining the Group, Ms. Siu was one of the founders of Companion Building Material International Holdings Limited (Currently known as Dong Fang Gas Holdings Limited, code no. 432) which was established in 1973 and listed in the Stock Exchange in 1993. Ms. Siu has resigned as Executive Director and Chairman of Companion Building Material International Holdings Limited on January 2002. Ms. Siu is the wife of Mr. Leung Kwok Kui.

**Mr. LEUNG Kwok Kui**, aged 65, is the executive director of the Group since 5 September 2003. Mr. Leung has over 31 years' experience in the commercial field. Mr. Leung is responsible in sales and marketing operations of the Company. Prior to joining the Group, Mr. Leung was the executive director and one of the founders of the Companion Building Material International Holdings Limited (Currently known as Dong Fang Gas Holdings Limited, code no. 432) and was also the executive director of Skynet (International Group) Holdings Limited (Currently known as Paul Y. Engineering Group Limited, stock code: 577) which were listed companies in the Stock Exchange. Mr. Leung has resigned both positions as executive director on 31 January 2002.

**Independent non-executive Directors**

**Mr. HUNG Anckes Yau Keung ("Mr. Hung"),** *Ph.D, MBA, FCPA (Practising), CICPA, ACMA, CGA,* aged 55, a Certified Public Accountant, Chairman of the Audit Committee, was appointed as an independent non-executive Director of the Company in October 2003. Mr. Hung has over 25 years experience in accounting. Mr. Hung is a fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, a member of the Chartered Institute of Management Accountants and the Certified General Accountants Association, and an overseas non-practising member of the Chinese Institute of Certified Public Accountants.

Mr. Hung is now the practising director of KND & Co. CPA Limited, Certified Public Accountants (Practising). Mr. Hung is the Honorary Treasurer of The Overseas CICPA Members Association since the incorporation of the Association. Mr. Hung is also the Visiting Professor of the Southwestern University of Finance and Economics and the Research Institute of Economics of the Shenzhen University in China.

**Dr. SIU Yim Kwan, Sidney ("Dr. Siu"),** *S.B.St.J.,* aged 61, Dr. Siu was appointed as an independent non-executive director of the Company in December 2004. Dr. Siu holds a doctorate degree in Business Management from Armstrong University in the United States. Dr. Siu is the non-executive director of Wang On Group Limited, a listed company in Hong Kong since November 1993.

Dr. Siu is a director of The Association of The Directors & Former Directors of Pok Oi Hospital Limited, Bright China Foundation Limited and Chiu Yang Residents Association of Hong Kong Limited, those companies are non-profitable association and providing community services in Hong Kong.

Dr. Siu is also a director of The Hong Kong Tae Kwon Do Association Limited, a sport association in Hong Kong and also an executive member of a number of charitable organizations and sports associations.

**Mr. TSUI Pui Hung, Walter ("Mr. Tsui"),** *LL.B. (Hons), LL.M, BSc (Hons),* aged 32, is a practicing solicitor of the High Court of Hong Kong, was appointed as an independent non-executive director of the Company in June 2007. Mr. Tsui holds the degrees of a Master in Laws from University of London, a Bachelor of Laws (with Honours) from Manchester Metropolitan University, a Bachelor of Science (with Honours) from the Chinese University of Hong Kong and a Diploma in translation from the Chinese University of Hong Kong. Mr. Tsui has years of senior management experience and is familiar with internal control issues and regulatory rules of listed company.

## SENIOR MANAGEMENT

**Mr. LO Gun Yuen, Raymond**, is the Qualified Accountant and the Company Secretary of the Group. Mr. Lo is responsible for the overall financial and accounting functions of the Group. Mr. Lo has over 26 years of accounting, auditing and management financial reporting experience. Prior to joining the Group, Mr. Lo worked in the public listed companies in The Stock Exchange of Hong Kong Limited. Mr. Lo is a member of the Hong Kong Institute of Certified Public Accountants.

**Ms. LEE Kin Yuk, Eliza**, is the Shop Manager of the Causeway Bay beauty center of the Group, who mainly oversees the operation of the Causeway Bay beauty center. Prior to joining the Group, Ms. Lee has approximately four years of experience in beauty services industry.

**Ms. CHANG Chi King, Anne**, is the Administration Manager of the Group. She is mainly responsible for policy implementation of all beauty centers and the administration functions of the Group. Prior to joining the Group, Ms. Chang has 9 years of administration experience in beauty and servicing industry.

**Ms. KOO Fung Yi, Sue**, is the Company Secretarial Officer. She mainly deals with company secretarial matters of the Group and communicates with The Stock Exchange of Hong Kong Limited on announcements, publications and share allotments. Prior to joining the Group, Ms. Koo worked for 16 years in several companies listed in The Stock Exchange of Hong Kong Limited.

# Corporate Governance Report

The Company is committed to achieving high standards of corporate governance to protect the interests of the shareholders of the Company. The Company had complied with most of the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 October 2007. This report describes the corporate governance standards and practices used by the Company to direct and manage its business affairs. It also explains the applications of the Code and deviations, if any.

## Board of Directors

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board of the Company as at the date of this report comprises the following directors:

*Executive directors:*
Ms. Siu York Chee, Doreen *(Chairperson and member of Remuneration Committee)*
Mr. Leung Kwok Kui *(member of Remuneration Committee)*

*Independent non-executive directors:*
Mr. Hung Anckes Yau Keung *(Chairman of Audit Committee and Remuneration Committee)*
Dr. Siu Yim Kwan, Sidney *(member of Audit Committee and Remuneration Committee)*
Mr. Tsui Pui Hung, Walter *(member of Audit Committee and Remuneration Committee)*

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the GEM Rules.

Ms. Siu York Chee, Doreen is the spouse of Mr. Leung Kwok Kui. Save for the aforesaid, none of the members of the Board is related to one another.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the GEM Rules. The Company considers both independent non-executive directors to be independent in accordance with the independence guidelines set out in the GEM Rules.

### Appointment and Succession Planning of Directors

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's articles of association.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election and Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

None of the independent non-executive directors is appointed for a specific term. Pursuant to the Company's articles of association, all directors of the Company, regardless of his/her term of appointment, if any, are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy is subject to re-election by shareholders at the first annual general meeting after his/her appointment. The Company in practice will observe Code Provision A.4.2 and will ensure that any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after his/her appointment.

**Board and Board Committees Meetings**

*Number of Meetings and Directors' Attendance*

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

During the year ended 31 October 2007, fifteen Board meetings (four of which were regular Board meetings) and four Audit Committee meetings were held.

The individual attendance record of each director at the meetings of the Board and Audit Committee during the year ended 31 October 2007 is set out below:

| | **Attendance/Number of Meetings held during the tenure of directorship** | |
|---|---|---|
| **Name of Directors** | **Board** | **Audit Committee** |
| Executive Directors | | |
| – Ms. Siu York Chee, Doreen *(Chairperson and member of Remuneration Committee)* | 15/15 | N/A |
| – Mr. Leung Kwok Kui *(member of Remuneration Committee)* | 15/15 | N/A |
| Independent Non-Executive Directors | | |
| – Mr. Hung Anckes Yau Keung *(Chairman of Audit Committee and Remuneration Committee)* | 15/15 | 4/4 |
| – Dr. Siu Yim Kwan, Sidney *(member of Audit Committee and Remuneration Committee)* | 13/15 | 4/4 |
| – Mr. Tsui Pui Hung, Walter *(appointed on 12 June 2007, member of Audit Committee* and *Remuneration Committee)* | 6/15 | 1/4 |

## CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of Chairperson and Chief Executive Officer should be separated and should not be performed by the same individual.

Ms. Siu York Chee, Doreen is the Chairperson and Chief Executive Officer of the Company. In view of the scale of operations of the Company and the fact that daily operations of the Group's business is delegated to the senior executives and department heads, the Board considers that vesting the roles of both Chairperson and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that the current structure provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. It is in the best interest of the Group to maintain the current practice for continuous efficient operations and development of the Group.

## BOARD COMMITTEES

The Board has established Audit and Remuneration Committees in accordance with the Code Provisions and all or a majority of the members of the Committees are independent non-executive Directors.

### Remuneration Committee

A remuneration committee was only formed in January 2007 with specific written terms of reference which deal clearly with its authority and duties in accordance with the requirements of the new Code. The remuneration committee is responsible for reviewing and developing the remuneration polices of the Directors and senior management. The remuneration committee consists of all the three independent non-executive directors of the Company, namely Mr. Hung Anckes Yau Keung, Mr. Siu Yim Kwan, Sidney, Mr. Tsui Pui Hung, Walter, and two executive directors, namely Ms. Siu York Chee and Mr. Leung Kwok Kui.

During the year under review, no meeting was held by the remuneration committee.

### Audit Committee

The Company established an Audit Committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Audit Committee are to review the Company's annual report and financial statements, half-yearly report and quarterly reports and to provide advice and comment thereon to the Board. The Audit Committee are also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. Currently it consists of three independent non-executive Directors, Mr. Hung Anckes Yau Keung, Chairman of the Audit Committee, Dr. Siu Yim Kwan, Sidney and Mr. Tsui Pui Hung, Walter.

The Company's annual results for the year ended 31 October 2007, has been reviewed by the Audit Committee.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 (the "Required Standard of Dealings") of the GEM Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Required Standard of Dealings throughout the year ended 31 October 2007.

The Company also has established written guidelines on no less exacting terms than the Required Standard of Dealings (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

## RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the GEM Rules and other regulatory requirements.

The directors acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 October 2007.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on page 23.

## AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services for the year ended 31 October 2007 amounted to HK$770,000.

## INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Company. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company. During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

## SHAREHOLDER RIGHTS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's articles of association. Details of such rights to demand a poll were included in the circular to shareholders in relation to the holding of 2007 annual general meeting and explained during the proceedings of the meeting.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairperson of the Board and the Chairman of the Audit Committee attended the 2007 annual general meeting to answer questions at the meeting.

Separate resolutions were proposed at 2007 annual general meeting on each substantial issue, including the election of individual directors.

# Report of the Directors

The directors of the Company ("Directors") present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 October 2007.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in the retails of beauty products and provision of beauty services, clinical services, property investment and beauty courses in Hong Kong, Macau and China.

An analysis of the Group's turnover and contribution to operating results of the Group by principal activities and geographical locations for each of the two years ended 31 October 2007 is set out in note 6 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest suppliers of the Group accounted for less than 30% of its operating costs for the year.

Sales to the Group's five largest customers accounted for less than 30% of the Group's turnover for each of the two years ended 31 October 2007.

Save as disclosed above, none of the directors or any of their associates (as defined in the Rules Governing the Listing of Securities on GEM ("GEM Listing Rules") or any shareholders of the Company (who, to the knowledge of the Directors, own more than 5% of the issued share capital of the Company) had any beneficial interest in any of the five largest suppliers or customers of the Group for the financial year ended 31 October 2007.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 October 2007 are set out in the consolidated income statement on page 24 of the annual report.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three years is set out on page 2.

## FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 13 to the financial statements.

## ISSUED CAPITAL AND SHARE OPTIONS

Details of the movements in issued capital and share options of the Company during the year are set out in notes 33 and 34, respectively to the financial statements.

## RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 35 to the financial statements respectively.

## DONATIONS

During the year, there was a donation of HK$2,000 made (2006: HK$Nil).

## DIRECTORS

The Directors who held office during the year are:

**Executive Directors**

Ms. Siu York Chee, Doreen
Mr. Leung Kwok Kui

**Independent non-executive Directors**

Mr. Hung Anckes Yau Keung,
*Ph.D. MBA, FCPA (Practising), FCCA, CICPA, ACMA, CGA*
Dr. Siu Yim Kwan, Sidney, *S.B.St.J.*
Mr. Tsui Pui Hung, Walter,
*LL. B. (Hons), LL.M. BSc (Hons)* (appointed on 12 June 2007)

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of five years. The service contracts shall be renewed automatically after the initial five years unless and until terminated by not less than six months' notice in writing served by either party on the other.

The non-executive Directors (including the independent non-executive Directors) have no fixed term of office but are subject to the provisions of retirement and rotation of Directors under the Articles of Association of the Company.

## SHARE OPTION SCHEMES

(a) On 24 September 2001, the shareholders of the Company approved a share option scheme (the "Scheme") under which its board of directors may, at its discretion, offer full-time or part time employees and executive, non-executive and independent non-executive directors of the Company and/or any of its subsidiaries, options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 30% of the issued share capital of the Company. The subscription price will be determined by the Company's board of directors and will be the highest of (i) the nominal value of the shares, (ii) the quoted closing price of the Company's shares on the date of offer of the options, and (iii) the average of the quoted closing prices of the Company's shares on the five trading days immediately preceding the date of offer of the options.

All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

Share options and respective exercise prices are as follows for the reporting period presented:

| | | Number of options during the year ended 31 October 2007 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Type of grantee | At 1 November 2006 | Granted | Exercised # | Adjustments * | At 31 October 2007 | Date of grant | Exercise period of the share options | Exercise price per share *HK$* |
| **Employees** | | | | | | | | |
| – In aggregate | 4,900,000 | – | – | 6,860,000 | 11,760,000 | 20 June 2005 | 22 June 2005 to 21 December 2008 | 0.1438* |
| – In aggregate | – | 3,000,000 | – | 4,200,000 | 7,200,000 | 23 February 2007 | 27 February 2007 to 26 February 2009 | 0.1500* |
| – In aggregate | – | 300,000 | – | 420,000 | 720,000 | 15 March 2007 | 15 March 2007 to 14 September 2008 | 0.2250* |
| – In aggregate | – | 26,560,000 | – | – | 26,560,000 | 27 September 2007 | 27 September 2007 to 26 September 2009 | 0.0690 |
| | 4,900,000 | 29,860,000 | – | 11,480,000 | 46,240,000 | | | |
| **Other eligible persons** | | | | | | | | |
| – In aggregate | 2,000,000 | – | (2,000,000) | – | – | 27 June 2005 | 6 July 2005 to 5 July 2007 | 0.3730 |
| – In aggregate | – | 1,000,000 | – | 1,400,000 | 2,400,000 | 14 March 2007 | 14 March 2007 to 13 March 2009 | 0.2292* |
| – In aggregate | – | 5,000,000 | – | – | 5,000,000 | 4 October 2007 | 17 October 2007 to 16 October 2009 | 0.0700 |
| | 2,000,000 | 6,000,000 | (2,000,000) | 1,400,000 | 7,400,000 | | | |
| | 6,900,000 | 35,860,000 | (2,000,000) | 12,880,000 | 53,640,000 | | | |

# *The weighted average share price of these shares at the date of exercise was HK$0.8175.*

* *This reflects the adjusted exercise prices and number of share options which have been granted and are outstanding after the completion of share subdivision on 9 August 2007 and bonus issue on 31 August 2007.*

Share options and respective exercise prices are as follows for the reporting periods presented:

| | Number of options during the year ended 31 October 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| Type of grantee | At 1 November 2005 | Exercised | Cancelled/ lapsed | At 31 October 2006 | Date of grant | Exercise period of the share options | Exercise price per share |
| | | | | | | | *HK$* |
| **Directors** | | | | | | | |
| – Siu York Chee | 127,954 | (127,954) | – | – | 14-Jan-05 | 20-Jan-05 – 19-Jun-06 | 0.1657 |
| – Leung Kwok Kui | 127,954 | (127,954) | – | – | 14-Jan-05 | 20-Jan-05 – 19-Jun-06 | 0.1657 |
| | 255,908 | (255,908) | – | – | | | |
| **Employees** | | | | | | | |
| – In aggregate | 212,133 | (161,625) | (50,508) | – | 15-Feb-05 | 18-Aug-05 – 07-Sep-06 | 0.1728 |
| – In aggregate | 6,000,000 | (1,100,000) | – | 4,900,000 | 20-Jun-05 | 22-Jun-05 – 21-Dec-08 | 0.3450 |
| – In aggregate | 4,640,000 | (4,240,000) | (400,000) | – | 05-Jul-05 | 07-Jan-06 – 06-Jan-07 | 0.3720 |
| – In aggregate | 5,000,000 | – | (5,000,000) | – | 05-Jul-05 | 21-Jul-05 – 20-Jul-07 | 0.3720 |
| | 15,852,133 | (5,501,625) | (5,450,508) | 4,900,000 | | | |
| **Other eligible persons** | | | | | | | |
| – In aggregate | 2,000,000 | – | – | 2,000,000 | 27-Jun-05 | 06-Jul-05 – 05-Jul-07 | 0.3730 |
| | 18,108,041 | (5,757,533) | (5,450,508) | 6,900,000 | | | |

The fair values of options granted during the year ended October 2007 were determined using the Black-Scholes valuation model. Significant inputs into the calculation included a weighted average share price of HK$0.42 and exercise prices as illustrated above. Furthermore, the calculation takes into account volatility rates ranging from 73.29% to 95.46%, based on expected share price. Risk-free interest rates ranging from 3.52% to 2.74% were determined.

The fair values of options granted during the year ended 31 October 2006 were determined using the Black-Scholes valuation model. Significant inputs into the calculation included a weighted average share price of HK$0.37 and exercise prices as illustrated above. Furthermore, the calculation takes into account volatility rate of 117.92% based on expected share price. Risk-free interest rate of 3.13% was determined.

In total, HK$646,000 of employee compensation expense has been included in the consolidated income statement for 2007 (2006: HK$338,000), the corresponding amount of which has been credited to share option reserve (note 35). No liabilities were recognised due to share-based payment transactions.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 October 2007, the interests or short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or 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 referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the HKSE, were as follows:

**(a) Long positions in the shares of the Company**

| Name | Type of interest | No. of shares | Approximate percentage of interest |
|---|---|---|---|
| Mr. Leung Kwok Kui | Personal | 19,088 | 0.00 |
| Ms. Siu York Chee | Personal | 5,419,088 | 0.29 |

Save as disclosed herein above, as at 31 October 2007, none of the Directors has long positions in shares or underlying shares of equity derivatives.

**(b) Short positions in shares and underlying shares of equity derivatives of the Company**

Save as disclosed herein above, as at 31 October 2007, none of the Directors has short positions in shares or underlying shares of equity derivatives.

## PERSONS WHO HAVE AN INTEREST OR A SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS OF OTHER MEMBER OF THE GROUP

So far as is known to any Director or chief executive of the Company, as at 31 October 2007, persons who have an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group were as follows:

**(a) Long position in the shares**

So far as the Directors are aware of, save as disclosed herein, no persons had long positions in the Shares or underlying shares of equity derivatives of the Company as at 31 October 2007.

**(b) Short positions in the shares and underlying shares of equity derivatives of the Company**

So far as the directors are aware, save as disclosed herein, no persons have short positions in the shares or underlying shares of equity derivatives.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

## PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the period from 1 November 2006 to 31 October 2007.

## COMPETING INTEREST

None of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company has an interest in a business, which competes or may compete with the business of the Group.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 (the "Required Standard of Dealings") of the GEM Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Required Standard of Dealings throughout the year ended 31 October 2007.

## AUDIT COMMITTEE

The Company has formed an audit committee with written terms of reference based on the guidelines recommended by the Hong Kong Institute of Certified Public Accountants. The audit committee (the "Committee") comprises three Independent Non-Executive Directors, namely Mr. Hung Anckes Yau Keung, and Dr. Siu Yim Kwan, Sidney and Mr. Tsui Pui Hung Walter. Mr. Hung Anckes Yau Keung is also the chairman of the audit committee. The primary duties of the Committee are to review the Company's annual report and accounts, half-yearly report, quarterly reports and monthly reports and to provide advice and comments thereon to the board of Directors. The Committee is also responsible for reviewing and monitoring the Company's internal control procedures. The Committee has reviewed the draft of this report and has provided advice and comments thereon.

During the financial year ended 31 October 2007, the audit committee has reviewed the Company's half-year report, quarterly reports and monthly reports and has provided advice and comments thereon to the Board. The audit committee has met 4 times during the financial year for reviewing the Company's financial reports and monitoring the Company's internal control procedures.

## CORPORATE GOVERNANCE

The Company has published its Corporate Governance Report, details of which are set out on pages 13 to 16 of this annual report.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions ("Code Provisions") set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited) ("GEM Listing Rules") that are considered to be relevant to the Company and has complied with the Code Provisions save as disclosed below.

a) Ms. Siu York Chee, Doreen currently holds the offices of Chairperson and Chief Executive Officer of the Company. The Board considers that the current structure of vesting the roles of Chairperson and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that the current structure provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

b) None of the independent non-executive directors is appointed for a specific term but pursuant to the Company's articles of association, all directors of the Company are subject to retirement by rotation and re-election at the annual general meetings of the Company at least once every three years. Further, pursuant to the Company's articles of association, any new director appointed to fill a casual vacancy is subject to re-election by shareholders at the first annual general meeting after his/her appointment. The Company in practice will observe Code Provision A.4.2 and will ensure that any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after his/her appointment.

## AUDITORS

The financial statements of the Company for the year ended 31 October 2007 were audited by Grant Thornton, who will retire and a resolution to re-appoint Grant Thornton as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
**B.A.L. Holdings Limited**
**Siu York Chee, Doreen**
*Chairperson*

Hong Kong, 28 January 2008

# Independent Auditors' Report

Grant Thornton
均富會計師行

**Certified Public Accountants**
**Member of Grant Thornton International**

**TO THE MEMBERS OF B.A.L. HOLDINGS LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of B.A.L. Holdings Limited (the "Company") set out on pages 24 to 76, which comprise the consolidated and company balance sheets as at 31 October 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 October 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Grant Thornton**
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

28 January 2008

# Consolidated Income Statement

*For the year ended 31 October 2007*

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Revenue** | 5 | **170,822** | 146,381 |
| Cost of sales | | **(28,323)** | (13,902) |
| **Gross profit** | | **142,499** | 132,479 |
| Other revenue and gains | 5 | **17,683** | 6,275 |
| Servicing, selling and distribution costs | | **(96,459)** | (86,218) |
| Administrative expenses | | **(37,616)** | (29,813) |
| Other operating expenses | | **(3,773)** | (1,881) |
| **Operating profit** | 7 | **22,334** | 20,842 |
| Finance costs | 8 | **(3,061)** | (1,150) |
| Share of results of jointly controlled entities | | **(1,177)** | (510) |
| Share of result of an associate | 18 | **1,351** | – |
| **Profit before income tax** | | **19,447** | 19,182 |
| Income tax expense | 9 | **(2,929)** | (2,658) |
| **Profit for the year** | | **16,518** | 16,524 |
| **Attributable to:** | | | |
| **Equity holders of the Company** | 10 | **15,931** | 17,052 |
| **Minority interests** | | **587** | (528) |
| **Profit for the year** | | **16,518** | 16,524 |
| | | | (Restated) |
| **Earnings per share for profit attributable to the equity holders of the Company during the year** | 11 | | |
| **– Basic** | | **HK4.52 cents** | HK5.93 cents |
| **– Diluted** | | **N/A** | N/A |

# Consolidated Balance Sheet

*As at 31 October 2007*

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **34,365** | 26,735 |
| Investment properties | 14 | **1,630** | – |
| Goodwill | 15 | **4,819** | 3,136 |
| Interests in jointly controlled entities | 17 | **–** | 1,480 |
| Interests in an associate | 18 | **26,351** | – |
| Held-to-maturity investments | 19 | **70** | – |
| Available-for-sale financial assets | 20 | **2,352** | – |
| Derivative financial instruments | 21 | **5,187** | – |
| Deposits | 22 | **3,653** | 3,459 |
| Deferred tax assets | 32 | **547** | 86 |
| | | **78,974** | 34,896 |
| **Current assets** | | | |
| Inventories | 23 | **5,117** | 2,348 |
| Trade receivables | 24 | **42,614** | 23,508 |
| Prepayments, deposits and other receivables | 22 | **139,739** | 23,187 |
| Financial assets at fair value through profit or loss | 25 | **12,263** | 2,745 |
| Available-for-sale financial assets | 20 | **–** | 3,753 |
| Derivative financial instruments | 21 | **2,353** | – |
| Amounts due from related companies | 26 | **4,154** | 695 |
| Cash and cash equivalents | 27 | **15,873** | 20,052 |
| Tax recoverable | | **148** | 12 |
| | | **222,261** | 76,300 |
| **Current liabilities** | | | |
| Trade payables | 28 | **577** | 417 |
| Accruals, receipts in advance and other payables | 29 | **21,190** | 18,337 |
| Amount due to an associate | 18 | **30** | – |
| Amounts due to minority interests | 30 | **1,291** | 4,647 |
| Borrowings | 31 | **98,768** | 348 |
| Provision for tax | | **4,755** | 5,845 |
| | | **126,611** | 29,594 |
| **Net current assets** | | **95,650** | 46,706 |
| **Total assets less current liabilities** | | **174,624** | 81,602 |
| **Non-current liabilities** | | | |
| Deposits | 29 | **219** | – |
| **Net assets** | | **174,405** | 81,602 |
| **EQUITY** | | | |
| Equity attributable to Company's equity holders | | | |
| Share capital | 33 | **94,961** | 46,444 |
| Reserves | | **79,444** | 34,904 |
| | | **174,405** | 81,348 |
| **Minority interests** | | **–** | 254 |
| **Total equity** | | **174,405** | 81,602 |

**Siu York Chee**
*Director*

**Leung Kwok Kui**
*Director*

# Balance Sheet

*As at 31 October 2007*

| | Note | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | 16 | **1,097** | 1,097 |
| **Current assets** | | | |
| Deposits and other receivables | 22 | **99** | 20 |
| Amounts due from subsidiaries | 16 | **117,637** | 41,550 |
| Financial assets at fair value through profit or loss | 25 | **5** | – |
| Cash and cash equivalents | 27 | **235** | 81 |
| | | **117,976** | 41,651 |
| **Current liabilities** | | | |
| Accruals | 29 | **300** | 184 |
| Amounts due to subsidiaries | 16 | **3,010** | 3,030 |
| Provision for tax | | **117** | 57 |
| | | **3,427** | 3,271 |
| **Net current assets** | | **114,549** | 38,380 |
| **Net assets** | | **115,646** | 39,477 |
| **EQUITY** | | | |
| Share capital | 33 | **94,961** | 46,444 |
| Reserves | 35 | **20,685** | (6,967) |
| **Total equity** | | **115,646** | 39,477 |

**Siu York Chee**
*Director*

**Leung Kwok Kui**
*Director*

# Consolidated Statement of Changes in Equity

*For the year ended 31 October 2007*

| | Equity attributable to equity holders of the Company | | | | | | | | | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital redemption reserve | Exchange reserve | (Accumulated losses)/ retained profits | Capital reserves | Investment revaluation reserve | Share option reserve | Total | | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 November 2005 | 41,946 | 26,153 | – | – | (51,223) | 28,327 | – | 589 | 45,792 | 734 | 46,526 |
| Change in fair value of available-for-sale financial assets | – | – | – | – | – | – | (192) | – | (192) | – | (192) |
| Arising from change of exchange rate | – | – | – | 17 | – | – | – | – | 17 | 51 | 68 |
| Profit for the year | – | – | – | – | 17,052 | – | – | – | 17,052 | (528) | 16,524 |
| **Total recognised income and expense for the year** | – | – | – | 17 | 17,052 | – | (192) | – | 16,877 | (477) | 16,400 |
| Equity-settled share option arrangement | – | – | – | – | – | – | – | 338 | 338 | – | 338 |
| Capital contribution by minority equity holders of subsidiaries | – | – | – | – | – | – | – | – | – | 7 | 7 |
| Arising from acquisition of additional interests in a subsidiary | – | – | – | – | – | – | – | – | – | (10) | (10) |
| Proceeds from shares issued | 4,200 | 13,440 | – | – | – | – | – | – | 17,640 | – | 17,640 |
| Proceeds from exercise of share options | 576 | 1,451 | – | – | – | – | – | – | 2,027 | – | 2,027 |
| Repurchase of shares | (278) | (1,048) | 278 | – | (278) | – | – | – | (1,326) | – | (1,326) |
| At 31 October 2006 and 1 November 2006 | 46,444 | 39,996* | 278* | 17* | (34,449)* | 28,327* | (192)* | 927* | 81,348 | 254 | 81,602 |
| Change in fair value of available-for-sale financial assets | – | – | – | – | – | – | 11 | – | 11 | – | 11 |
| Profit for the year | – | – | – | – | 15,931 | – | – | – | 15,931 | 587 | 16,518 |
| **Total recognised income and expense for the year** | – | – | – | – | 15,931 | – | 11 | – | 15,942 | 587 | 16,529 |
| Realisation of fair value change of available-for-sale financial assets on disposal | – | – | – | – | – | – | 192 | – | 192 | – | 192 |
| Equity-settled share option arrangement | – | – | – | – | – | – | – | 646 | 646 | – | 646 |
| Arising from acquisition of additional interests in subsidiaries | – | – | – | – | – | – | – | – | – | (855) | (855) |
| Capital contributed by minority shareholders | – | – | – | – | – | – | – | – | – | 14 | 14 |
| Proceeds from shares issued | 34,740 | 40,791 | – | – | – | – | – | – | 75,531 | – | 75,531 |
| Proceeds from exercise of share options | 200 | 546 | – | – | – | – | – | – | 746 | – | 746 |
| Bonus issue | 13,577 | (13,577) | – | – | – | – | – | – | – | – | – |
| Share premium cancellation *(Note 35)* | – | (48,168) | – | – | 48,168 | – | – | – | – | – | – |
| At 31 October 2007 | 94,961 | 19,588* | 278* | 17* | 29,650* | 28,327* | 11* | 1,573* | 174,405 | – | 174,405 |

* *These reserve accounts comprise the consolidated reserves of HK$79,444,000 (2006: HK$34,904,000) in the consolidated balance sheet.*

# Consolidated Cash Flow Statement

*For the year ended 31 October 2007*

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Cash flows from operating activities** | | | |
| Profit for the year before income tax | | **19,447** | 19,182 |
| Adjustments for: | | | |
| Depreciation | *7* | **11,790** | 8,506 |
| Property, plant and equipment written off | *7* | **665** | 156 |
| Loss on disposal of property, plant and equipment | *7* | **1,407** | – |
| Dividend income | *5* | **(10)** | (8) |
| Interest income | *5* | **(998)** | (467) |
| Interest expenses | *8* | **3,061** | 1,150 |
| Fair value gains on investment properties | *5* | **(10)** | – |
| Fair value gains on financial assets at fair value through profit or loss | *5* | **(13,795)** | (2,513) |
| Fair value loss on derivative financial instruments | *7* | **651** | – |
| Loss on disposal of available-for-sale financial assets | *7* | **110** | – |
| Loss on termination of a jointly controlled entity | *7* | **78** | – |
| Provision for impairment of trade receivables | *7* | **650** | 148 |
| Provision for impairment of property, plant and equipment | *7* | **–** | 1,287 |
| Net surplus of net carrying amounts of assets acquired over cost of acquisition of additional interests in subsidiaries | *5* | **(855)** | – |
| Excess of cost of acquisition of additional interest in a subsidiary over the net carrying amount acquired | *7* | **–** | 290 |
| Share of results jointly controlled entities | | **1,177** | 510 |
| Share of result of an associate | | **(1,351)** | – |
| Equity-settled share option expense | *7* | **646** | 338 |
| Operating profit before working capital changes | | **22,663** | 28,579 |
| Increase in inventories | | **(2,604)** | (1,530) |
| Increase in trade and other receivables | | **(134,301)** | (28,313) |
| Decrease in trade and other payables | | **(227)** | (3,150) |
| Increase in amounts due from related companies | | **(3,459)** | (475) |
| Decrease in amounts due to related companies | | **–** | (40) |
| Increase in amount due to an associate | | **30** | – |
| Cash used in operations | | **(117,898)** | (4,929) |
| Interest received | | **998** | 467 |
| Income tax paid | | **(4,424)** | (1,546) |
| *Net cash used in operating activities* | | **(121,324)** | (6,008) |

# Consolidated Cash Flow Statement

*For the year ended 31 October 2007*

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchase of financial assets at fair value through profit or loss | | **(132,015)** | (28,574) |
| Proceeds from disposal of financial assets at fair value through profit or loss | | **136,292** | 29,044 |
| Purchase of held-to-maturity financial assets | | **(70)** | - |
| Purchase of available-for-sale financial assets | | **(2,341)** | - |
| Proceeds from disposal of available-for-sale financial assets | | **3,835** | - |
| Purchase of derivative financial instruments | | **(8,191)** | - |
| Acquisition of subsidiaries | *37* | **(2,359)** | (948) |
| Investment in jointly controlled entities | | **–** | (1,990) |
| Investment in an associate | | **(25,000)** | - |
| Acquisition of additional interest in a subsidiary | | **–** | (300) |
| Dividend received | | **10** | 8 |
| Purchase of investment properties | | **(1,620)** | - |
| Purchase of property, plant and equipment | | **(19,795)** | (14,745) |
| Proceeds from disposal of property, plant and equipment | | **180** | – |
| *Net cash used in investing activities* | | **(51,074)** | (17,505) |
| **Cash flows from financing activities** | | | |
| Interest paid | | **(3,061)** | (1,150) |
| Proceeds from allotment of shares, net of expenses | | **75,531** | 19,667 |
| Repurchase of shares | | **–** | (1,326) |
| Proceeds from exercise of share options | | **746** | - |
| Capital contributed by minority shareholders | | **14** | – |
| Repayment of amount due to a jointly controlled entity | | **(75)** | - |
| Loans from minority shareholders | | **–** | 4,062 |
| Repayments of amounts due to minority shareholders | | **(3,356)** | - |
| Drawdown of other loans | | **98,618** | 150 |
| Capital element of finance lease liabilities | | **(198)** | (279) |
| *Net cash generated from financing activities* | | **168,219** | 21,124 |
| Net decrease in cash and cash equivalents | | **(4,179)** | (2,389) |
| Cash and cash equivalents at beginning of year | | **20,052** | 22,510 |
| Effect of foreign exchange rate changes, net | | **–** | (69) |
| Cash and cash equivalents at end of year | | **15,873** | 20,052 |
| Analysis of balances of cash and cash equivalents | | | |
| Cash at bank and in hand | | **15,873** | 20,052 |

# Notes to the Financial Statements

*For the year ended 31 October 2007*

## 1. GENERAL INFORMATION

B.A.L. Holdings Limited (the "Company") is an exempted company with limited liability incorporated and domiciled in the Cayman Islands. The address of its registered office is Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies and its principal places of business are in Hong Kong, Macau and the Peoples' Republic of China, excluding Hong Kong and Macau (the "PRC"). The Company's shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "SEHK").

The principal activities of the Company and its subsidiaries (the "Group") include the provision of beauty services and beauty courses, retailing of beauty products and investment holding. During the year, the Group commenced a new business of property investment which includes trading and leasing of properties.

The financial statements on pages 24 to 76 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the SEHK (the "GEM Listing Rules").

The financial statements for the year ended 31 October 2007 were approved for issue by the board of directors on 28 January 2008.

## 2. ADOPTION OF NEW OR AMENDED HKFRSs

From 1 November 2006, the Group has adopted all the new and amended HKFRSs which are first effective on 1 November 2006 and relevant to the Group. The adoption of these new and amended HKFRSs did not result in any significant changes in the Group's accounting policies.

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such HKFRSs will not result in material financial impact on the Group's financial statements.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures[1] |
| HKAS 1 (Revised) | Presentation of Financial Statements[2] |
| HKAS 23 (Revised) | Borrowing Costs[2] |
| HKFRS 7 | Financial Instruments: Disclosures[1] |
| HKFRS 8 | Operating Segments[2] |
| HK (IFRIC) – Interpretation 11 | Group and Treasury Share Transactions[3] |
| HK (IFRIC) – Interpretation 12 | Service Concession Arrangements[4] |
| HK (IFRIC) – Interpretation 13 | Customer Loyalty Programmes[5] |
| HK (IFRIC) – Interpretation 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements, and their Interaction[4] |

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for investment properties, certain financial instruments classified as available-for-sale financial assets and financial assets at fair value through profit or loss and derivative financial instruments which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in the preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

### 3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (together referred to as the "Group") made up to 31 October each year.

### 3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

In case of the changes in ownership in a subsidiary after control is obtained that do not result in a loss of control, an excess of the cost of the further acquisition over the net carrying amounts acquired, or vice versa, was charged to/recognised in the consolidated income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.3 Subsidiaries *(Continued)*

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

### 3.4 Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

In consolidated financial statements, investment in jointly controlled entities is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the jointly controlled entity is carried at cost and adjusted for the post-acquisition changes in the Group's share of the jointly controlled entity's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the jointly controlled entity for the year, including any impairment loss on goodwill relating to the investment in jointly controlled entity recognised for the year.

When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the Group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its jointly controlled entity. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in jointly controlled entity is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.12) of the jointly controlled entity and its carrying amount.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the jointly controlled entity's profit or loss in which the investment is acquired.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.5 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.12) of the associate and its carrying amount.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in which the investment is acquired.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

### 3.6 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.6 Foreign currency translation *(Continued)*

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into HK$ at the closing rates. Goodwill arising on the acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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

### 3.7 Revenue recognition

Revenue comprises the fair value for the sale of goods and rendering of services, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Provision of beauty and clinical services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Tuition fee income is recognised when beauty courses are provided.

Rental income is recognised on a straight-line basis over the term of the lease.

Management/franchisee fee income is recognised when services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend is recognised when the right to receive payment is established.

### 3.8 Borrowing costs

All borrowing costs are expensed as incurred.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.9 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary. Accounting for goodwill arising on acquisition of investments in jointly controlled entity and associate is set out in notes 3.4 and 3.5 respectively.

Goodwill represents the excess of the cost of a business combination or an investment over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assume, and equity instruments issued by the Group, plus any costs directly attributable to the business combination or investment.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3.12).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

### 3.10 Property, plant and equipment

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Depreciation is provided to write off the cost over their estimated useful lives, using the straight-line method, at the following rates per annum:

| | |
|---|---|
| Leasehold improvements | 20% or over the lease terms, if shorter |
| Equipment | 20% to 30% |
| Furniture and fixtures | 20% |
| Motor vehicles | 20% |

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

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.11 Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property. Any changes between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Gains or losses arising from either changes in the fair value or the sale of an investment property are included in the profit or loss for the period in which they arise.

### 3.12 Impairment of assets

Goodwill arising on an acquisition of subsidiary, property, plant and equipment, held-to-maturity investments, interests in subsidiaries, jointly controlled entities and associates are subject to impairment testing.

Goodwill with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.13 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*(a) Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

*(b) Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

*(c) Operating lease charges as the lessee*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

*(d) Assets leased out under operating leases as the lessor*

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.14 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries, jointly controlled entities and associates are set out below.

The Group's financial assets other than hedging instruments are classified into held-to-maturity investments, financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

*(a) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

*(b) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

*(c) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.14 Financial assets *(Continued)*

*(d) Available-for-sale financial assets*

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value is recognised directly in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

*Impairment of financial assets*

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

*(a) Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

*(b) Available-for-sale financial assets*

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.14 Financial assets *(Continued)*

*Impairment of financial assets (Continued)*

(c) *Financial assets carried at cost*
The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

### 3.15 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated applicable selling expenses.

### 3.16 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

### 3.17 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, which are not restricted as to use.

### 3.18 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.19 Retirement benefit costs and short term employee benefits

*Retirement benefit costs*

Retirement benefits to employees are provided through a defined contribution plan.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

*Short-term employee benefits*

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

### 3.20 Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 November 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is ultimately recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in share option reserve. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.21 Financial liabilities

The Group's financial liabilities include trade payables, accruals, receipts in advance and other payables, amount due to an associate, amounts due to minority interests and borrowings.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

*Trade payables*

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

*Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

### 3.22 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liabilities, unless the probability of outflow of economic benefit is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### 3.23 Related parties

A party is considered to be related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.23 Related parties *(Continued)*

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

### 3.24 Segment reporting

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

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, investment properties, inventories, receivables and operating cash, and mainly exclude corporate assets, financial assets at fair value through profit or loss, available-for-sale financial assets. Segment liabilities comprise operating liabilities and exclude items such as provision for tax and certain corporate borrowings.

Capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible), including additions of assets through acquisition of subsidiaries, that are expected to be used for more than one period.

In respect of geographical segment reporting, revenue is based on the location in which the customer is located and total assets and capital expenditure are where the assets are located.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The critical accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### 4.1 Impairment of assets

The Group assesses impairment at each balance sheet date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are mainly based on market condition existing at the balance sheet dates and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### 4.2 Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.12. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 October 2007 was HK$4,819,000 (2006: HK$3,136,000). More details are given in note 15.

### 4.3 Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated distribution and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations at the balance sheet date.

### 4.4 Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of ageing analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the collateral security and the past collection history of each customer. If the financial conditions of the customers of the Group, on whose account provision for impairment has been made, were improved and no impairment of their ability to make payments were noted, reversal of provision for impairment may be required.

### 4.5 Income taxes

The Group is subject to income taxes in certain jurisdictions other than Hong Kong. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### 4.6 Share-based employee compensation

Expense on share-based employee compensation is subject to the limitations of the option pricing models adopted and the uncertainty in estimates used by management in the assumptions. Should the estimates including limited early exercise behaviour, expected interval and frequency of open exercise periods in the share option life and the relevant parameters of the share option mode be changed, there would be material changes in the amount of share option benefits recognised in the income statement and share option reserve.

### 4.7 Fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

(a) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

## 5. REVENUE AND OTHER REVENUE AND GAINS

Revenue, which is also the Group's turnover, represents total invoiced value of beauty products sold, net of discounts and sales returns, the appropriate proportion of contract revenue generated from the provision of beauty and clinical services and beauty courses, and the appropriate proportion of rental income based on the terms of the lease of investment properties.

| | 2007 | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| Beauty services and sale of beauty products | **99,115** | 130,293 |
| Clinical services | **68,224** | 8,844 |
| Tuition fees of beauty courses | **3,476** | 7,244 |
| Rental income from investment properties | **7** | – |
| | **170,822** | 146,381 |
| **Other revenue and gains** | | |
| Management fee income | **240** | 1,020 |
| Franchise fee income | **198** | 907 |
| Interest income | **998** | 467 |
| Rental income from sublet of office premises | **857** | 690 |
| Dividend income from listed investments | **10** | 8 |
| Fair value gains on investment properties *(note 14)* | **10** | – |
| Fair value gains on financial assets at fair value through profit or loss | **13,795** | 2,513 |
| Exchange gain, net | **–** | 30 |
| Net surplus of net carrying amounts of assets acquired over cost of acquisition of additional interests in subsidiaries* | **855** | – |
| Others | **720** | 640 |
| | **17,683** | 6,275 |

* *Excess of cost of acquisition of additional interest in a subsidiary over carrying amount of net assets acquired for the year ended 31 October 2007 amounting to approximately HK$73,000 was offset to the surplus.*

## 6. SEGMENT INFORMATION

**(a) Primary reporting format – business segments**

The Group is organised into four main business segments:

(i) Provision of beauty services and sale of beauty products;
(ii) Provision of clinical services;
(iii) Operation of beauty courses; and
(iv) Property investment.

There were no inter-segment sales and transfers during the year (2006: Nil).

| | 2007 | | | | |
|---|---|---|---|---|---|
| | **Beauty services and sale of beauty products** *HK$'000* | **Clinical services** *HK$'000* | **Beauty courses** *HK$'000* | **Property investment** *HK$'000* | **Group** *HK$'000* |
| Revenue from external customers | **99,115** | **68,224** | **3,476** | **7** | **170,822** |
| Segment results | **547** | **19,752** | **(831)** | **(35)** | **19,433** |
| Interest and dividend income | | | | | **1,008** |
| Unallocated income | | | | | **16,675** |
| Unallocated expenses | | | | | **(14,782)** |
| Operating profit | | | | | **22,334** |
| Finance costs | | | | | **(3,061)** |
| Share of results of jointly controlled entities | **(1,177)** | | | | **(1,177)** |
| Share of result of an associate | | | | | **1,351** |
| Profit before income tax | | | | | **19,447** |
| Income tax expense | | | | | **(2,929)** |
| Profit for the year | | | | | **16,518** |

## 6. SEGMENT INFORMATION *(Continued)*

### (a) Primary reporting format – business segments *(Continued)*

| | 2007 | | | | |
|---|---|---|---|---|---|
| | **Beauty services and sale of beauty products** *HK$'000* | **Clinical services** *HK$'000* | **Beauty courses** *HK$'000* | **Property investment** *HK$'000* | **Group** *HK$'000* |
| Segment assets | **66,699** | **38,513** | **2,298** | **12,005** | **119,515** |
| Jointly controlled entities | | | | | **–** |
| Associate | | | | | **26,351** |
| Unallocated assets | | | | | **155,369** |
| Total assets | | | | | **301,235** |
| Segment liabilities | **9,438** | **9,040** | **993** | **22** | **19,493** |
| Unallocated liabilities | | | | | **107,337** |
| Total liabilities | | | | | **126,830** |
| Capital expenditure | **11,057** | **9,858** | **536** | **1,620** | **23,071** |
| Unallocated portion | | | | | **221** |
| Total capital expenditure | | | | | **23,292** |
| Depreciation | **8,256** | **2,985** | **244** | **–** | **11,485** |
| Unallocated portion | | | | | **305** |
| Total depreciation | | | | | **11,790** |
| Other non-cash expenses | **2,868** | **575** | **118** | **–** | **3,561** |
| Unallocated portion | | | | | **646** |
| Total other non-cash expenses | | | | | **4,207** |

## 6. SEGMENT INFORMATION *(Continued)*

### (a) Primary reporting format – business segments *(Continued)*

| | 2006 | | | | |
|---|---|---|---|---|---|
| | Beauty services and sale of beauty products | Clinical services | Beauty courses | Property investment | Group |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue from external customers | 130,293 | 8,844 | 7,244 | – | 146,381 |
| Segment results | 21,350 | 3,524 | 2,497 | – | 27,371 |
| Interest and dividend income | | | | | 475 |
| Unallocated income | | | | | 5,773 |
| Unallocated expenses | | | | | (12,777) |
| Operating profit | | | | | 20,842 |
| Finance costs | | | | | (1,150) |
| Share of results of jointly controlled entities | (510) | | | | (510) |
| Share of result of an associate | | | | | – |
| Profit before income tax | | | | | 19,182 |
| Income tax expense | | | | | (2,658) |
| Profit for the year | | | | | 16,524 |

## 6. SEGMENT INFORMATION *(Continued)*

### (a) Primary reporting format – business segments *(Continued)*

| | 2006 | | | | |
|---|---|---|---|---|---|
| | Beauty services and sale of beauty products | Clinical services | Beauty courses | Property investment | Group |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment assets | 88,388 | 3,743 | 9,333 | – | 101,464 |
| Jointly controlled entities | 1,480 | | | | 1,480 |
| Associate | | | | | – |
| Unallocated assets | | | | | 8,252 |
| Total assets | | | | | 111,196 |
| Segment liabilities | 12,824 | 1,614 | 6,306 | – | 20,744 |
| Unallocated liabilities | | | | | 8,850 |
| Total liabilities | | | | | 29,594 |
| Capital expenditure | 9,217 | 280 | 5,065 | – | 14,562 |
| Unallocated portion | | | | | 710 |
| Total capital expenditure | | | | | 15,272 |
| Depreciation | 7,862 | 102 | 299 | – | 8,263 |
| Unallocated portion | | | | | 243 |
| Total depreciation | | | | | 8,506 |
| Other non-cash expenses | 1,840 | – | – | – | 1,840 |
| Unallocated portion | | | | | 379 |
| Total other non-cash expenses | | | | | 2,219 |

## 6. SEGMENT INFORMATION *(Continued)*

### (b) Secondary report format – geographical segments

The Group's operations are located in three main geographical areas. The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods and services.

Sales revenue by geographical markets:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong | **143,017** | 124,799 |
| Macau | **12,720** | 16,139 |
| PRC, excluding Hong Kong and Macau | **15,085** | 5,443 |
| | **170,822** | 146,381 |

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and investment properties, analysed by the geographical area in which the assets are located.

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Segment assets** | **Capital expenditures** | Segment assets | Capital expenditures |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Hong Kong | **95,525** | **11,881** | 95,471 | 11,395 |
| Macau | **11,128** | **3,777** | 8,947 | 2,343 |
| PRC, excluding Hong Kong and Macau | **13,269** | **7,420** | 5,545 | 824 |
| Unallocated | **181,313** | **214** | 1,233 | 710 |
| | **301,235** | **23,292** | 111,196 | 15,272 |

## 7. OPERATING PROFIT – GROUP

Operating profit is arrived at after charging:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Operating lease charges in respect of land and buildings | **16,847** | 12,746 |
| Cost of inventories recognised as expense | **2,057** | 2,127 |
| Depreciation | **11,790** | 8,506 |
| Outgoings in respect of investment properties | **1** | – |
| Property, plant and equipment written off | **665** | 156 |
| Loss on disposal of property, plant and equipment | **1,407** | – |
| Auditors' remuneration | | |
| Current year | **770** | 505 |
| Less: Under provision in prior year | **–** | 155 |
| | **770** | 660 |
| Fair value loss on derivative financial instruments | **651** | – |
| Loss on disposal of available-for-sale financial assets | **110** | – |
| Loss on termination of a jointly controlled entity *(Note 17)* | **78** | – |
| Provision for impairment of trade receivables | **650** | 148 |
| Provision for impairment of property, plant and equipment | **–** | 1,287 |
| Excess of cost of acquisition of additional interest in a subsidiary over carrying amount of net assets acquired | **–** | 290 |
| Employee benefit expense (including directors' remuneration) *(Note 12)*) | | |
| Basic salaries and allowances | **55,506** | 51,770 |
| Equity-settled share option expense | **646** | 338 |
| Pension scheme contributions | **2,075** | 1,968 |
| | **58,227** | 54,076 |
| Exchange loss, net | **212** | – |

## 8. FINANCE COSTS – GROUP

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Interest charges on: | | |
| Other loans wholly repayable within five years | **3,039** | – |
| Bank overdrafts repayable within five years | **22** | 1,125 |
| Finance charges on finance leases | **–** | 25 |
| | **3,061** | 1,150 |

## 9. INCOME TAX EXPENSE – GROUP

Hong Kong profits tax has been provided for at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the locations in which the Group operates.

| | 2007 | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax | | |
| Hong Kong | | |
| – Tax for the year | **1,611** | 2,189 |
| – Over-provision in respect of prior years | **–** | (54) |
| Overseas | | |
| – Tax for the year | **1,587** | 1,438 |
| | **3,198** | 3,573 |
| Deferred tax | | |
| – Current year *(Note 32)* | **(269)** | (915) |
| Total income tax expense | **2,929** | 2,658 |

Reconciliation between tax expense and accounting profit at applicable tax rates:

| | 2007 | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before income tax | **19,447** | 19,182 |
| Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdictions concerned | **3,242** | 2,864 |
| Tax effect of non-taxable revenue | **(442)** | (355) |
| Tax effect of non-deductible expenses | **1,127** | 780 |
| Tax effect of prior years' unrecognised tax losses utilised this year | **(511)** | (631) |
| Tax effect of unused tax loss not recognised | **–** | 352 |
| Tax effect of unrecognised deferred tax items | **(493)** | (298) |
| Over-provision in respect of prior years | **–** | (54) |
| Others | **6** | – |
| Income tax expense | **2,929** | 2,658 |

## 10. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to the equity holders of the Company of HK$15,931,000 (2006: HK$17,052,000), a loss of HK$754,000 (2006: profit of HK$108,000) has been dealt with in the financial statements of the Company.

## 11. EARNINGS PER SHARE

### (a) Basic

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of HK$15,931,000 (2006: HK$17,052,000) and on the weighted average of 352,830,024 (2006: 287,795,963 (restated)) ordinary shares in issue during the year, as adjusted to reflect the bonus issue and share subdivision during the year, and also the share consolidation after the year end date.

### (b) Diluted

No diluted earnings per share is calculated for the years ended 31 October 2006 and 2007, as the exercise prices of the Company's share options were higher than the average market price for the periods.

## 12. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

### 12.1 Directors' emoluments

| | | **2007** | | |
|---|---|---|---|---|
| | **Fees** | **Salaries, allowances and benefits in kind** | **Retirement benefit scheme contributions** | **Total** |
| | ***HK$000*** | ***HK$000*** | ***HK$000*** | ***HK$000*** |
| *Executive directors:* | | | | |
| – Ms. Siu York Chee, Doreen | **–** | **865** | **12** | **877** |
| – Mr. Leung Kwok Kui | **–** | **605** | **12** | **617** |
| | **–** | **1,470** | **24** | **1,494** |
| *Independent non-executive directors:* | | | | |
| – Mr. Hung Yau Keung, Anckes | **50** | **–** | **–** | **50** |
| – Mr. Siu Yim Kwan, Sidney | **100** | **–** | **–** | **100** |
| | **150** | **–** | **–** | **150** |
| | **150** | **1,470** | **24** | **1,644** |

| | | 2006 | | |
|---|---|---|---|---|
| | Fees | Salaries, allowances and benefits in kind | Retirement benefit scheme contributions | Total |
| | *HK$000* | *HK$000* | *HK$000* | *HK$000* |
| *Executive directors:* | | | | |
| – Ms. Siu York Chee, Doreen | – | 880 | 12 | 892 |
| – Mr. Leung Kwok Kui | – | 621 | 12 | 633 |
| | – | 1,501 | 24 | 1,525 |
| *Independent non-executive directors:* | | | | |
| – Mr. Hung Yau Keung, Anckes | 50 | – | – | 50 |
| – Mr. Siu Yim Kwan, Sidney | 50 | – | – | 50 |
| | 100 | – | – | 100 |
| | 100 | 1,501 | 24 | 1,625 |

## 12. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

### 12.1 Directors' emoluments *(Continued)*

Except as disclosed above, there was no remuneration paid to the other directors for each of the two years ended 31 October 2006 and 2007.

There was no emolument paid by the Group to its directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

### 12.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2006: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2006: three) individuals during the year are as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries, bonuses, allowances and benefits in kind | **1,677** | 1,084 |

The remuneration paid to each of the non-director, highest paid employees fell within the band of nil to HK$1,000,000 for each of the two years ended 31 October 2006 and 2007.

There was no emolument paid by the Group to any of these five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

## 13. PROPERTY, PLANT AND EQUIPMENT – GROUP

| | Leasehold improvements *HK$'000* | Equipment *HK$'000* | Furniture and fixtures *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| At 1 November 2005 | | | | | |
| Cost | 11,467 | 16,504 | 648 | 314 | 28,933 |
| Accumulated depreciation | (3,719) | (3,689) | (199) | (58) | (7,665) |
| Net book amount | 7,748 | 12,815 | 449 | 256 | 21,268 |
| Year ended 31 October 2006 | | | | | |
| Opening net book amount | 7,748 | 12,815 | 449 | 256 | 21,268 |
| Reclassification | 129 | – | (129) | – | – |
| Exchange difference | 80 | 64 | – | – | 144 |
| Acquisition of a subsidiary | 81 | 418 | 28 | – | 527 |
| Additions | 6,708 | 7,400 | 367 | 270 | 14,745 |
| Written off | (28) | (13) | – | (115) | (156) |
| Impairment | (556) | (731) | – | – | (1,287) |
| Depreciation | (4,548) | (3,773) | (122) | (63) | (8,506) |
| Closing net book amount | 9,614 | 16,180 | 593 | 348 | 26,735 |
| At 31 October 2006 and 1 November 2006 | | | | | |
| Cost | 17,548 | 23,440 | 888 | 411 | 42,287 |
| Accumulated depreciation | (7,934) | (7,260) | (295) | (63) | (15,552) |
| Net book amount | 9,614 | 16,180 | 593 | 348 | 26,735 |
| Year ended 31 October 2007 | | | | | |
| Opening net book amount | 9,614 | 16,180 | 593 | 348 | 26,735 |
| Acquisition of a subsidiary | 943 | 891 | 43 | – | 1,877 |
| Additions | 8,874 | 9,921 | 312 | 688 | 19,795 |
| Disposals | (1,497) | (24) | – | (66) | (1,587) |
| Written off | (649) | (9) | (7) | – | (665) |
| Depreciation | (5,248) | (6,189) | (218) | (135) | (11,790) |
| **Closing net book amount** | **12,037** | **20,770** | **723** | **835** | **34,365** |
| At 31 October 2007 | | | | | |
| Cost | 21,851 | 33,952 | 1,201 | 958 | 57,962 |
| Accumulated depreciation | (9,814) | (13,182) | (478) | (123) | (23,597) |
| **Net book amount** | **12,037** | **20,770** | **723** | **835** | **34,365** |

## 14. INVESTMENT PROPERTIES – GROUP

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and is classified and accounted for as investment properties. The investment properties are located in Hong Kong and held on leases of over 50 years.

Changes to the carrying amount presented in the consolidated balance sheet can be summarised as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Carrying amount at beginning of year | **–** | – |
| Additions | **1,620** | – |
| Fair value gain | **10** | – |
| Carrying amount at end of year | **1,630** | – |

Investment properties were revalued at 31 October 2007 by Dudley Surveyors Limited, an independent firm of professional valuers, based on current prices in an active market.

## 15. GOODWILL – GROUP

The main changes in the carrying value of goodwill result from the acquisition of the subsidiaries as disclosed in note 37 can be analysed as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At beginning of year | | |
| Gross carrying amount | **3,136** | – |
| Accumulated impairment | **–** | – |
| Net carrying amount at end of year | **3,136** | – |
| Net carrying amount at beginning of year | **3,136** | – |
| Acquisition of subsidiaries *(Note 37)* | **1,683** | 3,136 |
| Net carrying amount at end of year | **4,819** | 3,136 |
| At end of year | | |
| Gross carrying amount | **4,819** | 3,136 |
| Accumulated impairment | **–** | – |
| Net carrying amount at end of year | **4,819** | 3,136 |

The carrying amount of goodwill is related to the beauty service business.

## 15. GOODWILL – GROUP *(Continued)*

The recoverable amounts for the cash generating units given above were determined based on value-in-use calculations, covering a detailed 3-year budget plan, followed by an extrapolation of expected cash flows at the growth rates stated below. The growth rates reflect the long-term average growth rates for the revenue of the cash generating units.

The key assumptions used for value in use calculations

| | **Beauty services** | |
|---|---|---|
| | **2007** | 2006 |
| Growth rates | **2%-5%** | 10% |
| Discount rates | **3.75%** | 4.4% |

The Group management's key assumptions for the Group have been determined based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

## 16. INTERESTS IN SUBSIDIARIES – COMPANY

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Investments at cost | | |
| – Unlisted shares | **1,097** | 1,097 |

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

## 16. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Particulars of the principal subsidiaries as at 31 October 2007 are as follows:

| Name | Place/country of incorporation and kind of legal entity | Particulars of issued/ registered capital | Percentage of issued/ registered capital held by the Company | | Principal activities and place of operations |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Rainbow Cosmetic (BVI) Limited | British Virgin Islands, limited liability company | US$50,000 | 100% | – | Investments holding, Hong Kong |
| Be A Lady Limited | Hong Kong, limited liability company | HK$10,000 | – | 100% | Provision of beauty services and sale of beauty products, Hong Kong |
| Be A Lady (Macau) Limited | Macau, limited liability company | MOP60,000 | – | 100% | Provision of beauty services and sale of beauty products, Macau |
| Nutriplus (Asia) Limited | Hong Kong, limited liability company | HK$10,000 | – | 100% | Provision of management services, Hong Kong |
| Be A Lady (TST) Limited | Hong Kong, limited liability company | HK$10 | – | 100% | Provision of beauty services and sale of beauty products, Hong Kong |
| Win Leader Limited ^ | Hong Kong, limited liability company | HK$100 | – | 40% | Provision of beauty courses, Hong Kong |
| Be Cool Limited | Hong Kong, limited liability company | HK$1 | – | 100% | Provision of beauty services and sale of beauty products, Hong Kong |
| Diamond Profit Holdings Limited | British Virgin Islands, limited liability company | US$100 | – | 60% | Provision of beauty services and sale of beauty products, Hong Kong |
| New Creative Limited | Hong Kong, limited liability company | HK$6,000 | – | 100% | Provision of clinical services, Hong Kong |
| B.A.L. Clinic Limited | Hong Kong, limited liability company | HK$1 | – | 100% | Provision of clinical services, Hong Kong |
| Valiant Limited | Hong Kong, limited liability company | HK$10,000 | – | 100% | Operation of a haircare centre, Hong Kong |
| Spa-Be A Lady Limited | Hong Kong, limited liability company | HK$10,000 | – | 100% | Provision of beauty services and sale of beauty products, Hong Kong |

## 16. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

| Name | Place/country of incorporation and kind of legal entity | Particulars of issued/ registered capital | Percentage of issued/ registered capital held by the Company Directly | Indirectly | Principal activities and place of operations |
|---|---|---|---|---|---|
| Korea Plastic Surgery Service Limited * | Hong Kong, limited liability company | HK$10,000 | – | 100% | Provision of clinical services, Hong Kong |
| Korea (HK) Plastic Surgery Service Limited * | Hong Kong, limited liability company | HK$1 | – | 100% | Provision of clinical services, Hong Kong |
| Thailand Plastic Surgery Service Limited * | Hong Kong, limited liability company | HK$10,000 | – | 100% | Provision of clinical services, Hong Kong |
| Thailand (HK) Plastic Surgery Service Limited * | Hong Kong, limited liability company | HK$1 | – | 100% | Provision of clinical services, Hong Kong |
| Top Euro Limited * | Hong Kong, limited liability company | HK$1 | – | 100% | Property investment, Hong Kong |
| Focus Rich International Group Limited | Hong Kong, limited liability company | HK$10,000 | – | 100% | Dormant |
| Be A Lady (Site 1) Medical Limited * | Macau, limited liability company | MOP30,000 | – | 100% | Provision of clinical services, Macau |
| Brava (Hong Kong) Limited | Hong Kong, limited liability company | HK$20,000 | – | 100% | Sale of beauty products, Hong Kong |
| Guangzhou Be A Lady Limited # | PRC, limited liability company | RMB3,010,000 | – | 100% | Provision of beauty services and sale of beauty products, PRC |

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

^ *Pride Fame Limited, a 57% owned subsidiary of the Company, holds 70% equity interest in this company and the Company's directors consider that the Group holds more than one half of the voting power in the board of directors of this company.*

* *Incorporated during the year*

\# *The name of this subsidiary represent management's translation of the Chinese name of this company as no English name has been registered*

## 17. INTERESTS IN JOINTLY CONTROLLED ENTITIES – GROUP

| | 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Share of net assets | – | 1,590 |
| Amount due from a jointly controlled entity | – | 10 |
| Amount due to a jointly controlled entity | – | (120) |
| | – | 1,480 |

As at 31 October 2006, balances with jointly controlled entities were unsecured, interest free and the directors of the Company considered that the balances were not repayable within the next twelve months.

As at 31 October 2006, the Group held 50% equity interests in each of Brava (Hong Kong) Limited ("Brava") and Cheery Investments Limited ("Cheery") respectively.

In October 2007, the Group acquired the remaining 50% equity interests in Brava. Upon the completion of the acquisition, Brava ceased to be a jointly controlled entity and became a wholly-owned subsidiary of the Group. Further details of the acquisition are included in note 37(c) to the financial statements.

In September 2007, pursuant to a termination agreement with the joint venture partner, the Group terminated its investment in Cheery. As a result of the termination, a loss of approximately HK$78,000 was incurred.

As at 31 October 2007, the Group had no interests in any jointly controlled entities.

## 18. INTERESTS IN AN ASSOCIATE – GROUP

| | 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Acquisition of an associate | **25,000** | – |
| Share of result of an associate | | |
| – profit before income tax | **1,638** | – |
| – income tax expense | **(287)** | – |
| | **1,351** | – |
| Balance at end of year | **26,351** | – |

Particulars of the associate at 31 October 2007 are as follows:

| Name | Particulars of issued shares held | Country of incorporation | % interest held | Principal activity |
|---|---|---|---|---|
| First Holdings Consortium Limited | 3,205,129 ordinary shares of US$1 each | British Virgin Islands | 24.75 | Money lending |

## 18. INTERESTS IN AN ASSOCIATE – GROUP *(Continued)*

The summarised financial information of the Group's associate extracted from its management accounts for the period from 27 April 2007 (date of incorporation) to 31 October 2007 are as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Assets | **113,942** | – |
| Liabilities | **7,484** | – |
| Revenue | **10,846** | – |
| Profit | **5,458** | – |

The amount due to an associate is unsecured, interest-free and repayable on demand.

## 19. HELD-TO-MATURITY INVESTMENTS – GROUP

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Debt securities listed outside Hong Kong | **70** | – |

The debt securities represent bonds with fixed interest rates ranging from 3.05% to 3.15% per annum and mature on 24 August 2009 and 28 September 2009 respectively. The Group receives related interest payments semi-annually. The Group's management does not identify any potentially significant financial risk exposure.

## 20. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Debt securities listed outside Hong Kong, at market value: | | |
| Non-current portion | **2,352** | – |
| Current portion | **–** | 3,753 |
| | **2,352** | 3,753 |

The amounts presented for the listed debt securities have been determined directly by reference to published price quotations in active markets.

These financial assets are subject to financial risk exposure in terms of price risk.

## 21. DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Non-current portion | **5,187** | – |
| Current portion | **2,353** | – |
| Total | **7,540** | – |

As at 31 October 2007, the Group held four market linked instruments in respect of baskets of shares of certain listed companies in and outside Hong Kong (the "Shares"). The aggregate notional principal amount of the instruments at 31 October 2007 was HK$8,190,000 (2006: Nil). Under the contracts, the Group had paid the principal amounts of the instruments. A coupon is accrued on each scheduled trading day if the prices of the Shares close at or above the accrual barrier. When the market prices of the Shares exceed the knock-out prices as set forth in the contracts, the contracts would be terminated.

The equity derivatives are not designated as hedging instrument according to HKAS 39 and are measured at fair value, as determined by an independent financial institution.

## 22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Prepayments | **3,141** | 3,176 | **–** | – |
| Deposits* | **125,204** | 6,907 | **98** | – |
| Other receivables | **15,047** | 16,563 | **1** | 20 |
| | **143,392** | 26,646 | **99** | 20 |
| Deposits classified as non-current | **(3,653)** | (3,459) | **–** | – |
| Current portion | **139,739** | 23,187 | **99** | 20 |

* *As at 31 October 2007, the Group had made deposits of approximately HK$8,807,000 (2006 : Nil) and HK$109,641,000 (2006 : Nil) in respect of acquisition of properties in Hong Kong for trading and leasing purposes and application of initial public offering ("IPO") shares which are mainly financed by margin loans respectively. Subsequent to year end date, most of the properties were sold and all of the deposits were either refunded or used to set-off the cost of those IPO shares allotted to the Group.*

## 23. INVENTORIES – GROUP

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Merchandise for sale | **1,566** | 893 |
| Consumable store | **1,986** | 1,455 |
| Properties held for resale | **1,565** | – |
| | **5,117** | 2,348 |

## 24. TRADE RECEIVABLES – GROUP

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **43,412** | 23,656 |
| Less: provision for impairment of trade receivables | **(798)** | (148) |
| Trade receivables – net | **42,614** | 23,508 |

The directors of the Company considered that the fair values of trade receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

Included in trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | **2007** | 2006 |
|---|---|---|
| Renminbi ("RMB") | **RMB4,655,000** | RMB1,035,000 |

## 24. TRADE RECEIVABLES – GROUP *(Continued)*

The Group maintains credit terms of one to three months. Based on the invoice dates, the ageing analysis of the trade receivables is as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within three months | **18,479** | 13,871 |
| Over three months but within six months | **8,296** | 4,307 |
| Over six months and within one year | **13,920** | 5,290 |
| Over one year | **2,717** | 40 |
| | **43,412** | 23,508 |

## 25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Equity securities listed in Hong Kong, at market value | **12,263** | 2,745 | **5** | – |

The amounts presented for the listed equity securities have been determined directly by reference to published price quotations in active markets.

These financial assets are subject to financial risk exposure in terms of price risk.

Changes in fair value of financial assets at fair value through profit or loss are recorded in other income and gains in the consolidated income statement.

## 26. AMOUNTS DUE FROM RELATED COMPANIES – GROUP

Particulars of the amounts due from related companies are as follows:

| **Name** | **31 October 2007** | **Maximum amount outstanding during the year** | 1 November 2006 |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | *HK$'000* |
| One Dollar Productions Limited (Controlled by Messrs. Shiu Yeuk Yuen and Shiu, Stephen Junior, brother and nephew of Madam Siu York Chee respectively, a director of the Company) | **1,362** | 1,362 | 695 |
| Heavely Blaze Limited (Controlled by Messrs. Shiu Yeuk Yuen and Shiu, Stephen Junior) | **2,792** | 2,792 | – |
| | **4,154** | | 695 |

Amounts due from related companies are unsecured, interest free and repayable on demand.

## 27. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash at bank and in hand | **15,873** | 20,052 | **235** | 81 |

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Included in cash at bank and in hand of the Group is HK$1,657,000 (2006: HK$929,000) of bank balances denominated in RMB placed with banks in the PRC. RMB is not a freely convertible currency. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 28. TRADE PAYABLES – GROUP

The Group was granted by its suppliers credit periods ranging from 30 to 60 days. Based on the invoice dates, the ageing analysis of the trade payables is as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within three months | **127** | – |
| Over three months but within six months | **22** | – |
| Over six months | **428** | 417 |
| | **577** | 417 |

## 29. ACCRUALS, RECEIPTS IN ADVANCE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Accruals | **8,340** | 8,225 | **300** | 184 |
| Receipts in advance | **9,686** | 7,687 | **–** | – |
| Deposits and other payables | **3,383** | 2,425 | **–** | – |
| | **21,409** | 18,337 | **300** | 184 |
| Non-current portion | **(219)** | – | **–** | – |
| Current portion | **21,190** | 18,337 | **300** | 184 |

## 30. AMOUNTS DUE TO MINORITY INTERESTS – GROUP

Amounts due to minority interests are unsecured, interest free and repayable on demand.

## 31. BORROWINGS – GROUP

| | 2007 | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Current** | | |
| Finance lease liabilities | **–** | 198 |
| Other loans, unsecured | **98,768** | 150 |
| | **98,768** | 348 |

Other loans of HK$150,000 (2006: HK$150,000) are unsecured, interest free and repayable on demand, while the remaining balances of HK$98,618,000 (2006: Nil) are unsecured margin loans, bear interest rates ranging from 5.65% to 6.70% per annum, being the effective interest rates as at 31 October 2007, and with a maturity period less than one month. The margin loans were used to finance the Group's application of IPO shares (note 22) which have been fully repaid after year end date.

The analysis of the obligations under finance lease is as follows:

| | 2007 | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total minimum lease payments due within one year | **–** | 203 |
| Future finance charges on finance leases | **–** | (5) |
| Present value of finance lease liabilities | **–** | 198 |

The present value of finance lease liabilities is as follows:

| | 2007 | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Due within one year | **–** | 198 |

The carrying amounts of short-term borrowings approximate to their fair values.

## 32. DEFERRED TAX – GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2006: 17.5%).

The movement on deferred tax (liabilities)/assets is as follows:

| | 2007 | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At beginning of year | **86** | (829) |
| Arising from acquisition of a subsidiary | **192** | – |
| Deferred taxation credited to income statement *(Note 9)* | **269** | 915 |
| At end of year | **547** | 86 |

## 32. DEFERRED TAX – GROUP *(Continued)*

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

| | Accelerated tax depreciation | | Tax losses | | Total | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| At beginning of year | **(694)** | (843) | **780** | 14 | **86** | (829) |
| Arising from acquisition of a subsidiary | **–** | – | **192** | – | **192** | – |
| Credited/(charged) to income statement | **(120)** | 149 | **389** | 766 | **269** | 915 |
| At end of year | **(814)** | (694) | **1,361** | 780 | **547** | 86 |

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 fiscal authority.

Deferred tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has no unrecognised tax losses (2006: HK$511,000) arising in subsidiaries that have been loss-making for some time which will be carried forward against future taxable income.

## 33. SHARE CAPITAL

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | ***Number of shares*** | ***HK$'000*** | *Number of shares* | *HK$'000* |
| Authorised: | | | | |
| Ordinary shares of HK$0.05 each (2006: HK$0.10 each) | **6,000,000,000** | **300,000** | 800,000,000 | 80,000 |
| Issued and fully paid: | | | | |
| **Ordinary shares of HK$0.10 each** | | | | |
| At beginning of year | **464,440,451** | **46,444** | 419,462,918 | 41,946 |
| Allotment | **212,400,000** | **21,240** | 42,000,000 | 4,200 |
| Share option exercised | **2,000,000** | **200** | 5,757,533 | 576 |
| Repurchased | **–** | **–** | (2,780,000) | (278) |
| **Ordinary shares of HK$0.05 each** | | | | |
| Shares subdivision | **678,840,451** | **–** | – | – |
| Allotment | **270,000,000** | **13,500** | – | – |
| Bonus issue | **271,536,180** | **13,577** | – | – |
| At end of year | **1,899,217,082** | **94,961** | 464,440,451 | 46,444 |

By an ordinary resolution dated 1 March 2007, 41,800,000 ordinary shares of the Company of HK$0.10 each were allotted at a subscription price of HK$0.33 each.

By a special resolution dated 4 April 2007, 69,600,000 ordinary shares of the Company of HK$0.10 each were allotted at a subscription price of HK$0.33 each.

By an ordinary resolution dated 18 July 2007, 101,000,000 ordinary shares of the Company of HK$0.10 each were allotted at a subscription price of HK$0.221 each.

## 33. SHARE CAPITAL *(Continued)*

By an ordinary resolution dated 24 August 2007, 270,000,000 ordinary shares of the Company of HK$0.05 each were allotted at a subscription price of HK$0.067 each.

During the year, share options were exercised to subscribe for 2,000,000 (2006: 5,757,533) ordinary shares of HK$0.10 each for total cash consideration of approximately HK$746,000 (2006: HK$2,027,000).

The premium totalling approximately HK$41,337,000 arising from the above subscription of shares and exercise of share options, net of share issue expenses of approximately HK$1,642,000, has been credited directly to the share premium account (note 35).

By a special resolution dated 8 August 2007, 678,840,451 shares of HK$0.10 each were subdivided on the basis of one to two and bonus issue of 271,536,180 shares were allotted on the basis of every ten subdivided shares for two. The bonus issue was settled by the share premium (note 35).

By a special resolution dated 8 August 2007, authorised share capital for ordinary shares of HK$0.10 each was first subdivided on the basis of one to two from 800,000,000 shares of HK$0.10 each to 1,600,000,000 shares of HK$0.05 each and then increased by 4,400,000,000 shares to 6,000,000,000 shares.

## 34. SHARE-BASED EMPLOYEE COMPENSATION

On 24 September 2001, the shareholders of the Company approved a share option scheme (the "Scheme") under which its board of directors may, at its discretion, offer full-time or part time employees and executive, non-executive and independent non-executive directors of the Company and/or any of its subsidiaries, options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 30% of the issued share capital of the Company. The subscription price will be determined by the Company's board of directors and will be the highest of (i) the nominal value of the shares, (ii) the quoted closing price of the Company's shares on the date of offer of the options, and (iii) the average of the quoted closing prices of the Company's shares on the five trading days immediately preceding the date of offer of the options.

All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

## 34. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Share options and respective exercise prices are as follows for the reporting period presented:

| Type of grantee | At 1 November 2006 | Granted | Exercised # | Adjustments * | At 31 October 2007 | Date of grant | Exercise period of the share options | Exercise price per share |
|---|---|---|---|---|---|---|---|---|
| | Number of options during the year ended 31 October 2007 | | | | | | | *HK$* |
| **Employees** | | | | | | | | |
| – In aggregate | 4,900,000 | – | – | 6,860,000 | 11,760,000 | 20 June 2005 | 22 June 2005 to 21 December 2008 | 0.1438* |
| – In aggregate | – | 3,000,000 | – | 4,200,000 | 7,200,000 | 23 February 2007 | 27 February 2007 to 26 February 2009 | 0.1500* |
| – In aggregate | – | 300,000 | – | 420,000 | 720,000 | 15 March 2007 | 15 March 2007 to 14 September 2008 | 0.2250* |
| – In aggregate | – | 26,560,000 | – | – | 26,560,000 | 27 September 2007 | 27 September 2007 to 26 September 2009 | 0.0690 |
| | 4,900,000 | 29,860,000 | – | 11,480,000 | 46,240,000 | | | |
| **Other eligible persons** | | | | | | | | |
| – In aggregate | 2,000,000 | – | (2,000,000) | – | – | 27 June 2005 | 6 July 2005 to 5 July 2007 | 0.3730 |
| – In aggregate | – | 1,000,000 | – | 1,400,000 | 2,400,000 | 14 March 2007 | 14 March 2007 to 13 March 2009 | 0.2292* |
| – In aggregate | – | 5,000,000 | – | – | 5,000,000 | 4 October 2007 | 17 October 2007 to 16 October 2009 | 0.0700 |
| | 2,000,000 | 6,000,000 | (2,000,000) | 1,400,000 | 7,400,000 | | | |
| | 6,900,000 | 35,860,000 | (2,000,000) | 12,880,000 | 53,640,000 | | | |

\# *The weighted average share price of these shares at the date of exercise was HK$0.8175.*

* *This reflects the adjusted exercise prices and number of share options which have been granted and are outstanding after the completion of share subdivision on 9 August 2007 and bonus issue on 31 August 2007.*

## 34. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Share options and respective exercise prices are as follows for the reporting periods presented:

| | Number of options during the year ended 31 October 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| **Type of grantee** | **At 1 November 2005** | **Exercised** | **Cancelled/ lapsed** | **At 31 October 2006** | **Date of grant** | **Exercise period of the share options** | **Exercise price per share** HK$ |
| **Directors** | | | | | | | |
| – Siu York Chee | 127,954 | (127,954) | – | – | 14-Jan-05 | 20/1/2005 – 19/6/2006 | 0.1657 |
| – Leung Kwok Kui | 127,954 | (127,954) | – | – | 14-Jan-05 | 20/1/2005 – 19/6/2006 | 0.1657 |
| | 255,908 | (255,908) | – | – | | | |
| **Employees** | | | | | | | |
| – In aggregate | 212,133 | (161,625) | (50,508) | – | 15-Feb-05 | 18/8/2005 – 7/9/2006 | 0.1728 |
| – In aggregate | 6,000,000 | (1,100,000) | – | 4,900,000 | 20-Jun-05 | 22/6/2005 – 21/12/2008 | 0.345 |
| – In aggregate | 4,640,000 | (4,240,000) | (400,000) | – | 05-Jul-05 | 7/1/2006– 6/1/2007 | 0.372 |
| – In aggregate | 5,000,000 | – | (5,000,000) | – | 05-Jul-05 | 21/7/2005 – 20/7/2007 | 0.372 |
| | 15,852,133 | (5,501,625) | (5,450,508) | 4,900,000 | | | |
| **Other eligible persons** | | | | | | | |
| – In aggregate | 2,000,000 | – | – | 2,000,000 | 27-Jun-05 | 6/7/2005 – 5/7/2007 | 0.373 |
| | 18,108,041 | (5,757,533) | (5,450,508) | 6,900,000 | | | |

The fair values of options granted during the year ended October 2007 were determined using the Black-Scholes valuation model. Significant inputs into the calculation included a weighted average share price of HK$0.42 and exercise prices as illustrated above. Furthermore, the calculation takes into account volatility rates ranging from 73.29% to 95.46%, based on expected share price. Risk-free interest rates ranging from 3.52% to 3.94% were determined.

The fair values of options granted during the year ended 31 October 2006 were determined using the Black-Scholes valuation model. Significant inputs into the calculation included a weighted average share price of HK$0.37 and exercise prices as illustrated above. Furthermore, the calculation takes into account volatility rate of 117.92% based on expected share price. Risk-free interest rate of 3.13% was determined.

In total, HK$646,000 of employee compensation expense has been included in the consolidated income statement for 2007 (2006: HK$338,000), the corresponding amount of which has been credited to share option reserve (note 35). No liabilities were recognised due to share-based payment transactions.

## 35. RESERVES

**Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 27 of the financial statements.

The Group's capital reserves represent the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in previous years over the nominal value of the Company's shares issued in exchange therefor.

**Company**

| | **Share premium** | **Accumulated losses** | **Capital redemption reserve** | **Share option reserve** | **Total** |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 November 2005 | 26,153 | (47,998) | – | 589 | (21,256) |
| Allotment of shares | 13,440 | – | – | – | 13,440 |
| Exercise of share options | 1,451 | – | – | – | 1,451 |
| Repurchase of shares | (1,048) | (278) | 278 | – | (1,048) |
| Equity-settled share option arrangement | – | – | – | 338 | 338 |
| Profit for the year | – | 108 | – | – | 108 |
| At 31 October 2006 and 1 November 2006 | 39,996 | (48,168) | 278 | 927 | (6,967) |
| Allotment of shares | 40,791 | – | – | – | 40,791 |
| Exercise of share options | 546 | – | – | – | 546 |
| Bonus issue | (13,577) | – | – | – | (13,577) |
| Share premium cancellation | (48,168) | 48,168 | – | – | – |
| Equity-settled share option arrangement | – | – | – | 646 | 646 |
| Loss for the year | – | (754) | – | – | (754) |
| **At 31 October 2007** | **19,588** | **(754)** | **278** | **1,573** | **20,685** |

The share premium account of the Company arises on shares issued at a premium. Under the Companies Law of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Pursuant to a special resolution passed at an extraordinary general meeting held on 4 July 2007, the share premium amounting to approximately HK$48,168,000 was applied towards the reduction of the accumulated losses in the reserve.

## 36. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group has the following transactions with related parties during the year:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Consultancy fee paid | **95** | – |
| Consultancy fee income | **90** | 66 |
| Management fee income | **–** | 50 |
| Commission income | **19** | 10 |
| Rental income | **72** | 202 |

Rental income of HK$36,000 (2006: HK$24,000) was received from a company controlled by Madam Siu York Chee.

The entire consultancy fee and commission income and rental income of HK$36,000 (2006: HK$178,000) were paid to/received from a company controlled by Messrs. Shiu Yeuk Yuen and Siu, Stephen Junior, brother and nephew of Madam Siu York Chee respectively.

(b) Key management personnel compensation

Included in staff costs are key management personnel compensation and comprises the following categories:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Short term employee benefits | **2,411** | 2,549 |
| Other long term benefits | **60** | 60 |
| | **2,471** | 2,609 |

## 37. BUSINESS COMBINATION

### (a) Acquisition of Guangzhou Be A Lady Limited

On 14 November 2006, the Group acquired a 100% equity interest in Guangzhou Be A Lady Limited ("GZ BAL") from an independent third party (the "GZ Acquisition"). GZ BAL operates a beauty centre in the PRC. The purchase consideration for the GZ Acquisition was in cash of RMB1.9 million (equivalent to approximately HK$1,900,000).

GZ BAL contributed revenue of approximately HK$6,160,000 and net profit of approximately HK$888,000 to the Group for the period from 14 November 2006 to 31 October 2007. If the acquisition had occurred on 1 November 2006, the Group's revenue would have been approximately HK$171,018,000 and profit for the year ended 31 October 2007 would have been approximately HK$16,624,000.

Details of the net assets acquired and goodwill of the GZ Acquisition are as follows:

| | *HK$'000* |
|---|---|
| Cash paid | 1,900 |
| Fair value of net assets acquired | (608) |
| Goodwill | 1,292 |

The assets and liabilities arising from the GZ Acquisition are as follows:

| | **Fair value** | **Acquiree's carrying amount** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Property, plant and equipment | 1,869 | 1,869 |
| Trade and other receivables | 1,621 | 1,621 |
| Cash and cash equivalents | 292 | 292 |
| Trade and other payables | (3,174) | (3,174) |
| | | 608 |
| Net assets acquired | 608 | |
| Total purchase consideration | | (1,900) |
| Cash and cash equivalents in a subsidiary acquired | | 292 |
| Cash outflow on acquisition | | (1,608) |

## 37. BUSINESS COMBINATION *(Continued)*

### (b) Acquisition of Focus Rich International Group Limited

On 16 May 2007, the Group acquired a 100% equity interest in Focus Rich International Group Limited ("Focus Rich") from an independent third party (the "Focus Rich Acquisition"). Focus Rich is now dormant. The purchase consideration for the Focus Rich Acquisition was in cash of HK$300,000. Focus Rich was previously engaged in the beauty services related business. The directors of the Company are of the opinion that the acquisition of Focus Rich would have a synergy effect on the Group's performance in the beauty business.

Focus Rich had not contributed any revenue and profit to the Group for the period from 16 May 2007 to 31 October 2007. If the acquisition had occurred on 1 November 2006, the Group's revenue would have been approximately HK$171,177,000 and profit for the year ended 31 October 2007 would have been approximately HK$15,413,000.

Details of the net assets acquired and goodwill of the Focus Rich Acquisition are as follows:

| | *HK$'000* |
|---|---|
| Cash paid | 300 |
| Fair value of net assets acquired | (200) |
| Goodwill | 100 |

The assets and liabilities arising from the Focus Rich Acquisition are as follows:

| | **Fair value** *HK$'000* | **Acquiree's carrying amount** *HK$'000* |
|---|---|---|
| Property, plant and equipment | 8 | 8 |
| Deferred tax assets | 192 | 192 |
| Amount due to a shareholder | (1,102) | (1,102) |
| | (902) | (902) |
| Acquisition of balance due to a former shareholder | 1,102 | |
| Net assets acquired | 200 | |
| Total purchase consideration | | (300) |
| Cash and cash equivalents in a subsidiary acquired | | – |
| Cash outflow on acquisition | | (300) |

## 37. BUSINESS COMBINATION *(Continued)*

### (c) Acquisition of Brava

On 26 October 2007, the Group acquired a further 50% equity interest in its jointly controlled entity, Brava, from the joint venture partner (the "JV Partner"), an independent third party (the "Brava Acquisition"). Brava is mainly engaged in the sale of beauty products in Hong Kong. The purchase consideration for the Brava Acquisition was in cash of HK$1. As at the date of the Brava Acquisition, Brava was indebted to the JV Partner in the amount of HK$590,000 (the "Brava Loan"). In connection with the Brava Acquisition, on 26 October 2007, the JV Partner entered into a deed of assignment with the Group in which the JV Partner agreed to assign the Brava Loan to the Group at a consideration of HK$590,000.

Brava had not contributed any revenue and profit to the Group for the period from 26 October 2007 to 31 October 2007. If the acquisition had occurred on 1 November 2006, the Group's revenue would have been approximately HK$171,578,000 and profit for the year ended 31 October 2007 would have been approximately HK$16,103,000.

Details of the net assets acquired and goodwill of the Brava Acquisition are as follows:

| | *HK$'000* |
|---|---|
| Cash paid | 590 |
| Fair value of net assets acquired | (299) |
| Goodwill | 291 |

The assets and liabilities arising from the Brava Acquisition are as follows:

| | **Fair value** *HK$'000* | **Acquiree's carrying amount** *HK$'000* |
|---|---|---|
| Inventories | 165 | 165 |
| Trade and other receivables | 580 | 580 |
| Cash and cash equivalents | 139 | 139 |
| Trade and other payables | (285) | (285) |
| Loans from shareholders | (1,180) | (1,180) |
| | (581) | (581) |
| Share of results before taking control | 290 | |
| Acquisition of loan from a former shareholder | 590 | |
| Net assets acquired | 299 | |
| Total purchase consideration | | (590) |
| Cash and cash equivalents in a subsidiary acquired | | 139 |
| Cash outflow on acquisition | | (451) |

## 38. OPERATING LEASE ARRANGEMENTS

(a) At 31 October 2007, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **14,130** | 15,330 |
| In the second to fifth year, inclusive | **14,279** | 10,986 |
| Over five year | **–** | 1,344 |
| | **28,409** | 27,660 |

The Group leases a number of properties under operating leases. The leases run for an initial period of two to seven years, with an option to renew the lease and renegotiated the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases included contingent rentals.

(b) At 31 October 2007, total future minimum sublease payments expected to be received by the Group under non-cancellable subleases by the Group are as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **613** | 613 |
| In the second to fifth year, inclusive | **204** | 817 |
| | **817** | 1,430 |

(c) As at 31 October 2007, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **84** | – |
| In the second to fifth year, inclusive | **81** | – |
| | **165** | – |

The Group leases its investment properties (note 14) under operating lease arrangement which runs for an initial period of two years, without an option to renew the lease terms at the expiry date. The terms of the leases generally also require the tenants to pay security deposits.

## 39. GUARANTEES – COMPANY

As at 31 October 2007, the Company has executed corporate guarantees to third parties with respect to operating leases of approximately HK$1.0 million and advertising contracts of certain subsidiaries of approximately HK$0.5 million.

## 40. CAPITAL COMMITMENTS – GROUP

Capital commitments of the Group in relation to acquisitions of properties for trading and leasing purposes are as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Contracted but not provided for | **97,600** | – |

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets.

**Foreign exchange risk**

The Group mainly operates in Hong Kong, Macau and the PRC. All of its assets and liabilities were located or incurred in these areas. Sales and services are made to customers and purchases are made within these areas as well. The directors of the Company consider that the Group is not exposed to significant foreign exchange risk as the exchange rates between Hong Kong dollars, Reminbi and Macau Patacas are relatively stable.

**Credit risk**

The Group has no significant concentrations of credit risk. It has policies in place to ensure that services made on credit are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards.

**Price risk**

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as financial assets at fair value through profit or loss.

**Liquidity risk**

The Group's primary cash requirements are for expansion of business, payment on related debts and payment for purchases and operating expenses. The Group finances its working capital requirements through a combination of funds generated from operations and short-term borrowings. The directors believe that cash from operations and short-term borrowings will be sufficient to meet the Group's operating cash flows.

**Interest rate risk**

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the cash and cash equivalents, details of which have been disclosed in note 27. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in note 31.

**Fair value**

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturities.

## 42. POST BALANCE SHEET EVENTS

On 22 November 2007, share consolidation of ordinary shares in issue at 31 October 2007 on the basis of every four into one was effected.

On 27 December 2007, the Company issued a circular regarding (1) the proposed joint venture agreement with a plastic surgery specialist and (2) the proposed issue of two-year zero coupon convertible loan notes of HK$10,000,000 pursuant to the proposed joint venture agreement. For details, please refer to the circular of the Company dated 27 December 2007.

On 31 December 2007, 237,402,135 rights shares were issued at subscription price of HK$0.20 each on the basis of one rights share for every two consolidated shares. Funds raised from the rights issue were approximately HK$45.9 million, net of share issue expenses.