

3. Financial Risk Management

3.1 Financial risk factors

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

(a) Foreign exchange risk

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

(b) Credit risk

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

(c) Interest rate risk

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

3.2 Fair value estimate

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



4. Critical Accounting Estimates and Judgements

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

(a) Taxation

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

(b) Impairment of assets

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

(c) Estimate of fair value of investment properties

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

5. Turnover, Revenue and Segment Information

The Group is principally engaged in the retail sales of skin-care products, provision of beauty salon, spa and other related services. Revenues recognised during the year are as follows:

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



5. Turnover, Revenue and Segment Information (Continued)

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

Primary reporting format – business segments

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

5. Turnover, Revenue and Segment Information (Continued)

Primary reporting format – business segments (Continued)

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

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



5. Turnover, Revenue and Segment Information (Continued)

Secondary reporting format – geographical segments

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

In respect of geographical segment reporting, sales are reported based on the country/place in which the customers are located. Total assets and capital expenditure are reported where the assets are located.

6. Profit before Taxation

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

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

7. Taxation

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

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

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the major business territory of the Group as follows:

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



8. Profit Attributable to Shareholders

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

9. Dividends

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

10. Earnings per Share

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

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