



**B.A.L.**

**B.A.L. Holdings Limited**

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2004

## 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 no 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 Highlights

Quarter results for the year ended 31st October, 2004

	(Unaudited)			
	For the quarter ended			
	31 Oct. 04	31 July 04	30 April 04	31 Jan. 04
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	25,859	21,767	12,549	7,123
Cost of Sales	<u>(4)</u>	<u>(39)</u>	<u>(19)</u>	<u>(322)</u>
Gross Profit/(loss)	25,855	21,728	12,530	6,801
Other revenue	<u>436</u>	<u>–</u>	<u>4</u>	<u>37</u>
	26,291	21,728	12,534	6,838
Operating expenditures	<u>(28,404)</u>	<u>(16,448)</u>	<u>(8,014)</u>	<u>(4,883)</u>
Profit/(loss) from operations	<u><u>(2,113)</u></u>	<u><u>5,280</u></u>	<u><u>4,520</u></u>	<u><u>1,955</u></u>

	(Unaudited)		(Audited)	
	Three months		Twelve months	
	Ended 31 Oct.		Ended 31 Oct.	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Retails and wholesales of Beauty products	914	533	2,866	3,426
Beauty service	<u>24,945</u>	<u>5,371</u>	<u>64,432</u>	<u>11,214</u>
Total turnover	<u><u>25,859</u></u>	<u><u>5,904</u></u>	<u><u>67,298</u></u>	<u><u>14,640</u></u>

### Financial summary

	Results for the year ended		
	31 Oct.	31 Oct.	31 Oct.
	2004	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>67,298</u>	<u>14,640</u>	<u>51,612</u>
(Loss)/Profit from operations	<u>9,642</u>	<u>(6,022)</u>	<u>(55,634)</u>
Net (loss)/Profit for the year	<u><u>13,961</u></u>	(restated) <u>14,504</u>	<u>(58,195)</u>
		As at 31 Oct.	
	2004	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	<u>23,379</u>	(restated) <u>8,263</u>	<u>9,045</u>
Total liabilities	<u>19,527</u>	<u>(20,070)</u>	<u>(54,652)</u>
	<u><u>3,852</u></u>	<u>(11,807)</u>	<u>(45,607)</u>

*Notes:*

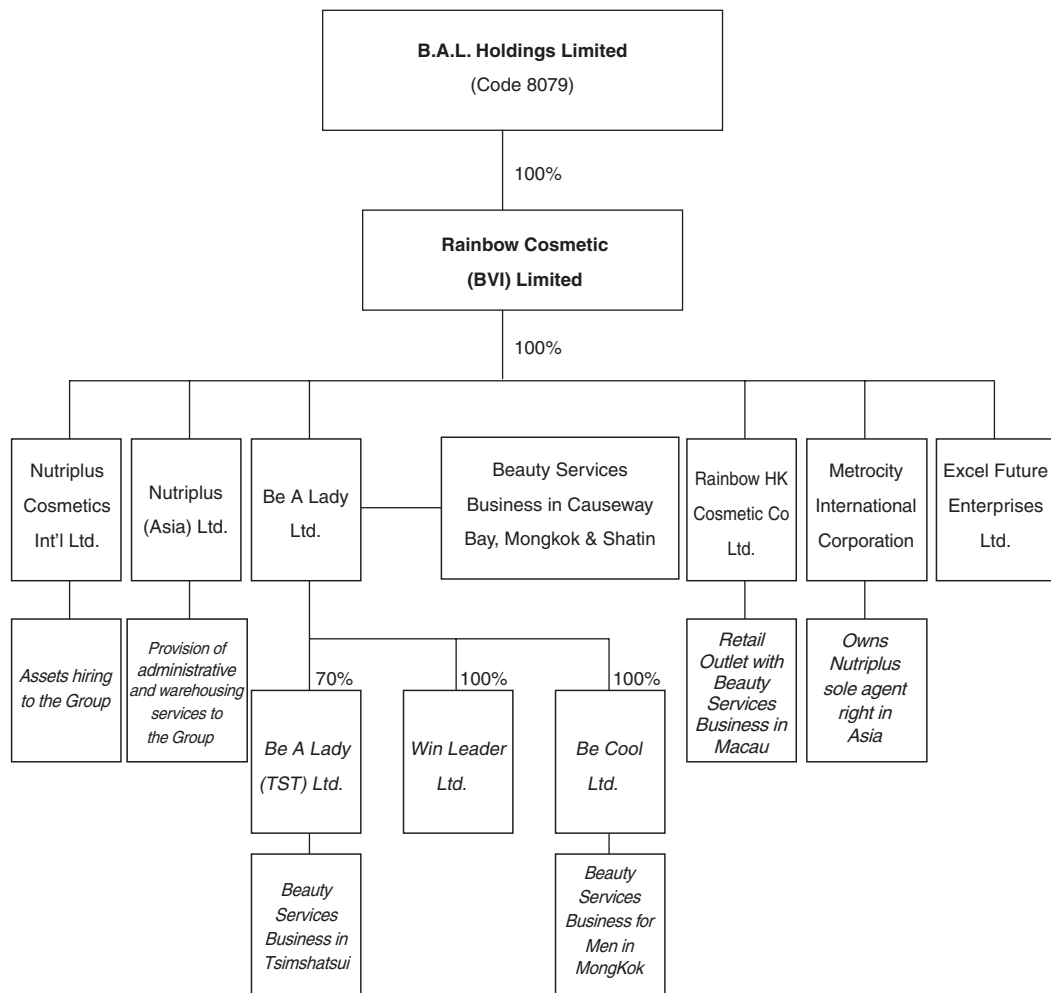
- (1) The Company was incorporated in the Cayman Islands on 6th March, 2001 and became the holding company of the Group with effect from 21st September, 2001.
- (2) The results for the year ended 31st October, 2004 have been extracted from the consolidated income statement as set out on page 21.
- (3) The financial summary of the Group has been prepared on the combined basis.

## Corporate Profile

B.A.L. Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) is principally engaged in retail direct sales of branded beauty products in Hong Kong and also in the provision of beauty services in Hong Kong and Macau.

Currently, the Group has been operating five beauty services centers, four direct sales centers, one warehouse in Hong Kong.

As at the date hereof, the organization chart of the Group including the operating subsidiaries and non-operating subsidiaries is set out below:–



**Notes:**

1. All the subsidiaries except Be A Lady (TST) Limited are wholly owned by the Company.
2. Rainbow HK Cosmetic Co., Ltd. had ceased operations since 1st June, 2004.
3. The two insolvent subsidiaries: Newide International Limited and Jet Legend Limited had been disposed during the year ended 31st October, 2004.

## Corporate Information

### Directors

#### *Executive Directors*

SIU York Chee, Doreen – Chairperson  
LEUNG Kwok Kui

#### *Non-executive Director*

LAI Tin Ying, Michael (alias LAI Siu Tin)

#### *Independent Non-Executive Directors and members of audit committee of the board of Directors*

HUNG Anckes Yau Keung  
KO Sin Ming  
SIU Yim Kwan, Sidney

### Company Secretary

LO Gun Yuen, Raymond, *CPA*

### Compliance Officer

SIU York Chee, Doreen

### Qualified Accountant

LO Gun Yuen, Raymond, *CPA*

### Legal Advisers on Hong Kong Law

Dibb Lupton Alsop  
41/F., Bank of China Tower,  
1 Garden Road, Central, Hong Kong

### Legal Advisers on the Cayman Islands Law

Maples and Calder Asia

### Auditors

Chang Leung Hui & Li C.P.A. Ltd  
Certified Public Accountants  
12th Floor  
3 Lockhart Road, Wanchai  
Hong Kong

### Principal Share Registrar and Transfer Office

Bank of Butterfield International (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

Standard Registrars Limited  
G/F., Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai, Hong Kong

### Registered Office

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

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

23rd Floor  
Cigna Tower  
482 Jaffe Road  
Causeway Bay  
Hong Kong

### Principal Bankers

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

### Stock Code

8079

## 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 31st October, 2004.

### REVIEW OF OPERATIONS

In the year 2004, economic recovery in Hong Kong was encouraging with deflation finally diminished. Hong Kong people were mostly relieved from the uncertainties of the future and started spending money less restrictively as before. The Group was able to get benefit from the favourable business environment and achieved significant result in its operating activities. During the financial year, four new beauty service centres were established, which subsequently generated good revenue to the Group's turnover. Turnover from the provision of beauty service increased by approximately 475%.

During the period under review, the Group had been launching new plans to capture more customers by intensive multi-media advertising and the engagement of artists as the Group's ambassador. In June, 2004, a new beauty service centre (serving the male) was opened to test the acceptance of male customers on the body slimming and weight reduction exercises.

The Group recorded a consolidated profit of approximately HK\$7.4 million (an increase of approximately 224%) before taking the gain on disposal of insolvent subsidiaries.

### DIVIDEND

The Board does not recommend the payment of a final dividend in respect of the financial year ended 31st October, 2004 (2003: Nil).

### PROSPECTS

According to the present economic conditions, the Group is confident that the return on the beauty service business is still attractive and will continue its expansion program in Hong Kong. In addition, the Group will actively explore the China market. Main cities under consideration will include Shanghai, Beijing, Guangzhou, and Shenzhen.

### 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.

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

Hong Kong, 25th January, 2005



## Management Discussion and Analysis

### Business Review

#### *Retail and Direct Sales*

In retail and direct sales operations, the Group is engaged in the sale of various branded beauty products.

Towards the end of 2003, the growth of product sales is far behind from that of the beauty services provided. It is the intention of the management that emphasis will be placed on the development of the beauty service sector which will provide a better profit margin. As the performance of the Macau retail outlet was unsatisfactory, it had ceased business from 1st June, 2004.

During the period under review, retail and direct sales operations accounted for approximately 4% of the Group's total turnover. Turnover from these operations was approximately HK\$2.9 million for the period, representing decrease of approximately 16% as compared with the previous financial year.

#### *Beauty Services Operations*

The Group's beauty services operations recorded an excellent growth rate during the period under review. Turnover from this segment amounted to approximately HK\$64.4 million for the year ended 31st October, 2004 representing approximately 475% increase as compared with the previous financial year.

Although the Macau service centre was closed on 1st June, 2004 due to the unsatisfactory performance, the Group had successfully established two new beauty service centres in Tsimshatsui and Mongkok and completed the expansion program of the existing Causeway Bay, Shatin, and Mongkok centres. The Group is also planning to open another new beauty service centre in Tsuen Wan shortly.

As the Group is committed to provide excellent service to the customers, professional training of beauticians and consultants will continue to progress. To cope with the expansion, the Group had invested approximately HK\$3.0 million on the acquisition of new beauty service equipments during the year.

As at 31st October, 2004, the Group has been operating five beauty services centers, four direct sales centers, 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) Ltd.	N/A	Administrative Services to the Group	23rd Floor, Cigna Tower, 482 Jaffe Road, Causeway Bay, Hong Kong	31
2. Be A Lady Ltd.	Mongkok Beauty Services Center with Direct Sales Centre	Beauty Services & Direct Sales	25th Floor, Wu Sang House, 655 Nathan Road, Kowloon	31
3. Be A Lady Ltd.	Causeway Bay Beauty Services Center with Direct Sales Centre	Beauty Services & Direct Sales	17th & 23rd Floor, Island Centre, 1 Great George Street, Causeway Bay, Hong Kong	37
4. Be A Lady Ltd.	Shatin Beauty Services Center	Beauty Services & Direct Sales	(a) Unit 619 – 620, 6/F, Citylink Plaza, Shatin, N.T. (b) 615-617, Level 6, Tower II Grand Central Plaza, Shatin, N. T.	27
5. Be A Lady (TST) Ltd.	Tsimshatsui Beauty Services Centre	Beauty Services & Direct Sales	5/F., Mass Resources Development Bldg, 12 Humphrey's Avenue, Tsimshatsui, Kowloon	14
6. Be Cool Ltd.	Mongkok Beauty Services Centre (Male)	Beauty Services	26/F., Wu Sang House, 655 Nathan Road, Hong Kong	10
7. B.A.L. Holdings Ltd.	N/A	Head office	23rd Floor, Cigna Tower, 482 Jaffe Road, Causeway Bay, Hong Kong	N/A
8. Nutriplus (Asia) Ltd.	Chai Wan Warehouse	Warehouse	Unit 8, 17/F., Chai Wan Industrial City, Phase 1, No. 60, Wing Tai Road, H.K.	N/A
9. Metrocity International Corporation	N/A	Holdings of agency right	P.O. Box 3152, Road Town, Tortola, British Virgin Islands	N/A
10. Nutriplus Cosmetics Int'l Ltd.	N/A	Assets hiring to the Group	23rd Floor, Cigna Tower, 482 Jaffe Road, Causeway Bay, Hong Kong	N/A
Total employees of the Group as at 31st October, 2004				150

## Financial Review

For the year ended 31st October, 2004, the Group's consolidated turnover amounted to approximately HK\$67.3 million, representing an increase of approximately 360%, as compared with the previous financial year.

The Group recorded profit for the financial year ended 31st October, 2004 amounted to approximately HK\$14 million after taking the gain arising on disposal of Insolvent Subsidiaries.

The Group's cash and bank balance as at 31st October, 2004 was approximately HK\$4.6 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 31st October, 2004, the Group had cash and cash equivalents of approximately HK\$10.1 million as compared to approximately HK\$1.2 million as at 31st October, 2003.

As at 31st October, 2004 the Group had short-term bank loans amounted to approximately HK\$1.9 million. Details of banking facilities are set in note 18 to the financial statements. The Group repaid the short-term bank loans on its payment schedule by monthly installments and the last installment will be 31st October, 2006.

## Gearing Ratio

As at 31st October, 2004, the Group's gearing ratio, expressed as a percentage of total borrowings, (Comprising amounts due to directors, related companies, bank loan, hire purchase contracts) over total assets, was approximately 27%.

## 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 31st October, 2004, the Group did not have any significant investments.

## Future plans for material investments or capital assets

As at 31st October, 2004, the Group had no future plans for material investments or capital assets.

### **Charges on the Group's assets**

Particulars of borrowing and pledge of assets of the Group as at 31st October, 2004 are set out in notes 17 to 20 to the financial statements.

### **Capital Structure**

On 27th July, 2004, a Board Resolution was passed to issue an aggregate of 36,231,884 new shares at issue price of HK\$0.0414 per share to Renren Holdings Limited as full and final settlement of the HK\$1.5 million loan with Renren Finance and Credit Limited (capitalisation issue). The said shares will rank pari passu in all respects with the existing ordinary shares of the Company.

On 20th October, 2004, share options to subscribe for 10,000,000 shares of the Company was exercised by an employee at HK\$0.0198.

### **Contingent Liabilities**

As at 31st October, 2004, the Group had no contingent liabilities.

### **Employees**

As at 31st October, 2004, the Group had 150 (2003: 80) full-time employees. The total of employee remuneration, including that of the Directors, for the year ended 31st October, 2004 amounted to HK\$17.6 million (2003: 8.6 million). The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

### **Share Option Scheme**

On 24th 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 less than 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. As at the Latest Practicable Date, no option under the Scheme has been granted by the Company.

Details of the Scheme of the Group are set out in note 23 to the financial statements.

### **Valuation of Share Option**

The options granted are not recognized in the financial statements until they are exercised. The directors consider that it is not appropriate to state the value of the share options granted during the period on the ground that a number of variables which are crucial for the valuation of the option value cannot be reasonably determined. Accordingly, the directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders of the Company.

## Directors and Senior Management of the Group

### DIRECTORS

#### Executive Directors

**Ms. SIU York Chee, Doreen**, is the executive director since 16th June, 2003 and being the chairperson of the Group since 17th September, 2003. With extensive professional knowledge and many years of experience in the commercial field, Ms. Siu plays a positive role in the re-organizing and development of the Group. Prior to joining the Group, Ms. Siu was one of the founders of Companion Building Material International Holdings Ltd. (Currently known as Dong Fang Gas Holdings Ltd, 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 Ltd on January 2002. Ms. Siu is the wife of Mr. Leung Kwok Kui.

**Mr. LEUNG Kwok Kui**, is the executive director of the Group since 5th September, 2003. Mr. Leung has over 30 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 Ltd (Currently known as Dong Fang Gas Holdings Ltd, code no. 432) and was also the executive director of Skynet (International Group) Holdings Limited which were listed companies in the Stock Exchange. Mr. Leung has resigned both positions as executive director on 31st January, 2002.

#### Non-executive Director

**Mr. LAI Tin Ying, Michael (alias LAI Siu Tin)**, is a non-executive Director responsible for public relations of the Group and other promotion and marketing activities of the Group. Prior to joining the Group in June 2001, Mr. Lai has approximately 20 years of experience in the public relation and media industry.

#### Independent non-executive Directors

**Mr. HUNG Anckes Yau Keung**, MBA, is a Certified Public Accountant, was appointed as an independent non-executive Director in October 2003. He has over 25 years experience in accounting. He 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. He is also a member of the Certified Fraud Examiners of U.S.A.

Mr. Hung is now the partner of the Certified Public Accountants firm of KND & Co. He is the Honorary Treasurer of The Overseas CICPA Members Association since the incorporation of the Association, and the committee member of the Institute of Certified Fraud Examiners in Hong Kong. He is also the Visiting Associate Professor of the Research Institute of Economics of the Shenzhen University in China.

**Mr. KO Sin Ming, Sammy**, was appointed as an independent non-executive Director in February 2003. Mr. Ko had been a professional director and producer of television and movie programmes in Asia Television Limited and Television Broadcasts Limited during the period from 1980 to 1992. From 1992, Mr. Ko acted as a producer of various television programmes for media in different countries such as Taiwan, Malaysia and China. Mr. Ko also acted as a consultant of 中體影視製作公司 (Zhong Ti Video Production Company) which is under the control of 中國國家體育總局 (State General Administration of Sport of the PRC).

**Dr. SIU Yim Kwan, Sidney**, is the non-executive director of Wang On Group Ltd, a listed company in Hong Kong since November 1993. He holds a doctorate degree in Management from Pacific Southern University in the United States. Dr. Siu is a director of The Association of The Directors & Former Directors of Pok Oi Hospital Ltd, Bright China Foundation Ltd and Chiu Yang Residents Association of Hong Kong Ltd, those companies are non-profitable association and providing community services in Hong Kong. He is also a director of The Hong Kong Tae Kwon Do Association Ltd, a sport association in Hong Kong. Dr. Siu is also an executive member of a number of charitable organization and sports associations.

#### **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 25 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 8 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 15 years in several companies listed in The Stock Exchange of Hong Kong Limited.

## 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 31st October, 2004.

### 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 in Hong Kong and Macau.

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 31st October, 2004 is set out in note 3 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 31st October, 2004.

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 31st October, 2004.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st October, 2004 are set out in the consolidated income statement on page 21 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 11 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 21 and 23, 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 notes 22 to the financial statements.

## BORROWINGS

Particulars of borrowings of the Group as at 31st October, 2004 are set out in notes 17 to 20 to the financial statements.

## DONATIONS

During the year, no charitable and other donations were made (2003: Nil).

## DISPOSAL OF INSOLVENT SUBSIDIARIES

During the financial year, the Group had disposed two Insolvent Subsidiaries, Jet Legend Limited and Newide International Limited, both of which had ceased operations since 1st August 2002.

## DIRECTORS

The Directors who held office during the year are:

### Executive directors

SIU York Chee, Doreen  
LEUNG Kwok Kui

### Non-executive directors

LAI Tin Ying, Michael (alias LAI Siu Tin)  
HUNG Anckes Yau Keung \*\*  
KO Sin Ming \*\*  
SIU Yim Kwan, Sidney\*\* (appointed on 1 Dec 2004)

\*\* *Independent Non-executive Directors*

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of two years. The service contracts shall be renewed automatically after the initial two years unless and until terminated by not less than three 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.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting of the Company has entered into any service arrangements with any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation other than statutory compensation).

## SHARE OPTION SCHEMES

- (a) On 24th 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.

During the period, 159,240,000 shares option were granted by the Company under the Scheme and 148,140,000 shares option remain outstanding.

Type of Grantee	Date of grant	Exercise Price per share HK\$	No. of Options granted	Exercise/ Lapsed during the period	Outstanding no. of Options as at 31/10/2004	Exercisable Period
Employees	10/8/2004	0.0250	10,680,000	(1,100,000)	9,580,000	16/2/2005 – 28/2/2006
Employees	08/09/2004	0.0206	73,980,000	–	73,980,000	10/9/2004 – 9/3/2006
Directors	08/09/2004	0.0206	49,720,000	–	49,720,000	8/9/2004 – 9/3/2006
Employees	12/10/2004	0.0198	24,860,000	(10,000,000)	14,860,000	15/10/2004 – 14/4/2006
Total :			159,240,000	(11,100,000)	148,140,000	

- (b) On 24th September, 2001, pursuant to the Pre-IPO Share Option Scheme, options to subscribe for 35,000,000 shares were granted to certain directors, employees, consultants and advisers of the Group. After the issuance of the rights issue and bonus issue approved at the extraordinary general meeting of the Company on 3rd January, 2003, the number of option shares was adjusted to 245,000,000. The adjusted exercise price of the share options is HK\$0.044.

All of these options have a duration of three years from the commencement of the trading of the shares on the GEM.

Except for options granted to International Capital Network Holdings Ltd. ("ICN") as part of the remuneration for its financial advisory service rendered to the Group, each option shall lapse if the relevant grantee ceases to be a director or an employee of the Group.

During the year, no options were exercised under the Pre-IPO Share Option Scheme.

- (c) During the period, 24,500,000 options granted to ICN were under dispute in relation to its validity. The Board (the "Board") of the Company considers that the above option was lapsed as the duration period of the above option was due whatever it is under dispute or not. The Board considers that such decision is in the best interest of the Company and the Shareholders of the Company. In addition, 191,100,000 options have lapsed in accordance with the terms of the Pre-IPO Share Option Scheme and the remaining balance of 29,400,000 options (the holders of which have given irrevocable undertakings not to exercise the options within 10 years from their respective date of grant) have been regarded as unexercisable as at the date hereof.

#### **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 31st October, 2004, 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 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**

<b>Name</b>	<b>Type of interest</b>	<b>No. of shares</b>	<b>Approximate percentage of interest</b>
Ms. Siu York Chee	Personal	200,000,000	8.01
Mr. Lai Tin Ying, Michael (alias Lai Siu Tin)	Personal	7,652,519	0.30

##### **(b) Long positions in underlying shares of equity derivatives of the Company**

The Directors had personal interests in share options granted by the Company during the period to subscribe for shares in the Company as follows:

<b>Name</b>	<b>Number of share options granted</b>	<b>Cancelled/ Lapsed</b>	<b>Outstanding at 31st October, 2004</b>
Ms. Siu York Chee	24,860,000	–	24,860,000
Mr. Leung Kwok Kui	24,860,000	–	24,860,000
Mr. Lai Tin Ying, Michael* (alias Lai Siu Tin)	24,500,000	24,500,000	–

\* Mr. LAI Tin Ying, Michael subsequently agreed to waive and cancel unconditionally and irrevocably the above option in August 2002 given under the Pre-IPO share option scheme on 24 September 2001 before expiration.

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

Save as disclosed herein above, as at 31st October, 2004, 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 31st October, 2004, 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 of the Company**

Name	Number of Shares	Percentage of Issued Share Capital
Ms. Siu York Chee ( <i>Note 1</i> )	200,000,000	8.01
Ms. Lam Yin Ming, Amy ( <i>Note 2</i> )	311,094,834	12.46
Mr. Lai Tin Ying, Michael ( <i>Note 3</i> )	7,652,519	0.30
Best Time Investments Ltd. ( <i>Note 4</i> )	637,728,440	25.54
Wonderful World Holdings Ltd. ( <i>Note 4</i> )	637,728,440	25.54
Long River Investments Holdings Limited ( <i>Note 5</i> )	238,494,005	9.55
Ever-Long Asset Management Ltd. ( <i>Note 5</i> )	238,494,005	9.55
Ever-Long Holdings Ltd. ( <i>Note 5</i> )	238,494,005	9.55
Styland Holdings Ltd. ( <i>Note 6</i> )	238,494,005	9.55

*Notes:*

- 1) Ms. SIU is the Chairperson and executive director of the Company.
- 2) Ms. Lam Yin Ming, Amy acquired these shares of the Company (the "Shares") through the rights issue and the bonus issue which were completed in January 2003 and February 2003 respectively. Presently Ms. Lam Yin Ming, Amy does not have management role nor board representation in the Group.
- 3) Mr. Lai Tin Ying, Michael is a non-executive Director of the Company.
- 4) Best Time Investments Limited is a wholly-owned subsidiary of Wonderful World Holdings Limited, a company incorporated in Bermuda whose shares are listed on the Main Board of the Stock Exchange. Pursuant to Part XV of the SFO, Wonderful World Holdings Limited is taken to be interested in the shares held by Best Time Investments Limited in approximately 25.54% of the Company.
- 5) The 238,494,005 shares are beneficially owned by and registered in the name of Long River Investments Holdings Ltd (formerly known as E-Teck Business Limited). All the issued share capital of Long River Investments Holdings Ltd is beneficially owned by Ever-Long Asset Management Limited, which is a wholly-owned subsidiary of Ever-Long Holdings Limited. Ever-Long Holdings Limited is a wholly-owned subsidiary of Styland Holdings Limited which is a limited liability company incorporated in Bermuda whose shares are listed on the Main Board of the Stock Exchange. Ever-Long Asset Management Limited, Ever-Long Holdings Limited and Styland Holdings Limited are all taken to be interested in the Shares held by Long River Investments Holdings Limited pursuant to Part XV of the SFO.

- 6) Ever-Long Holdings Limited is a wholly owned subsidiary of Styland Holdings Limited. Pursuant to Part XV of the SFO, Styland Holdings Limited is taken to be interested in the Shares held by Long River Investments Holdings Limited in aggregate of approximately 9.55% of the Company.

**(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**

None of the members of the Group purchased, sold or repurchased any of the Group's listed securities during the period from 1st November, 2002 to 31st October, 2003.

**SPONSOR'S INTEREST**

The Company had no sponsors as at and for the year ended 31st October, 2004. Accordingly, no additional disclosure is made.

**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.

**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 comprises three independent non-executive Directors, namely Mr. HUNG Anckes Yau Keung, Mr. KO Sin Ming and Dr. Siu Yim Kwan, Sidney. Mr. HUNG Anckes Yau Keung is also the chairperson of the audit committee of the board of Directors.

During the financial year ended 31st October, 2004, 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 5 times during the financial year for reviewing the Company's financial reports and monitoring the Company's internal control procedures.

## COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures during the year.

## AUDITORS

During the financial year ended 31st October, 2004, the auditor of the Company was Chang Leung Hui & Li C.P.A. Ltd. who audited the financial statements of the Group for the year ended 31st October, 2004.

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

Hong Kong, 25th January, 2005

## Auditors' Report

CHANG LEUNG HUI & LI C.P.A. LIMITED  
Certified Public Accountants  
12th Floor, No. 3 Lockhart Road  
Wanchai, Hong Kong

**TO THE SHAREHOLDERS OF B.A.L. HOLDINGS LIMITED  
(FORMERLY RAINBOW INTERNATIONAL HOLDINGS LIMITED)**  
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 21 to 52 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group and the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31st October, 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**CHANG LEUNG HUI & LI C.P.A. LIMITED**  
*Certified Public Accountants*

**Luk, Sai Yan**  
*Practising Certificate Number P01963*

HONG KONG, 25th January, 2005

## Consolidated Income Statement

For the year ended 31st October, 2004

	Note	2004 HK\$'000	2003 HK\$'000 (Restated)
Turnover	3(a)	67,298	14,640
Cost of sales		(384)	(2,138)
<b>Gross profit</b>		<b>66,914</b>	<b>12,502</b>
Other revenue	3(a)	477	464
Selling and distribution costs		45,680	11,519
Administrative expenses		11,242	7,270
Other operating expenses		827	199
		(57,749)	(18,988)
<b>Profit/(loss) from operations</b>		<b>9,642</b>	<b>(6,022)</b>
Gain arising on disposal/liquidation of subsidiaries	4	6,518	20,526
Finance costs		(458)	(695)
<b>Profit before taxation</b>	5	<b>15,702</b>	<b>13,809</b>
Taxation	6	(1,669)	695
<b>Profit before minority interests</b>		<b>14,033</b>	<b>14,504</b>
Minority interests		(72)	–
<b>Profit attributable to shareholders</b>	8	<b>13,961</b>	<b>14,504</b>
Accumulated (losses) brought forward as restated		(82,214)	(96,718)
<b>Accumulated (losses) carried forward</b>		<b>(68,253)</b>	<b>(82,214)</b>
Earnings per share – Basic	9(a)	0.57 cent	0.61 cent
Earnings per share – Diluted	9(b)	0.57 cent	0.60 cent

The notes on pages 26 to 52 form an integral part of these financial statements.

## Consolidated Balance Sheet

As at 31st October, 2004

	Note	2004 HK\$'000	2003 HK\$'000 (Restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	11	8,075	4,462
Deferred tax assets	13	–	820
		<b>8,075</b>	<b>5,282</b>
<b>Current assets</b>			
Investment in securities	14	1,386	–
Prepayments, deposits and other receivables		3,454	1,135
Inventories	15	356	616
Trade receivables	16	5,477	55
Cash and bank balances		4,631	1,175
		<b>15,304</b>	<b>2,981</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Due to a director	17	1,000	78
Due to related companies		1,126	–
Current portion of bank loans	18	1,416	1,835
Current portion of obligations under hire purchase contracts	19	1,689	859
Trade payables	20	417	455
Other payables and accruals		11,896	12,274
Taxation payable		728	523
		<b>(18,272)</b>	<b>(16,024)</b>
<b>Net current liabilities</b>		<b>(2,968)</b>	<b>(13,043)</b>
<b>Total assets less current liabilities</b>		<b>5,107</b>	<b>( 7,761)</b>
<b>Non-current liabilities</b>			
Bank loans	18	466	2,038
Other loan		–	1,500
Obligations under hire purchase contracts	19	559	508
Deferred tax liabilities	13	211	–
		<b>(1,236)</b>	<b>(4,046)</b>
<b>Net assets/(liabilities)</b>		<b>3,871</b>	<b>(11,807)</b>
<b>Minority interests</b>		<b>(19)</b>	<b>–</b>
		<b>3,852</b>	<b>(11,807)</b>
<b>Capital and reserves</b>			
Issued capital	21	24,962	24,500
Reserves	22	(21,110)	(36,307)
		<b>3,852</b>	<b>(11,807)</b>

Approved and authorised for issue by the board of directors on 25th January, 2005.

**Siu York Chee**  
Director

**Leung Kwok Kui**  
Director

The notes on pages 26 to 52 form an integral part of these financial statements.



## Balance Sheet

As at 31st October, 2004

	Note	2004 HK\$'000	2003 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in subsidiaries	12	(761)	(1,958)
<b>Current assets</b>			
Sundry receivables		50	50
Bank balance		178	450
		228	500
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Due to a director	17	1,000	–
Current portion of bank loans	18	1,416	1,413
Accruals and other payables		533	515
		(2,949)	(1,928)
<b>Net current liabilities</b>		<b>(2,721)</b>	<b>(1,428)</b>
<b>Non-current liabilities</b>			
Long term portion of bank loans	18	466	1,983
Other loan		–	1,500
		(466)	(3,483)
<b>Net liabilities</b>		<b>(3,948)</b>	<b>(6,869)</b>
<b>Capital and reserves</b>			
Issued capital	21	24,962	24,500
Reserves	22	(28,910)	(31,369)
		<b>(3,948)</b>	<b>(6,869)</b>

Approved and authorised for issue by the board of directors on 25th January 2005.

**Siu York Chee**  
Director

**Leung Kwok Kui**  
Director

The notes on pages 26 to 52 form an integral part of these financial statements.

## Consolidated Statement of Changes in Equity

For the year ended 31st October, 2004

### The Group

	Share capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Capital reserves HK\$'000	Total HK\$'000
At 1.11.2002					
– as previously reported	3,500	19,409	(96,843)	28,327	(45,607)
– prior year adjustment: SSAP 12 – restatement of deferred tax ( <i>note 13</i> )	–	–	125	–	125
– as restated	3,500	19,409	(96,718)	28,327	(45,482)
Issue of rights shares	3,500	–	–	–	3,500
Premium on issue of rights shares	–	17,500	–	–	17,500
Issue of bonus shares	17,500	(17,500)	–	–	–
Expenses for issues of shares	–	(1,829)	–	–	(1,829)
Profit for the year as restated	–	–	14,504	–	14,504
At 31.10.2003	<u>24,500</u>	<u>17,580</u>	<u>(82,214)</u>	<u>28,327</u>	<u>(11,807)</u>
At 1.11.2003					
– as previously reported	24,500	17,580	(83,034)	28,327	(12,627)
– prior year adjustment: SSAP 12 – restatement of deferred tax ( <i>note 13</i> )	–	–	820	–	820
– as restated	24,500	17,580	(82,214)	28,327	(11,807)
Allotment of shares	362	1,138	–	–	1,500
Exercise of share option	100	98	–	–	198
Profit for the year	–	–	13,961	–	13,961
At 31.10.2004	<u>24,962</u>	<u>18,816</u>	<u>(68,253)</u>	<u>28,327</u>	<u>3,852</u>

## Consolidated Cash Flow Statement

For the year ended 31st October, 2004

	2004 HK\$'000	2003 HK\$'000
<b>Operating activities</b>		
Profit before taxation	15,702	13,809
Depreciation	2,318	1,116
Loss on disposal of fixed assets	195	122
Fixed assets written off	506	–
Dividend received	(3)	–
Gain on disposal of securities	(33)	–
Holding gain on listed investments	(57)	–
Interest expenses	337	649
Allowances for bad debts	97	396
Gain arising on disposal/liquidation of subsidiaries	(6,518)	(20,526)
<b>Operating cash flow before movements in working capital</b>	<b>12,544</b>	<b>(4,434)</b>
(Increase)/Decrease in prepayments, deposits and other receivables	(2,319)	372
Decrease in inventories	260	330
(Increase)/Decrease in trade receivables	(5,519)	260
(Decrease)/Increase in trade payables	(38)	9,228
(Decrease) in due to related companies	1,126	–
Increase/(Decrease) in other payables and accruals	5,711	(2,983)
Increase/(Decrease) in due to a director	922	(9,682)
(Decrease) in trust receipts loan	–	(1,638)
	<b>12,687</b>	<b>(8,547)</b>
Cash used in operations		
Interest paid	(337)	(649)
<b>Net cash generated from/(used in) operating activities</b>	<b>12,350</b>	<b>(9,196)</b>
<b>Investing activities</b>		
Investment in securities	(1,329)	–
Disposal of subsidiaries (note 4)	(4)	(137)
Dividend received	3	–
Dividend paid to minority shareholder	(53)	–
Payments for purchase of fixed assets	(6,758)	(2,417)
Proceeds from sales of fixed assets	126	–
Redemption of trust funds	–	3,872
Proceeds from disposal of securities	33	–
<b>Net cash (used in)/generated from investing activities</b>	<b>(7,982)</b>	<b>1,318</b>
<b>Financing</b>		
Proceeds from issue of shares, net of expenses	1,698	19,171
New other loan raised	–	1,500
New bank loans raised	–	4,540
Repayment of short term loans	(1,500)	(3,621)
Repayment of bank loans	(1,991)	(11,522)
Capital element of hire purchase contracts paid	(1,520)	(554)
Hire purchase loans obtained	2,401	–
<b>Net cash (outflow)/inflow from financing</b>	<b>(912)</b>	<b>9,514</b>
<b>Increase in cash and cash equivalents</b>	<b>3,456</b>	<b>1,636</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,175</b>	<b>(461)</b>
<b>Cash and cash equivalents at end of year</b>	<b>4,631</b>	<b>1,175</b>
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash and bank balances	4,631	1,175

## Notes to the Financial Statements

*For the year ended 31st October, 2004*

### 1. GENERAL

The Company was incorporated in the Cayman Islands on 6th March, 2001 as an exempted company with limited liabilities under the Companies Law (Revised) of the Cayman Islands.

During the year, the Group was engaged in provision of beauty services, retailing and wholesaling of beauty products and investment holding.

The Group financial statements include the financial statements of the Company and its subsidiaries made up to 31st October. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### 2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM. The financial statements are prepared under the historical cost convention. Principal accounting policies adopted are summarised below:

In the current year, the Company has adopted SSAP No. 12 (Revised) on "Income Taxes" issued by the HKICPA, which is effective for accounting periods commencing on or after 1st January, 2003. The change of the Company's accounting policy and the effect of adopting the new policy is set out below.

#### (a) Revenue recognition

- i) Revenue from operation of beauty centres is recognised when services are rendered. Payments received that are related to services not yet rendered are deferred and shown as receipts in advance.
- ii) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- iii) Dividend income from investment is recognised upon the receipt of such dividend.
- iv) Rental income is recognised in the period during which the properties are let out.

#### (b) Borrowing costs

Borrowing costs are interests and other costs incurred in connection with the borrowings of funds. All borrowing costs are charged to the income statement in the year in which they are incurred.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (c) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

In accordance with SSAP 30, goodwill on acquisition occurring on or after 1st October, 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill is generally amortised over its estimated useful life to a maximum period of 20 years.

Goodwill on acquisition that occurred prior to 1st October, 2001 was written off against reserves by the Group.

SSAP 31 on Impairment of Assets prescribes procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. Any resulting impairment loss identified is charged to the income statement.

### (d) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after furniture and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally recognised in the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of the fixed assets.

Depreciation is provided on the straight-line basis to write off the cost of each asset over its expected useful life. The annual rates of depreciation are as follows:

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

The depreciation method and useful life are reviewed periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of economic benefits from the fixed assets.

When assets are sold or retired, their cost and accumulated depreciation and accumulated impairment losses are eliminated from the financial statements and any gain or loss resulting from their disposals is included in the income statement.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (e) Assets under leases

Leases that substantially transfer to the company all the rewards and risks of ownership of assets are accounted for as hire purchase contracts. At the inception of a hire purchase contract, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the income statement over the periods of the leases so as to produce an approximately constant periodic rate of charge on the remaining balances of the obligation for each accounting period.

Assets held under hire purchase contracts are depreciated over the shorter of the lease terms and their estimated useful life on the same basis as owned assets.

### (f) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised of an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation or amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for the revalued asset.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (g) Leases

#### *(i) Finance leases*

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance leases, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful life of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful life.

#### *(ii) Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

### (h) Employee benefits

#### *Retirement benefits scheme*

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. The MPF Scheme has operated since 1st December, 2000. 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 Schemes. 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.

Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the scheme. The Group's employer contributions vest fully once made.

#### *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (i) Subsidiaries

A subsidiary is a company in which the company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board.

Investments in subsidiaries in the balance sheet are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted to the extent of dividends received and receivable.

### (j) Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

### (k) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

### (l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a first-in, first-out basis, comprises all costs of purchases, costs of conversion and the other costs incurred in bringing the inventories to their present location of condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (m) Trade receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.



## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (n) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which are within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfil the above criteria.

### (o) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### (p) Translation of foreign currencies

Transactions in foreign currencies during the year are converted at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The balance sheet of subsidiary expressed in foreign currencies is translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (q) Segment reporting

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

Segment assets consist primarily of fixed assets, inventories, receivables, deposits, prepayments and operating cash and mainly exclude investments. Segment liabilities comprise operating and exclude items such as taxation and certain borrowings. Capital expenditure comprises additions to fixed assets.

## 3. TURNOVER, REVENUE AND SEGMENT INFORMATION

- (a) Turnover represents the invoiced value of services income generated from the provision of beauty services and beauty products sold less discounts and sales returns.

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Turnover</b>		
Beauty services	64,432	11,214
Retails and wholesales of beauty products	2,866	3,426
	67,298	14,640
<b>Other revenue</b>	477	464
	67,775	15,104

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

#### (b) Primary reporting format – business segments

	Continuing operations		Discontinued operation		2004 Total HK\$'000
	Beauty services HK\$'000	Retail and wholesales of beauty products HK\$'000	Sub-total HK\$'000	Retail and wholesales of beauty products HK\$'000	
<b>Turnover</b>					
Sales to external customers	64,432	373	64,805	2,493	67,298
<b>Profit from operations</b>					
Segment results	9,561	54	9,615	573	10,188
Unallocated income			424	53	477
Unallocated expenses			(462)	(561)	(1,023)
			9,577	65	9,642
Gain arising on disposal of subsidiaries			6,518	–	6,518
Finance costs			(437)	(21)	(458)
Profit before taxation			15,658	44	15,702
Taxation			(1,669)	–	(1,669)
Profit before minority interests			13,989	44	14,033
<b>Other information</b>					
Segment assets	23,175	137	23,312	67	23,379
Segment liabilities	18,410	101	18,511	686	19,197
Unallocated liabilities			311	–	311
Total liabilities			18,822	686	19,508
Capital expenditure	6,681	40	6,721	37	6,758
Depreciation	2,164	12	2,176	142	2,318

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

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

	Beauty services <i>HK\$'000</i>	2003 Retail and Wholesales of beauty products <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Turnover</b>			
Sales to external customers	11,214	3,426	14,640
<b>(Loss) from operations</b>			
Segment results	(959)	(3,232)	(4,191)
Unallocated income			464
Unallocated expenses			(2,295)
			(6,022)
Gain arising on liquidation of subsidiaries			20,526
Finance costs			(695)
Profit before taxation			13,809
Taxation			–
Profit after taxation			13,809
<b>Other information</b>			
Segment assets	5,339	1,595	6,934
Unallocated assets			509
Total assets			7,443
Segment liabilities	5,387	779	6,166
Unallocated liabilities			13,904
Total liabilities			20,070
Capital expenditure	4,124	80	4,204
Depreciation	962	154	1,116

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

#### (c) Secondary reporting format – geographical segment

	Year ended 31st October,			
	2004		2003	
	Segment revenue HK\$'000	Contribution to operating profit/(loss) HK\$'000	Segment revenue HK\$'000	Contribution to operating profit/(loss) HK\$'000
<b>Continuing operations</b>				
Hong Kong	64,805	9,615	11,537	(4,312)
Macau	–	–	3,103	121
Unallocated	–	(546)	–	(1,831)
	<u>64,805</u>	<u>9,069</u>	<u>14,640</u>	<u>(6,022)</u>
<b>Discontinued operation</b>				
Macau	<u>2,493</u>	<u>573</u>	<u>–</u>	<u>–</u>
	<u>67,298</u>	<u>9,642</u>	<u>14,640</u>	<u>(6,022)</u>

An analysis of the carrying amount of segment assets and additions to fixed assets by geographical area is as follows:

	Year ended 31st October,			
	2004		2003	
	Carrying amount of segment assets HK\$'000	Capital expenditure HK\$'000	Carrying amount of segment assets HK\$'000	Capital expenditure HK\$'000
<b>Continuing operations</b>				
Hong Kong	23,312	6,721	5,743	4,119
Macau	–	–	1,191	85
Unallocated assets	–	–	509	–
	<u>23,312</u>	<u>6,721</u>	<u>7,443</u>	<u>4,204</u>
<b>Discontinued operation</b>				
Macau	<u>67</u>	<u>37</u>	<u>–</u>	<u>–</u>
	<u>23,379</u>	<u>6,758</u>	<u>7,443</u>	<u>4,204</u>

#### 4. GAIN ARISING ON DISPOSAL/LIQUIDATION OF SUBSIDIARIES

The net assets/(liabilities) of the subsidiaries at the date of disposal were as follows:

	<b>Newide International Limited</b> <i>HK\$'000</i>	<b>Jet Legend Limited</b> <i>HK\$'000</i>	<b>2004 Total</b> <i>HK\$'000</i>
<b>Net assets/(liabilities) disposed of</b>			
Current account with group companies	134	992	1,126
Cash and bank balances	–	4	4
Tax payable	–	(433)	(433)
Creditors and accruals	(5,785)	(1,430)	(7,215)
	<u>(5,651)</u>	<u>(867)</u>	<u>(6,518)</u>
Resulting gain	<u>5,651</u>	<u>867</u>	<u>6,518</u>
	<u>–</u>	<u>–</u>	<u>–</u>
<b>Net cash outflow arising on disposal</b>			
Cash and bank balances	<u>–</u>	<u>4</u>	<u>(4)</u>

#### 4. GAIN ARISING ON DISPOSAL/LIQUIDATION OF SUBSIDIARIES (Continued)

Three winding up orders dated 5th March, 2003 and 22nd October, 2003 respectively were issued to Harmony Century Hong Kong Limited, Rainbow Cosmetic Company Limited and Rainbow Cosmetic (Central) Company Limited. Due to the winding up orders, the Group has to write off these subsidiaries. The net assets/(liabilities) of the subsidiaries at the date of write-off were as follows:

	Harmony Century Hong Kong Limited	Rainbow Cosmetic Company Limited	Rainbow Cosmetic (Central) Company Limited	2003 Total
Write-off date	5th March, 2003	5th March, 2003	22nd October, 2003	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Net assets/(liabilities) written off</b>				
Current account with group companies	748	–	–	748
Deposits and sundry debtors	23	–	–	23
Cash and bank balances	131	5	1	137
Tax payable	–	–	(73)	(73)
Creditors and accruals	(167)	(19,520)	(1,674)	(21,361)
	735	(19,515)	(1,746)	(20,526)
Resulting (loss)/gain	(735)	19,515	1,746	20,526
	–	–	–	–
<b>Net cash outflow arising on write-off</b>				
Cash and bank balances	131	5	1	(137)

## 5. PROFIT BEFORE TAXATION

	2004 HK\$'000	2003 HK\$'000
Group profit before taxation is stated after crediting and Charging the following:		
Crediting:		
Dividend income	3	–
Gain arising on disposal/liquidation of subsidiaries ( <i>note 4</i> )	6,518	20,526
Rental income	270	–
Charging:		
Auditors' remuneration		
Current year	321	220
Less: Overprovision in previous years	–	(125)
	321	95
Cost of inventories sold (excluding written back/provision for slow-moving inventory for the year)	384	4,109
Staff costs (excluding directors' remuneration)		
– Basic salaries and allowances	15,829	7,615
– Pension scheme contribution	1,085	221
Borrowing costs		
– Interest on bank advances and other borrowings wholly repayable within five years	458	695
Depreciation		
– Owned assets	1,725	955
– Assets held under hire purchase contracts	593	161
Operating lease rentals in respect of land and buildings	2,700	2,100
Provision for slow-moving inventories written back	–	(1,971)
Loss on disposal of fixed assets	195	122
Fixed assets written off	506	–
Commissions paid	9,767	–



## 6. TAXATION

### The Group

Hong Kong profits tax has been provided for at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the year.

The amount of taxation charged/(credited) to the consolidated income statement represents:

	2004 HK\$'000	2003 HK\$'000
Current taxation – Hong Kong profits tax	638	–
Deferred taxation ( <i>note 13</i> )	1,031	(695)
Total income tax expenses/(credit)	<u>1,669</u>	<u>(695)</u>

Reconciliation between tax expenses/(credit) and accounting profit at applicable tax rate is as follows:

	2004 HK\$'000	2003 HK\$'000
Profit for the year	<u>15,702</u>	<u>13,808</u>
Notional tax calculated at 17.5% (2003 – 17.5%), the standard profits tax rate in Hong Kong	2,748	2,417
Tax effect of non-taxable income	(1,149)	(3,671)
Tax effect of non-deductible expenses	70	559
Actual tax expenses/(credit)	<u>1,669</u>	<u>(695)</u>

## 7. DISCONTINUED OPERATION

The Group's Macau outlet (operated by the Macau subsidiary) was closed on 1st June, 2004 due to the sustained loss and murky market situations. The operating results of that subsidiary have been separately classified under the heading of "Discontinued Operation" while the others are grouped as "Continuing Operations" in note 3.

## 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of approximately HK\$1,223,000 (2003: Loss – HK\$18,661,000) which has been dealt with in the financial statements of the holding company.

## 9. EARNINGS PER SHARE

### (a) Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately HK\$13,961,000 (2003: HK\$14,504,000 (restated)) and the weighted average number of 2,460,524,274 (2003: 2,389,588,034) ordinary shares in issue during the year.

### (b) Diluted

The calculation of diluted earnings per share is based on the profit attributable to shareholders of approximately HK\$13,961,000 (2003: HK\$14,504,000 (restated)) and the weighted average number of 2,460,524,274 (2003: 2,389,588,034) ordinary shares in issue during the year plus the weighted average number of 2,251,577 (2003: 12,250,000) ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options outstanding during the year.

## 10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (a) The emoluments of the Company directors disclosed pursuant to Section 161 of the Companies Ordinance are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	20	–
Other emoluments		
– Basic salaries, allowances and benefits in kind	937	190
– Pension scheme contribution	21	5
	978	195

The number of directors whose emoluments fell within the following bands:

	2004	2003
<i>Executive directors</i>		
Nil to HK\$1,000,000	2	3
HK\$1,000,001 to HK\$1,500,000	–	–
	2	3
<i>Non-executive and independent non-executive directors</i>		
Nil to HK\$1,000,000	3	3

During the year ended 31st October, 2004, the two executive directors received individual emoluments of approximately HK\$707,000 and HK\$230,000 respectively. One of the independent non-executive directors received director's fee of HK\$20,000.

## 10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

During the year ended 31st October, 2003, the three executive directors received individual emoluments of approximately HK\$100,000, HK\$70,000 and HK\$20,000 respectively. No fees were paid to the non-executive and independent non-executive directors.

No directors have waived any emoluments during the year. No payment as inducement to join or upon joining the Group or as compensation for loss of office was paid or is payable to any directors.

- (b) Details of emoluments paid to the five highest paid individuals (including directors and other employees) are as follows:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Basic salaries, allowances and benefits in kind	1,164	1,173
Pension scheme contribution	47	9
	<u>1,211</u>	<u>1,182</u>

Of the five highest paid individuals, two (2003: one) are directors whose emoluments are disclosed in note 10(a) above.

The number of five highest paid individuals (including directors and other employees) whose emoluments fall within the following bands are:

	<b>2004</b>	2003
<i>Directors</i>		
Nil to HK\$1,000,000	2	1
HK\$1,000,001 to HK\$1,500,000	-	-
<i>Other employees</i>		
Nil to HK\$1,000,000	<u>3</u>	<u>4</u>

## 11. FIXED ASSETS

## The Group

	Leasehold improvements <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>					
At 1.11.2003	2,425	3,541	175	66	6,207
Additions	2,406	4,237	115	–	6,758
Disposals/Written-off	(1,016)	(432)	(7)	(66)	(1,521)
<b>At 31.10.2004</b>	<b>3,815</b>	<b>7,346</b>	<b>283</b>	<b>–</b>	<b>11,444</b>
<b>Accumulated depreciation</b>					
At 1.11.2003	897	765	70	13	1,745
Charge for the year	1,219	1,045	45	9	2,318
Written back	(510)	(159)	(3)	(22)	(694)
<b>At 31.10.2004</b>	<b>1,606</b>	<b>1,651</b>	<b>112</b>	<b>–</b>	<b>3,369</b>
<b>Net book value</b>					
<b>At 31.10.2004</b>	<b>2,209</b>	<b>5,695</b>	<b>171</b>	<b>–</b>	<b>8,075</b>
At 31.10.2003	1,528	2,776	105	53	4,462

*Note:* The net book value of assets held for use under hire purchase contracts as at the balance sheet date and the related depreciation charge for the year are approximately HK\$3,617,000 (2003: HK\$1,802,000) and HK\$593,000 (2003: HK\$161,000) respectively.

## 12. INVESTMENTS IN SUBSIDIARIES

### The Company

	2004 HK\$'000	2003 HK\$'000
Investments at costs:		
– Unlisted shares	1,097	1,097
Due from subsidiaries	6,087	46,214
Provision for doubtful debts	(4,386)	(46,211)
Due to subsidiaries	(3,559)	(3,058)
	<u>(761)</u>	<u>(1,958)</u>

#### Notes:

- (a) The amounts due from/(to) subsidiaries are unsecured and interest free.
- (b) The following is a list of the subsidiaries as at 31st October, 2004:

Name of subsidiaries	Place of incorporation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Rainbow Cosmetic (BVI) Limited	British Virgin Islands	US\$50,000	100%	–	Investment Holding
Nutriplus Cosmetics International Limited	Hong Kong	HK\$100	–	100%	Leasing of fixed assets
Be A Lady Limited	Hong Kong	HK\$10,000	–	100%	Operation of beauty centres
Rainbow HK Cosmetic Company Limited	Macau	MOP60,000	–	100%	Retailing of beauty products
Nutriplus (Asia) Limited	Hong Kong	HK\$10,000	–	100%	Provision of management services
Be A Lady (TST) Limited	Hong Kong	HK\$10	–	70%	Operation of a beauty centre
Be Cool Limited	Hong Kong	HK\$1	–	100%	Operation of a beauty centre
Win Leader Limited	Hong Kong	HK\$1	–	100%	Dormant
Metrocity International Corporation	British Virgin Islands	US\$50,000	–	100%	Own Nutriplus sole agent right in Asia
Excel Future Enterprises Limited	Hong Kong	HK\$2	–	100%	Dormant

### 13. DEFERRED TAX (LIABILITIES)/ASSETS

#### The Group

The movements in deferred tax (liabilities)/assets during the year are as follows:

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Losses available for offset against future taxable profits</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Deferred tax (liabilities)/assets arising from:			
At 1st November, 2002			
– as previously reported	–	–	–
– prior year adjustment on adoption of SSAP 12 (Revised)	30	95	125
– as restated	30	95	125
Credited/(charged) to income statement ( <i>note 6</i> )	(148)	843	695
At 31st October, 2003, as restated	(118)	938	820
At 1st November, 2003			
– as previously reported	–	–	–
– prior year adjustment on adoption of SSAP 12 (Revised)	(118)	938	820
– as restated	(118)	938	820
Charged to income statement ( <i>note 6</i> )	(156)	(875)	(1,031)
At 31st October, 2004	(274)	63	(211)

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in the Group's recording of deferred tax liabilities of HK\$211,000 and deferred tax assets of HK\$820,000 as at 31st October, 2004 and 2003 respectively.

### 13. DEFERRED TAX (LIABILITIES)/ASSETS (Continued)

The effects of the adjustments to these financial statements are summarised as follows:

	Increase/(Decrease)	
	1.11.2003 HK\$'000	1.11.2002 HK\$'000
<b>Consolidated balance sheet</b>		
Deferred tax assets	820	125
Reserves	820	125

	Increase/(Decrease)	
	For the year ended 31.10.2004 HK\$'000	For the year ended 31.10.2003 HK\$'000
<b>Consolidated income statement</b>		
Deferred tax credit	(1,031)	695

### 14. INVESTMENT IN SECURITIES

#### The Group

	2004 HK\$'000	2003 HK\$'000
Shares listed in Hong Kong, at market value	1,386	–

### 15. INVENTORIES

#### The Group

	2004 HK\$'000	2003 HK\$'000
Merchandise	356	1,775
Less: Provision for slow-moving items	–	(1,159)
	356	616

## 16. TRADE RECEIVABLES

The ageing analysis of trade receivable is as follows:

	2004 HK\$'000	2003 HK\$'000
<b>The Group</b>		
Within three months	5,070	55
Over three months but within six months	395	–
Over six months	12	–
	<u>5,477</u>	<u>55</u>

## 17. DUE TO A DIRECTOR

### The Group and the Company

The amount due is unsecured, carries interest at the rate of 1% per annum and is repayable on or before 27th May, 2005.

## 18. BANK LOANS

	2004 HK\$'000	2003 HK\$'000
<b>The Group</b>		
Bank loans		
– Repayable within one year	1,416	1,835
– Repayable after one year but within two years	459	1,462
– Repayable after two years but within five years	7	576
	<u>1,882</u>	<u>3,873</u>
Current portion of bank loans	<u>(1,416)</u>	<u>(1,835)</u>
Long term portion	<u>466</u>	<u>2,038</u>
<b>The Company</b>		
Bank loans		
– Repayable within one year	1,416	1,413
– Repayable after one year but within two years	459	1,407
– Repayable after two years but within five years	7	576
	<u>1,882</u>	<u>3,396</u>
Current portion of bank loans	<u>(1,416)</u>	<u>(1,413)</u>
Long term portion	<u>466</u>	<u>1,983</u>



## 19. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

### The Group

At 31st October, 2004, the Group's obligations under hire purchase contracts were as follows:

	Minimum hire purchase payments		Present value of minimum hire purchase payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amount repayable				
– within one year	1,769	1,082	1,689	859
– in the second year	594	384	559	508
– in the third to fifth year inclusive	–	–	–	–
	<u>2,363</u>	<u>1,466</u>	<u>2,248</u>	<u>1,367</u>
Total minimum hire purchase payments				
Less: Future hire purchase charges	(115)	(99)		
	<u>2,248</u>	<u>1,367</u>		
Total net future hire purchase payables				
Less: Portion classified as current liabilities	(1,689)	(859)		
	<u>559</u>	<u>508</u>		
Long term portion				

## 20. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	2004 HK\$'000	2003 HK\$'000
<b>The Group</b>		
Within three months	–	40
Over three months but within six months	–	–
Over six months	417	415
	<u>417</u>	<u>455</u>

## 21. ISSUED CAPITAL

	2004		2003	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	<u>4,000,000,000</u>	<u>40,000</u>	<u>4,000,000,000</u>	<u>40,000</u>
Issued and fully paid (ordinary shares of HK\$0.01 each):				
Beginning of the year	2,450,000,000	24,500	350,000,000	3,500
Rights issue	–	–	350,000,000	3,500
Bonus issue	–	–	1,750,000,000	17,500
Allotment	36,231,884	362	–	–
Exercise of share option	<u>10,000,000</u>	<u>100</u>	<u>–</u>	<u>–</u>
End of the year	<u>2,496,231,884</u>	<u>24,962</u>	<u>2,450,000,000</u>	<u>24,500</u>

Changes in the issued share capital of the Company during the year were as follows:

On 27th July, 2004, 36,231,884 shares were issued at a price of HK\$0.0414 per share to Renren Holdings Limited as full and final settlement of a loan of HK\$1.5 million due to Renren Finance and Credit Limited.

On 20th October, 2004, an employee exercised a share option to subscribe for 10,000,000 shares at HK\$0.198 per share for a total cash consideration of HK\$198,000.

The premium totalling HK\$1,236,000 arising from the above has been credited directly to the share premium account.

## 22. RESERVES

<b>The Group</b>	<b>Share premium HK\$'000</b>	<b>Accumulated losses HK\$'000</b>	<b>Capital reserves HK\$'000</b>	<b>Total HK\$'000</b>
At 1.11.2002				
– as previously reported	19,409	(96,843)	28,327	(49,107)
– prior year adjustment on adoption of SSAP 12 (Revised)	–	125	–	125
	<u>19,409</u>	<u>(96,718)</u>	<u>28,327</u>	<u>(48,982)</u>
– as restated	19,409	(96,718)	28,327	(48,982)
Premium on issue of rights shares	17,500	–	–	17,500
Share issue expenses	(1,829)	–	–	(1,829)
Capitalisation of share premium	(17,500)	–	–	(17,500)
Profit for the year as restated	–	14,504	–	14,504
	<u>17,580</u>	<u>(82,214)</u>	<u>28,327</u>	<u>(36,307)</u>
At 31.10.2003	<u>17,580</u>	<u>(82,214)</u>	<u>28,327</u>	<u>(36,307)</u>
At 1.11.2003				
– as previously reported	17,580	(83,034)	28,327	(37,127)
– prior year adjustment on adoption of SSAP 12 (Revised)	–	820	–	820
	<u>17,580</u>	<u>(82,214)</u>	<u>28,327</u>	<u>(36,307)</u>
– as restated	17,580	(82,214)	28,327	(36,307)
Allotment of shares	1,138	–	–	1,138
Exercise of share option	98	–	–	98
Profit for the year	–	13,961	–	13,961
	<u>18,816</u>	<u>(68,253)</u>	<u>28,327</u>	<u>(21,110)</u>
<b>At 31.10.2004</b>	<b><u>18,816</u></b>	<b><u>(68,253)</u></b>	<b><u>28,327</u></b>	<b><u>(21,110)</u></b>
<b>The Company</b>		<b>Share premium HK\$'000</b>	<b>Accumulated losses HK\$'000</b>	<b>Total HK\$'000</b>
At 1.11.2002		19,409	(30,288)	(10,879)
Premium on issue of rights shares		17,500	–	17,500
Share issuing expenses		(1,829)	–	(1,829)
Capitalisation of share premium		(17,500)	–	(17,500)
Loss for the year		–	(18,661)	(18,661)
		<u>17,580</u>	<u>(48,949)</u>	<u>(31,369)</u>
At 31.10.2003		<u>17,580</u>	<u>(48,949)</u>	<u>(31,369)</u>
At 1.11.2003		17,580	(48,949)	(31,369)
Allotment of shares		1,138	–	1,138
Exercise of share option		98	–	98
Profit for the year		–	1,223	1,223
		<u>18,816</u>	<u>(47,726)</u>	<u>(28,910)</u>
<b>At 31.10.2004</b>		<b><u>18,816</u></b>	<b><u>(47,726)</u></b>	<b><u>(28,910)</u></b>

Subject to the Cayman Islands Companies Law and Articles of Association, and provided that immediately following the distribution or payment of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business; no dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

### 23. SHARE OPTIONS

- (a) On 24th September, 2001, pursuant to the Pre-IPO Share Option Scheme, options to subscribe for 35,000,000 shares were granted to certain directors, employees, consultants and advisers of the Group. Upon the rights issue and bonus issue approved at the extraordinary general meeting of the Company on 3rd January, 2003, the number of option shares was adjusted to 245,000,000. The adjusted exercise price of the share options is HK\$0.044.

During the year, no options were exercised under the Pre-IPO Share Option Scheme and all these options have lapsed upon the expiry of the exercise period of a duration of three years from the commencement of the trading of the shares on the GEM.

- (b) On 24th 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.

### 23. SHARE OPTIONS (Continued)

A summary of movements in the options during the year under the scheme is as follows:

Name/ category	At 1.11.2003	Granted during the year	Exercised during the year	Lapsed during the year	At 31.10.2004	Date of grant of share options	Date of acceptance of share options	Exercise period of share options	Exercise price	Price of company's shares	
										At grant date of options	At exercise date of options
Directors											
Ms. Siu York											
Chee, Doreen	-	24,860,000	-	-	24,860,000	8.9.2004	10.9.2004	*	0.0206	0.0180	N/A
Mr. Leung Kwok											
Kui	-	24,860,000	-	-	24,860,000	8.9.2004	10.9.2004	*	0.0206	0.0180	N/A
	-	49,720,000	-	-	49,720,000						
Employees, in											
aggregate	-	6,080,000	-	(1,100,000)	4,980,000	10.8.2004	1.9.2004	#	0.0250	0.0230	N/A
Employee	-	3,600,000	-	-	3,600,000	10.8.2004	18.8.2004	#	0.0250	0.0230	N/A
Employee	-	1,000,000	-	-	1,000,000	10.8.2004	21.8.2004	#	0.0250	0.0230	N/A
Employees, in											
aggregate	-	73,980,000	-	-	73,980,000	8.9.2004	10.9.2004	*	0.0206	0.0180	N/A
Employee	-	24,860,000	(10,000,000)	-	14,860,000	12.10.2004	15.10.2004	*	0.0198	0.0190	0.0280
	-	109,520,000	(10,000,000)	(1,100,000)	98,420,000						
Total	-	159,240,000	(10,000,000)	(1,100,000)	148,140,000						

\* Within 18 months from date of acceptance

# Between 7th and 18th month, inclusive from date of acceptance

### 24. RELATED PARTY TRANSACTIONS

Particulars of significant transactions between the Group and related parties during the years covered by this report are summarised below:

	2004 HK\$'000	2003 HK\$'000
Rental income	66	-

During the year, the Group received rent for use of office space from a company controlled by Madam Siu York Chee, Doreen.

## 25. COMMITMENTS

At 31st October, 2004, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	3,671	2,371
In the second to fifth year, inclusive	3,028	1,188
	<u>6,699</u>	<u>3,559</u>

At 31st October, 2004, the Group's total future minimum lease receipts under non-cancellable operating leases were receivable as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	216	–
In the second to fifth year, inclusive	18	–
	<u>234</u>	<u>–</u>

## 26. STAFF RETIREMENT SCHEME

The Group has implemented a provident fund scheme for its staff in compliance with the requirements of the Mandatory Provident Fund Schemes Ordinance effective from 1st December, 2000. The retirement scheme contributions charged to the income statement represent contributions payable (i.e. 5% of staff's relevant income with upper monthly limit of HK\$1,000) by the Group to the specified retirement fund of the individual employees. During the year ended 31st October, 2004, the aggregate amount of employer's contribution made by the Group to the retirement scheme was approximately HK\$1,132,000 (2003: HK\$230,000).

## 27. CHANGE OF NAME

By a special resolution passed on 18th March, 2004, the Company's name has been changed from "Rainbow International Holdings Limited 彩虹國際控股有限公司" to "B.A.L. Holdings Limited 變靚D控股有限公司".