Notes to the Consolidated Financial Statements

1. General information

Sa Sa International Holdings Limited ("the Company") and its subsidiaries (together "the Group") are principally engaged in the retailing and wholesaling of cosmetic products and the provision of beauty and health club services.

The Company is a limited liability company incorporated in Cayman Islands. The address of its registered office is P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.

The Company has its listing on The Stock Exchange of Hong Kong Limited.

As at 31st March 2007, 50.9% of the total issued shares of the Company is owned by Sunrise Height Incorporated, a company incorporated in the British Virgin Islands. The directors regard Sunrise Height Incorporated as being the ultimate holding company of the Company. The ultimate controlling party of the Group is a private company owned 50% each by Mr. KWOK, Siu Ming, Simon and Mrs. KWOK LAW, Kwai Chun, Eleanor.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Director on 28th June 2007.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of Sa Sa International Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, financial assets and financial liabilities at fair value through profit or loss and an investment property, which are carried at fair value.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(i) Amendments to published standards mandatory for financial year ended 31st March 2007

Hong Kong Accounting Standard ("HKAS") 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1st January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group has not changed the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

(ii) Interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st May 2006 or later periods the Group has not been early adopted:

HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures, introduces new disclosures relating to financial instruments. The Group will apply HKFRS 7 from 1st April 2007, but it is not expected to have any impact on the classification and valuation of the Group's financial instruments.

HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1st May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1st April 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1st November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1st April 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) Interpretation to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st May 2006 or later periods but are not relevant for the Group's operations:

– HK(IRFIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1st March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities has a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations.

– HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1st June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities has changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

(iv) Standards, amendments and interpretations effective for the year ended 31st March 2007 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1st January 2006 but are not relevant to the Group's operations:

– HKAS 21 Amendment – New Investment in a Foreign Operation;

– HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

– HKAS 39 Amendment – The Fair Value Option;

– HKAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts;

– HKFRS 6, Exploration for and Evaluation of Mineral Resources;

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iv) Standards, amendments and interpretations effective for the year ended 31st March 2007 but not relevant for the Group's operations (continued)

– HKFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;

– HK (IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;

– HK (IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and

– HK (IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st March.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provide evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2. Summary of significant accounting policies (continued)

(c) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time of cash receipt for retail sale or the time of delivery for wholesale sale.

Revenue from beauty and health club services represents membership fee and service fee income in connection with the provision of physical fitness and beauty treatment service. Membership fees are recognised on a straight-line basis over the contract terms. Service fees received in advance are taken to the receipts in advance account and are recognised on a systematic basis in accordance with service usage over a maximum period of five years.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount.

Rental income is recognised on a time proportion basis.

(d) Property, plant and equipment

Buildings comprise mainly offices. Buildings are stated at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Increases in the carrying amounts arising on revaluation of buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from fair value reserve to retained earnings.

2. Summary of significant accounting policies (continued)

(d) Property, plant and equipment (continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over the unexpired periods of the leases or their estimated useful lives, whichever is shorter. The principal annual rates used for this purpose are:

Buildings	20 years
Leasehold improvements	15% to 33.3%
Equipment, furniture and fixtures	15% to 33.3%
Motor vehicles and vessel	20% to 25%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

(e) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Receipts or payments made under operating leases (net of any incentives paid to lessees or received from the lessors) are recognised as income or expenses in the income statement on a straight-line basis over the lease periods.

(f) Investment property

Property that is held for long-term yields or for capital appreciation or both, and that is not occupied by companies in the consolidated Group, is classified as investment property.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value, valued annually by external independent valuers and carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

2. Summary of significant accounting policies (continued)

(f) Investment property (continued)

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

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

Changes in fair values are recognised in the income statement as part of the other gains.

(g) Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation, and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Inventories

Inventories comprise merchandise and are stated at the lower of cost and net realisable value.

Cost represents the invoiced cost of inventories. Costs are assigned to individual items on the weighted-average basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. Summary of significant accounting policies (continued)

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and distribution costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and distribution costs in the income statement.

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(l) Trade payables

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

(m) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. Summary of significant accounting policies (continued)

(n) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

2. Summary of significant accounting policies (continued)

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provision are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(p) Employee benefits

(i) Employee leave entitlements

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefit obligations

The Group operates a number of defined contribution and defined benefit retirement plans, the assets of which are generally held in separate trustee-administered funds. The retirement plans are generally funded by payments from employees and by the relevant group companies.

The Group contributes to defined contribution retirement plans which are available to all qualified employees in the Group, except for those participated in defined benefit retirement plan in Taiwan. Contributions to the schemes by the Group and employees are calculated at a percentage of employees' salaries or a fixed sum for each employee where appropriate.

The Group's contributions to the defined contribution retirement plans are expensed as incurred and are reduced by contributions forfeited to those employees who leave the scheme prior to vesting fully in the contributions, where appropriate.

2. Summary of significant accounting policies (continued)

(p) Employee benefits (continued)

(ii) Retirement benefit obligations (continued)

For defined benefit retirement plan, retirement costs are assessed using the projected unit credit method: the costs are charged to the income statement so as to spread the regular costs over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plan each year. The retirement obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

The Group's contributions to defined benefit retirement plan are charged to the income statement in the period to which the contributions relate.

(iii) Long service payments

The Group's net obligation in respect of amounts payable on cessation of employment in certain circumstances under the employment law of the respective countries in which the Group operates is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

Long service payments are assessed using the projected unit credit method. The cost of providing the long service payment liabilities is charged to the income statement so as to spread the cost over the service lives of employees in accordance with the advice of the actuaries.

Long service payments are discounted to determine the present value of obligation and reduced by entitlement accrued under the Group's defined contribution plans that are attributable to contributions made by the Group. Actuarial gains and losses are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

(iv) Share-based payment

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity over the remaining vesting period.

2. Summary of significant accounting policies (continued)

(p) Employee benefits (continued)

(iv) Share-based payment (continued)

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(v) Bonus plan

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liability for bonus plan is expected to be settled within 12 months and is measured at the amount expected to be paid when it is settled.

(q) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(r) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group and of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group and of the Company.

A contingent asset is not recognised but is disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset will be recognised.

2. Summary of significant accounting policies (continued)

(s) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

(t) Comparative figures

Where necessary, prior year amounts have been reclassified to conform with changes in presentation in the current year. The major reclassifications for the 2005/2006 comparative figures include reclassification of certain expenses from selling and distribution costs to cost of sales.

3. Financial risk management

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme 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 co-operation 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 against Hong Kong dollars arising from foreign exchange exposure. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operation.

Most of the assets, receipts and payments of the Group are either in Hong Kong or U.S. dollars. The Group minimises its foreign exchange exposure by way of hedging against order at spot and maintain no long position. The hedging policies are reviewed by the Group regularly.

(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. The Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

3. Financial risk management (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and making available an adequate amount of committed credit facilities with staggered maturities to reduce refinancing risk in any year and to fund working capital, debt servicing, dividend payments, new investments and close out market positions if required. Based on the Group has steady cash inflow from operations and has adequate financial resources to fund its operations and future expansion.

(d) Interest rate risk

The Group's interest rate risk resulted from timing differences in the repricing of interest bearing assets. Major interest bearing assets of the Group are bank deposits.

The Group monitors its interest rate risk through management of maturity profile and choice of fixed or floating interest rates.

Besides, the Group has no significant borrowing during the year. The interest rate risk resulted from borrowing is minimal.

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) Income taxes

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

4. Critical accounting estimates and judgements (continued)

(a) Income taxes (continued)

At 31st March 2007, the Group did not recognise deferred income tax assets of HK$38,732,000 in respect of losses amounting to HK$165,660,000 that can be carried forward against future taxable income. Estimating the amount of deferred income tax asset arising from tax losses requires a process that involves determining appropriate provisions for income tax expense, forecasting future year's taxable income and assessing our ability to utilise tax benefits through future earnings. In cases where the actual future profits generated are different from original estimates than expected, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such circumstances are changed.

(b) Impairment of investments in subsidiaries and non-financial assets

The Group conducts impairment reviews of investments in subsidiaries and non-financial 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. In 2007, after reviewing the business environment as well as the Group's objectives and past performance of the investments, management has concluded that there was no impairment loss for the above assets at 31st March 2007.

(c) Write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an estimate of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not realised. The identification of write-downs requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

(d) Fair value estimation of share options

The Group estimates the fair value of share options using a binomial lattice methodology which involves the use of estimates. Details of significant inputs to the valuation model are disclosed in Note 26.

5. Revenues, turnover and segment information

The Group is principally engaged in the retailing and wholesaling of cosmetic products and the provision of beauty and health club services. Turnover represents the invoiced sales value of goods and of services supplied to customers. Revenues recognised during the year are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Turnover		
Retail and wholesale	**2,676,816**	2,425,314
Beauty and health club services	**212,421**	195,272
	2,889,237	2,620,586
Other income		
Slide display rental income	**17,797**	16,873
Rental income	**1,273**	831
Sundry income	**1,300**	988
	20,370	18,692
	2,909,607	2,639,278

Segment assets consist primarily of property, plant and equipment, leasehold land, investment property, inventories, receivables and operating cash, and exclude certain corporate assets and tax. Segment liabilities comprise operating liabilities and exclude financial liabilities at fair value through profit or loss and tax. Capital expenditure comprises additions to property, plant and equipment, leasehold land and investment property.

5. Revenues, turnover and segment information (continued)

(a) Primary reporting format – business segments

	Retail and wholesale HK$'000	Beauty and health club services HK$'000	2007 Total HK$'000
Turnover	2,676,816	212,421	2,889,237
Results			
Segment results	247,474	(186)	247,288
Interest income			24,216
Profit before income tax			271,504
Income tax expense			(49,711)
Profit for the year			221,793
Segment assets	1,311,522	93,520	1,405,042
Unallocated corporate assets			17,538
Total assets			1,422,580
Segment liabilities	201,304	239,804	441,108
Unallocated corporate liabilities			30,882
Total liabilities			471,990
Other information			
Capital expenditure	49,013	8,753	57,766
Depreciation	63,813	13,613	77,426
Amortisation	428	–	428
Write-off of property, plant and equipment	1,660	22	1,682
Provision for impairment losses on trade receivables	–	52	52
Provision for/(reversal of provision for) slow moving inventories and stock shrinkage	24,172	(350)	23,822
Fair value gain on investment property	2,600	–	2,600
Reversal of impairment losses on leasehold land	12,092	–	12,092
Net exchange gains	3,317	124	3,441

5. Revenues, turnover and segment information (continued)

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

	Retail and wholesale HK$'000	Beauty and health club services HK$'000	2006 Total HK$'000
Turnover	2,425,314	195,272	2,620,586
Results			
Segment results	215,661	(10,569)	205,092
Interest income			17,518
Profit before income tax			222,610
Income tax expense			(37,439)
Profit for the year			185,171
Segment assets	1,272,747	81,025	1,353,772
Unallocated corporate assets			17,868
Total assets			1,371,640
Segment liabilities	221,338	223,088	444,426
Unallocated corporate liabilities			13,387
Total liabilities			457,813
Other information			
Capital expenditure	91,052	8,373	99,425
Depreciation	47,385	16,495	63,880
Amortisation	401	–	401
Write-off of property, plant and equipment	804	8	812
Provision for impairment losses on trade receivables	–	27	27
Provision for slow moving inventories and stock shrinkage	17,320	135	17,455
Fair value gain on investment property	1,400	–	1,400
Fair value gain on buildings	735	–	735
Reversal of impairment losses on leasehold land	10,766	–	10,766
Net exchange losses/(gains)	17,488	(38)	17,450

5. Revenues, turnover and segment information (continued)

(b) Secondary reporting format – geographical segments

The Group operates in Mainland China and Special Administrative Regions ("SAR"), Taiwan and South Asia. SAR includes Hong Kong and Macau. South Asia comprises Thailand, Malaysia and Singapore.

	Mainland China and SAR HK$'000	Taiwan HK$'000	South Asia HK$'000	2007 Total HK$'000
Turnover	**2,516,353**	**120,056**	**252,828**	**2,889,237**
Segment assets	**1,203,837**	**54,915**	**146,290**	**1,405,042**
Unallocated corporate assets				**17,538**
Total assets				**1,422,580**
Capital expenditure	**38,941**	**5,989**	**12,836**	**57,766**

	Mainland China and SAR HK$'000	Taiwan HK$'000	South Asia HK$'000	2006 Total HK$'000
Turnover	2,330,351	88,962	201,273	2,620,586
Segment assets	1,189,657	39,274	124,841	1,353,772
Unallocated corporate assets				17,868
Total assets				1,371,640
Capital expenditure	83,721	7,875	7,829	99,425

Turnover is allocated based on the places in which the customers are located.

Capital expenditure, comprises additions to property, plant and equipment, leasehold land and investment property is allocated based on where the assets are located.

6. Other gains – Group

	2007 HK$'000	2006 HK$'000
Fair value gain on investment property (Note 16)	**2,600**	1,400
Fair value gain on buildings (Note 14)	**–**	735
Reversal of impairment losses on leasehold land (Note 15)	**12,092**	10,766
Net exchange gains/(losses)	**3,179**	(17,188)
Fair value changes on forward foreign exchange contracts	**262**	(262)
Provision for staff costs, including discretionary bonus,		
made in previous years written back	**2,825**	23,923
	20,958	19,374

7. Expenses by nature – Group

	2007 HK$'000	2006 HK$'000
Cost of inventories sold	**1,555,948**	1,475,495
Employee benefit expenses (including directors' emoluments) (Note 8)	**483,323**	433,443
Depreciation of property, plant and equipment	**77,426**	63,880
Amortisation of leasehold land	**428**	401
Write-off of property, plant and equipment	**1,682**	812
Write-off of other assets	**–**	120
Provision for impairment losses on trade receivables	**52**	27
Operating lease rentals in respect of land and buildings		
– minimum lease payments	**280,470**	237,042
– contingent rent	**5,343**	4,994
Auditors' remuneration	**2,857**	2,264
Others	**275,748**	235,082
Total cost of sales, selling and distribution costs and administrative expenses	**2,683,277**	2,453,560

8. Employee benefit expenses (including directors' emoluments) – Group

	2007 HK$'000	2006 HK$'000
Directors' fees	**1,170**	1,032
Wages, salaries, housing allowances, other allowances and benefits in kind	**452,913**	399,272
Provision for unutilised annual leave	**1,676**	1,781
Retirement benefit costs (Note 25(b))	**22,083**	20,090
Share-based payment	**5,481**	11,268
	483,323	433,443

9. Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of each director of the Company during the year ended 31st March 2007 was set out below:

	Directors' fees HK$'000	Basic salaries, housing allowances, other allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement benefit costs HK$'000	Share-based payment (i) HK$'000	Total HK$'000
Executive Directors						
Mr. Kwok, Siu Ming, Simon	–	2,858	238	200	–	3,296
Mrs. Kwok Law, Kwai Chun, Eleanor	–	2,594	216	182	–	2,992
Mr. Look, Guy	–	3,280	–	229	4,986	8,495
Non-executive Director						
Mrs. Lee Look, Ngan Kwan, Christina	258	–	–	–	–	258
Independent Non-executive Directors						
Professor Chan, Yuk Shee, J.P.	298	–	–	–	–	298
Ms. Ki, Man Fung, Leonie, J.P. (ii)	76	–	–	–	–	76
Dr. Leung, Kwok Fai, Thomas, J.P.	273	–	–	–	–	273
Ms. Tam, Wai Chu, Maria, GBS, J.P.	265	–	–	–	–	265
	1,170	8,732	454	611	4,986	15,953

9. Directors' and senior management's emoluments (continued)

(a) Directors' emoluments (continued)

The remuneration of each director of the Company during the year ended 31st March 2006 was set out below:

	Directors' fees HK$'000	Basic salaries, housing allowances, other allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement benefit costs HK$'000	Share-based payment (i) HK$'000	Total HK$'000
Executive Directors						
Mr. Kwok, Siu Ming, Simon	–	2,858	238	200	–	3,296
Mrs. Kwok Law, Kwai Chun, Eleanor	–	2,594	216	181	–	2,991
Mr. Look, Guy	–	2,480	–	139	–	2,619
Non-executive Director						
Mrs. Lee Look, Ngan Kwan, Christina	240	–	–	–	–	240
Independent Non-executive Directors						
Professor Chan, Yuk Shee, J.P.	288	–	–	–	–	288
Dr. Leung, Kwok Fai, Thomas, J.P.	256	–	–	–	–	256
Ms. Tam, Wai Chu, Maria, GBS, J.P.	248	–	–	–	276	524
	1,032	7,932	454	520	276	10,214

Notes:

(i) Share-based payment represents amortisation to the consolidated income statement of the fair value of share options measured at the respective grant dates, regardless of whether the share options would be exercised or not.

(ii) Ms. Ki, Man Fung, Leonie, J.P. has been appointed as an independent non-executive director of the Company on 15th December 2006.

(iii) During the year ended 31st March 2007, 13,488,844 share options were granted to the executive director under the 2002 Share Option Scheme (2006: Nil).

No compensation for loss of office has been paid to the directors for the years ended 31st March 2007 and 2006.

No director of the Company waived any emoluments during the years ended 31st March 2007 and 2006.

9. Directors' and senior management's emoluments (continued)

(b) Five highest paid individuals

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

	2007 HK$'000	2006 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**2,575**	2,445
Discretionary bonuses	**302**	198
Retirement benefit costs	**180**	171
Share-based payment	**(8)**	1,119
	3,049	3,933

The emoluments of the individuals fell within the following bands:

Emoluments bands	Number of individuals 2007	 2006
HK$1,000,001 – HK$1,500,000	**1**	–
HK$1,500,001 – HK$2,000,000	**1**	1
HK$2,000,001 – HK$2,500,000	**–**	1
	2	2

10. Income tax expense – Group

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

	2007 HK$'000	2006 HK$'000
Hong Kong profits tax		
Current	**46,880**	31,229
Under provision in previous years	**73**	38
Overseas taxation		
Current	**4,561**	4,195
Under/(over) provision in previous years	**224**	(1,582)
Deferred income tax relating to origination and reversal of temporary differences (Note 19)	**(2,015)**	3,559
Decrease in opening net deferred tax assets resulting from decrease in tax rate	**(12)**	–
	49,711	37,439

The income tax expense on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2007 HK$'000	2006 HK$'000
Profit before income tax	**271,504**	222,610
Tax calculated at a taxation rate of 17.5% (2006: 17.5%)	**47,514**	38,957
Effect of different taxation rates in other countries	**(90)**	(774)
Income not subject to income tax	**(7,401)**	(6,315)
Expenses not deductible for income tax purposes	**4,652**	3,117
Net unrecognised tax losses	**4,751**	3,998
Under/(over) provision in previous years	**297**	(1,544)
Decrease in opening net deferred tax assets resulting from decrease in tax rate	**(12)**	–
Income tax expense	**49,711**	37,439

11. Profit for the year, attributable to equity holders of the Company

Profit for the year, attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$208,466,000 (2006: HK$197,423,000).

12. Earnings per share

(a) The calculation of basic and diluted earnings per share is based on the Group's profit attributable to equity holders of the Company of HK$221,793,000 (2006: HK$185,171,000).

(b) The calculation of basic earnings per share is based on the weighted average of 1,354,258,744 (2006: 1,332,919,316) shares in issue during the year.

(c) The calculation of diluted earnings per share is based on the weighted average of 1,354,258,744 (2006: 1,332,919,316) shares in issue during the year plus the weighted average of 6,790,164 (2006: 21,410,603) shares deemed to be issued if all outstanding share options granted under the share option scheme of the Company had been exercised.

13. Dividends – Company

	2007 HK$'000	2006 HK$'000
Interim, paid – 3.0 HK cents (2006: 3.0 HK cents) per share	**40,784**	40,280
Special, paid – 3.0 HK cents (2006: 3.0 HK cents) per share	**40,784**	40,280
Final, proposed – 5.0 HK cents (2006: 5.0 HK cents) per share	**68,559**	67,451
Special, proposed – 6.0 HK cents (2006: 6.0 HK cents) per share	**82,270**	80,941
	232,397	228,952

At a meeting held on 28th June 2007, the directors declared a final dividend of 5.0 HK cents and a special dividend of 6.0 HK cents per share. These proposed dividends have not been reflected as dividend payables in these financial statements, but will be reflected as an appropriation of distributable reserve for the year ending 31st March 2008.

14. Property, plant and equipment – Group

	Buildings HK$'000	Leasehold improve-ments HK$'000	Equipment, furniture and fixtures HK$'000	Motor vehicles and vessel HK$'000	Total HK$'000
Year ended 31st March 2007					
Opening net book amount	22,996	83,138	45,927	2,951	155,012
Exchange differences	–	487	403	67	957
Revaluation	4,560	–	–	–	4,560
Additions	–	36,333	20,938	495	57,766
Disposals	–	–	(45)	(371)	(416)
Write-off	–	(659)	(1,023)	–	(1,682)
Depreciation	(2,353)	(50,678)	(23,077)	(1,318)	(77,426)
Closing net book amount	25,203	68,621	43,123	1,824	138,771
At 31st March 2007					
Cost or valuation	25,203	278,848	138,601	11,099	453,751
Accumulated depreciation	–	(210,227)	(95,478)	(9,275)	(314,980)
Net book amount	25,203	68,621	43,123	1,824	138,771
At 1st April 2005					
Cost or valuation	24,173	217,167	120,524	11,445	373,309
Accumulated depreciation	–	(157,533)	(86,396)	(9,705)	(253,634)
Net book amount	24,173	59,634	34,128	1,740	119,675
Year ended 31st March 2006					
Opening net book amount	24,173	59,634	34,128	1,740	119,675
Exchange differences	–	(90)	(17)	1	(106)
Revaluation	735	–	–	–	735
Additions	–	67,125	29,981	2,319	99,425
Disposals	–	–	(25)	–	(25)
Write-off	–	(364)	(448)	–	(812)
Depreciation	(1,912)	(43,167)	(17,692)	(1,109)	(63,880)
Closing net book amount	22,996	83,138	45,927	2,951	155,012
At 31st March 2006					
Cost or valuation	24,173	255,371	132,194	11,563	423,301
Accumulated depreciation	(1,177)	(172,233)	(86,267)	(8,612)	(268,289)
Net book amount	22,996	83,138	45,927	2,951	155,012

14. Property, plant and equipment – Group (continued)

Analysis of the cost or valuation of the above assets is as follows:

	Buildings HK$'000	Leasehold improve-ments HK$'000	Equipment, furniture and fixtures HK$'000	Motor vehicles and vessel HK$'000	Total HK$'000
As at 31st March 2007					
At cost	**–**	**278,848**	**138,601**	**11,099**	**428,548**
At valuation	**25,203**	**–**	**–**	**–**	**25,203**
	25,203	**278,848**	**138,601**	**11,099**	**453,751**
As at 31st March 2006					
At cost	–	255,371	132,194	11,563	399,128
At valuation	24,173	–	–	–	24,173
	24,173	255,371	132,194	11,563	423,301

(a) The buildings are situated in Hong Kong and held under medium term leases between 10 to 50 years.

(b) The buildings were revalued on the basis of their open market values at 31st March 2007 by DTZ Debenham Tie Leung Limited, an independent firm of qualified chartered surveyors. The surplus arising on revaluation of buildings amounted to HK$4,560,000 was credited to building revaluation reserve. In 2006, reversal of previous revaluation deficit of HK$735,000 was credited to the consolidated income statement.

(c) The carrying amounts of buildings would have been HK$17,349,000 (2006: HK$19,125,000) had they been stated at cost less accumulated depreciation.

15. Leasehold land – Group

The Group's interests in leasehold land represent prepaid operating lease payments and their net book value are analysed as follows:

	2007 HK$'000	2006 HK$'000
At beginning of the year	**17,892**	7,527
Amortisation of prepaid operating lease payment	**(428)**	(401)
Reversal of impairment losses (Note 6)	**12,092**	10,766
At end of the year	**29,556**	17,892

The leasehold land are situated in Hong Kong and held under medium term leases between 10 to 50 years.

16. Investment property – Group

	2007 HK$'000	2006 HK$'000
At beginning of the year	**6,000**	4,600
Fair value gain (Note 6)	**2,600**	1,400
At end of the year	**8,600**	6,000

(a) The investment property is situated in Hong Kong and held under medium term leases between 10 to 50 years.

(b) The investment property was revalued on the basis of its open market value at 31st March 2007 by DTZ Debenham Tie Leung Limited, an independent firm of qualified chartered surveyors. The surplus arising on revaluation of investment property amounted to HK$2,600,000 (2006: HK$1,400,000) and is credited to the consolidated income statement.

17. Investments in and amounts due from subsidiaries – Company

	2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**1**	1
Amounts due from subsidiaries (Note (b))	**925,222**	1,016,031
Provision for impairment of amounts due from subsidiaries	**(411,542)**	(405,711)
	513,681	610,321
Amounts due to subsidiaries (Note (b))	**97**	97

(a) Details of the Company's principal subsidiaries are set out in Note 31 to the consolidated financial statements.

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

18. Rental deposits and other assets

	Group		Company	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Rental deposits	**54,856**	53,937	**–**	–
Others	**750**	750	**750**	750
	55,606	54,687	**750**	750

Rental deposits are carried at amortised cost using the effective interest rate of 2.4%-3.7% per annum. At 31st March 2007, the carrying amounts of rental deposits approximate their fair values.

19. Deferred income tax – Group

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

The movement on the net deferred income tax assets account is as follows:

	2007 HK$'000	2006 HK$'000
At beginning of the year	**11,027**	14,567
Deferred income tax charged to the income statement (Note 10)	**2,015**	(3,559)
Tax charged directly to building revaluation reserve in equity	**(797)**	–
Decrease in opening net deferred tax assets resulting from decrease in tax rate	**12**	–
Exchange differences	**1,733**	19
At end of the year	**13,990**	11,027

Deferred income tax assets are recognised for tax losses carries forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$38,732,000 (2006: HK$36,084,000) in respect of losses amounting to HK$165,660,000 (2006: HK$163,252,000) that can be carried forward against future taxable income. Losses amounting to HK$7,443,000 (2006: HK$18,917,000) will expire within 5 years from 31st March 2007. The remaining tax losses have no expiry date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to off set current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2007 HK$'000	2006 HK$'000
Deferred income tax assets	**16,683**	16,085
Deferred income tax liabilities	**(2,693)**	(5,058)
	13,990	11,027

19. Deferred income tax – Group (continued)

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

Deferred income tax assets	Decelerated tax depreciation		Investment property valuation		Provisions		Tax losses		Receipts in advance		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At beginning of year	3,563	2,725	352	393	3,942	5,675	2,184	1,484	6,892	6,245	16,933	16,522
(Charged)/credited to the income statement	715	823	(22)	(41)	(846)	(1,670)	(458)	681	(415)	594	(1,026)	387
Decrease in opening net deferred tax assets resulting from decrease in tax rate	(23)	–	–	–	(25)	–	–	–	–	–	(48)	–
Exchange differences	170	15	–	–	83	(63)	161	19	1,333	53	1,747	24
At end of year	4,425	3,563	330	352	3,154	3,942	1,887	2,184	7,810	6,892	17,606	16,933

Deferred income tax liabilities	Accelerated tax depreciation		Fair value gain		Total	
	2007	2006	2007	2006	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At beginning of year	5,906	1,955	–	–	5,906	1,955
(Credited)/charged to the income statement	(3,041)	3,946	–	–	(3,041)	3,946
Charged directly to equity	–	–	797	–	797	–
Decrease in opening net deferred tax liabilities resulting from decrease in tax rate	(60)	–	–	–	(60)	–
Exchange differences	14	5	–	–	14	5
At end of year	2,819	5,906	797	–	3,616	5,906

20. Inventories – Group

	2007 HK$'000	2006 HK$'000
Merchandise stock for resale	**384,034**	359,824

The cost of inventories recognized as expense and included in cost of sales amounted to HK$1,555,948,000 (2006: HK$1,475,495,000).

During the year, the Group has made a provision of HK$23,822,000 for slow moving inventories and stock shrinkage (2006: HK$17,455,000). The amount was included in cost of sales in the consolidated income statement.

21. Trade receivables – Group

	2007 HK$'000	2006 HK$'000
Trade receivables	**30,852**	22,680
Less: provision for impairment losses on trade receivables	**(28)**	(589)
Trade receivables – net	**30,824**	22,091

The Group's turnover are mainly cash and credit card sales. Certain wholesale customers are granted credit terms ranging from 7 to 30 days. The ageing analysis of trade receivables is as follows:

	2007 HK$'000	2006 HK$'000
Within 1 month	**27,843**	20,352
1 to 3 months	**2,326**	1,639
Over 3 months	**655**	100
	30,824	22,091

The fair values of trade receivables approximate their carrying amounts.

Trade receivables are mainly denominated in Hong Kong dollars.

During the year, the Group has made a provision for impairment losses on trade receivables of HK$52,000 (2006: HK$27,000). The provision has been included in selling and distribution costs.

22. Cash and bank balances

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank deposits over three months to maturity	**125,862**	105,018	**108,631**	77,601
Cash at bank and in hand	**128,390**	139,224	**605**	2,356
Short-term bank deposits	**441,595**	451,454	**299,424**	216,877
Cash and cash equivalents	**569,985**	590,678	**300,029**	219,233
	695,847	695,696	**408,660**	296,834

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**144,502**	175,825	**27,076**	2,844
U.S. dollars	**413,633**	330,476	**381,584**	293,990
Euro	**12,135**	84,475	**–**	–
Renminbi	**6,942**	10,743	**–**	–
Singapore dollars	**26,160**	21,871	**–**	–
Malaysian Ringit	**44,457**	40,674	**–**	–
Taiwan dollars	**18,491**	8,711	**–**	–
Others	**29,527**	22,921	**–**	–
	695,847	695,696	**408,660**	296,834

The effective interest rate on bank deposits over three months to maturity was 4.7% (2006: 2.8%); these deposits have an average maturity of 6 months (2006: 22 months).

The effective interest rate on short-term bank deposits was 5.1% (2006: 4.2%); these deposits have an average maturity of 2 months (2006: 1 month).

23. Trade and bills payables – Group

The ageing analysis of trade and bills payables is as follows:

	2007 HK$'000	2006 HK$'000
Within 1 month	**68,576**	76,874
1 to 3 months	**46,655**	44,925
Over 3 months	**6,041**	21,188
	121,272	142,987

The fair values of trade and bills payables approximate their carrying amounts.

Trade and bills payables are denominated in the following currencies:

	2007 HK$'000	2006 HK$'000
Hong Kong dollars	**68,312**	86,442
U.S. dollars	**12,745**	22,180
Euro	**9,318**	13,376
Singapore dollars	**7,119**	4,461
Taiwan dollars	**7,673**	5,520
Swiss Franc	**2,055**	6,569
Others	**14,050**	4,439
	121,272	142,987

24. Financial liabilities at fair value through profit or loss

	Group		Company	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Forward foreign exchange contracts	**–**	262	**–**	202

25. Retirement benefit obligations – Group

(a) Retirement benefit obligations

	2007 HK$'000	2006 HK$'000
Retirement benefit obligations on		
– Defined benefit plan (Note (b)(ii))	**430**	324
– Long service payments (Note (b)(iii))	**9,535**	9,735
	9,965	10,059

(b) Retirement benefit costs

	2007 HK$'000	2006 HK$'000
Retirement benefit costs (Note 8)		
– Defined contribution plans (Note (i))	**21,915**	19,205
– Defined benefit plan (Note (ii))	**299**	184
	22,214	19,389
– Long service payments (Note (iii))	**(131)**	701
	22,083	20,090
Gross employer's contributions	**22,491**	19,482
Less: Forfeited contributions utilised to reduce employer's contributions for the year	**(277)**	(93)
Net employer's contributions charged to the consolidated income statement	**22,214**	19,389

Notes:

(i) Prior to 1st December 2000, certain subsidiaries of the Group in Hong Kong operated a defined contribution retirement benefit plan (the "Retirement Scheme") for the employees in Hong Kong. On 1st December 2000, the Retirement Scheme has been suspended and replaced by the Mandatory Provident Fund Scheme (the "MPF Scheme") mentioned below. No more contribution was contributed to the retirement scheme. The assets of the Retirement Scheme are separately controlled and administered by independent trustees. Employees who contributed to the Retirement Scheme are entitled to the retirement benefits under this Retirement Scheme as well as the MPF Scheme.

25. Retirement benefit obligations – Group (continued)

(b) Retirement benefit costs (continued)

Notes: (continued)

From 1st December 2000, the subsidiaries of the Group in Hong Kong elected to contribute to the MPF Scheme. The MPF Scheme is a defined contribution retirement benefit plan administered by independent trustees. Under the MPF Scheme, both the employer and employees are required to contribute 5% of the employee's monthly salaries (capped at HK$20,000). Contributions from the employer equivalent to the contribution as specified at the rules of the MPF Scheme are 100% vested as soon as they are paid to the relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the age of 65, subject to a few exceptions. As to the employer's contribution in excess of the portion vested in the MPF Scheme the employees are entitled to 100% of it after 10 years of completed service or at a reduced scale after completion of three to nine years' service. The forfeited contributions are to be used to reduce the employer's contribution.

The defined contribution plans for the employees of the Group in other countries follow the local statutory requirements of the respective countries.

(ii) A branch of a wholly-owned subsidiary of the Group in Taiwan participates in a central defined benefit retirement plan (the "Old Retirement Plan") providing benefits to all employees in accordance with the Labor Standards Law (as amended) in Taiwan. The Group has an obligation to ensure that there are sufficient funds in the Old Retirement Plan to pay the benefits earned. The branch currently contributes at 2% of the total salaries as determined and approved by the relevant government authorities. The assets of the Old Retirement Plan are invested by the Central Trust of China and the assets are held separately from those of the Group in independent administered funds.

The latest actuarial valuation was prepared as at 31st March 2007 by HSBC Life (International) Limited, a qualified actuary, using the projected unit credit method.

Effective from 1st July 2005, a new retirement plan (the "New Retirement Plan") was launched in Taiwan, which is a defined contribution retirement benefit plan administered by the local government and followed the local statutory requirements. Employee can choose to stay in the Old Retirement Plan or participate in the New Retirement Plan.

The amounts recognised in the consolidated balance sheet are determined as follows:

	2007 HK$'000	2006 HK$'000
Present value of funded obligations	**1,965**	1,803
Fair value of plan assets	**(1,967)**	(1,786)
	(2)	17
Unrecognised actuarial gains	**432**	307
Liability in the balance sheet (Note (a))	**430**	324

25. Retirement benefit obligations – Group (continued)

(b) Retirement benefit costs (continued)

Notes: (continued)

The amounts recognised in the consolidated income statement were as follows:

	2007 HK$'000	2006 HK$'000
Current service cost	**344**	220
Interest cost	**32**	36
Expected return on plan assets	**(52)**	(47)
Net actuarial gains recognised in the year	**(25)**	(25)
Total included in employee benefit expenses	**299**	184

Movement in the defined benefit retirement plan obligations recognised in the consolidated balance sheet is as follows:

	2007 HK$'000	2006 HK$'000
At beginning of year	**324**	344
Total expense	**299**	184
Contributions paid	**(181)**	(193)
Exchange differences	**(12)**	(11)
At end of year	**430**	324

The principal actuarial assumptions used are as follows:

	2007 %	2006 %
Discount rate	**1.90**	1.80
Expected rate of return on plan assets	**3.00**	3.00
Expected rate of future salary increases	**2.50**	2.50

25. Retirement benefit obligations – Group (continued)

(b) Retirement benefit costs (continued)

Notes: (continued)

(iii) The Group's provision for long service payments are determined based on the actuarial valuation as at 31st March 2007 prepared by HSBC Life (International) Limited, a qualified actuary, using the projected unit credit method.

The amounts recognised in the consolidated balance sheet are determined as follows:

	2007 HK$'000	2006 HK$'000
Present value of unfunded obligations	**3,422**	3,568
Unrecognised actuarial gains	**6,113**	6,167
Liability in balance sheet (Note (a))	**9,535**	9,735

The amounts recognised in the consolidated income statement were as follows:

	2007 HK$'000	2006 HK$'000
Current service cost	**609**	588
Interest cost	**164**	286
Net actuarial gains recognised in the year	**(904)**	(173)
Total included in employee benefit expenses	**(131)**	701

Movement in the provision for long service payments obligations recognised in the consolidated balance sheet is as follows:

	2007 HK$'000	2006 HK$'000
At beginning of year	**9,735**	9,091
Total expense	**(131)**	701
Contributions paid	**(212)**	(62)
Exchange differences	**143**	5
At end of year	**9,535**	9,735

The principal actuarial assumptions used are as follows:

	2007 %	2006 %
Discount rate	**4.15**	4.50
Expected rate of future salary increases	**2.00 to 3.00**	2.00 to 3.00

26. Share capital

Authorised shares of HK$0.1 each	Note	No. of shares	HK$'000
At 31st March 2006 and 2007		8,000,000,000	800,000
Issued and fully paid shares of HK$0.1 each			
At 1st April 2005		1,323,488,359	132,349
Issue of shares upon exercise of share options	(a)	23,624,372	2,362
At 31st March 2006 and 1st April 2006		1,347,112,731	134,711
Issue of shares upon exercise of share options	(a)	21,506,395	2,151
At 31st March 2007		1,368,619,126	136,862

Notes:

(a) **Issue of shares upon exercise of share options**

During the year, a total of 21,506,395 (2006: 23,624,372) shares were issued to certain staff members and an ex-director of the Company pursuant to the exercises of share options under the 1997 Share Option Scheme, the 2002 Share Option Scheme and the Service Agreement respectively. The proceeds of the issues totalling HK$32,402,000 (2006: HK$33,695,000) including share premium amounted to HK$30,251,000 (2006: HK$31,333,000).

(b) **Share options**

The share options of the Company were granted under:-

(i) the 1997 Share Option Scheme;

(ii) the 2002 Share Option Scheme; and

(iii) the Service Agreement with an ex-director.

Movements in the number of share options outstanding are as follows:–

	No. of share options Year ended 31st March 2007	2006
At beginning of the year	**54,531,608**	84,809,585
Granted	**13,488,844**	–
Exercised	**(21,506,395)**	(23,624,372)
Lapsed	**(10,178,958)**	(6,653,605)
As the end of the year	**36,335,099**	54,531,608

26. Share capital (continued)

Notes: (continued)

(b) **Share options (continued)**

The expiry dates and exercise prices of the share options outstanding as at 31st March 2007 were set out as follows:–

Expiry date	Exercise price per share (HK$)	No. of Share Options as at 31st March 2007	2006
1997 Share Option Scheme			
8th September 2007	1.90	**406,000**	580,000
2002 Share Option Scheme			
31st August 2013	1.81	**–**	133,333
1st October 2013	1.88	**666,666**	666,666
29th October 2013	1.68	**18,096,924**	41,549,359
3rd December 2013	1.90	**–**	2,000,000
19th January 2014	2.80	**–**	167,333
28th February 2014	2.85	**268,333**	366,666
2nd March 2014	2.78	**775,333**	968,666
28th June 2014	3.00	**1,000,000**	1,000,000
1st August 2014	3.12	**321,333**	464,666
30th November 2014	3.85	**1,096,333**	1,254,666
21st December 2014	4.15	**215,333**	366,666
25th May 2016	2.965	**13,488,844**	–
Share Option under an ex-director's service agreement			
2nd February 2007	0.928	**–**	5,013,587
		36,335,099	54,531,608

The weighted average fair value of options granted during the year ended 31st March 2007 determined using the binominal lattice model, prepared by Watson Wyatt Hong Kong Limited, was HK$0.76 per option (2006: Nil). The significant inputs into the model were share price of HK$2.825 at the grant date, exercise price of HK$2.965, volatility of 38%, dividend yields of 5%, an expected option life of 6 years and on annual risk-free interest rate of 4.71%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last 6 years. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

27. Reserves

(a) Group

	Share premium HK$'000	Capital redemption reserve HK$'000	Employee share-based compensation reserve HK$'000	Building revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st April 2006	731,906	11,783	22,733	–	(25,549)	38,243	779,116
Fair value gain on buildings, net of tax	–	–	–	3,763	–	–	3,763
Exchange differences recognised directly in equity	–	–	–	–	3,329	–	3,329
Profit for the year	–	–	–	–	–	221,793	221,793
Total recognised income for the year ended 31st March 2007	–	–	–	3,763	3,329	221,793	228,885
Employee share option scheme:							
Value of employee services	–	–	5,481	–	–	–	5,481
Shares issued upon exercise of options (Note 26(a))	30,251	–	–	–	–	–	30,251
Transfer of reserve upon exercise of options	9,360	–	(9,360)	–	–	–	–
2005/2006 Final and Special dividends paid	(148,437)	–	–	–	–	–	(148,437)
2006/2007 Interim dividend paid	–	–	–	–	–	(40,784)	(40,784)
2006/2007 Special dividend paid	–	–	–	–	–	(40,784)	(40,784)
	(108,826)	–	(3,879)	–	–	(81,568)	(194,273)
At 31st March 2007	**623,080**	**11,783**	**18,854**	**3,763**	**(22,220)**	**178,468**	**813,728**
Representing:							
Reserves							662,899
Proposed dividends							150,829
At 31st March 2007							**813,728**

27. Reserves (continued)

(a) Group (continued)

	Share premium HK$'000	Capital redemption reserve HK$'000	Employee share-based compensation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st April 2005	692,269	11,783	19,769	(25,815)	79,691	777,697
Exchange differences recognised						
directly in equity	–	–	–	266	–	266
Profit for the year	–	–	–	–	185,171	185,171
Total recognised income for the year						
ended 31st March 2006	–	–	–	266	185,171	185,437
Employee share option scheme:						
Value of employee services	–	–	11,268	–	–	11,268
Shares issued upon						
exercise of options (Note 26(a))	31,333	–	–	–	–	31,333
Transfer of reserve upon exercise of options	8,304	–	(8,304)	–	–	–
2004/2005 Final and Special dividends paid	–	–	–	–	(146,059)	(146,059)
2005/2006 Interim dividend paid	–	–	–	–	(40,280)	(40,280)
2005/2006 Special dividend paid	–	–	–	–	(40,280)	(40,280)
	39,637	–	2,964	–	(226,619)	(184,018)
At 31st March 2006	731,906	11,783	22,733	(25,549)	38,243	779,116
Representing:						
Reserves						630,724
Proposed dividends						148,392
At 31st March 2006						779,116

27. Reserves (continued)

(b) Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Employee share-based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st April 2006	731,906	11,783	22,733	7,290	773,712
Profit for the year	–	–	–	208,466	208,466
Employee share option scheme:					
Value of employee services	–	–	5,481	–	5,481
Shares issued upon exercise of options (Note 26(a))	30,251	–	–	–	30,251
Transfer of reserve upon exercise of options	9,360	–	(9,360)	–	–
2005/2006 Final and Special dividends paid	(148,437)	–	–	–	(148,437)
2006/2007 Interim dividend paid	–	–	–	(40,784)	(40,784)
2006/2007 Special dividend paid	–	–	–	(40,784)	(40,784)
	(108,826)	–	(3,879)	(81,568)	(194,273)
At 31st March 2007	**623,080**	**11,783**	**18,854**	**134,188**	**787,905**
Representing:					
Reserves					637,076
Proposed dividends					150,829
At 31st March 2007					**787,905**

27. Reserves (continued)

(b) Company (continued)

	Share premium HK$'000	Capital redemption reserve HK$'000	Employee share-based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 April 2005	692,269	11,783	19,769	36,486	760,307
Profit for the year	–	–	–	197,423	197,423
Employee share option scheme:					
Value of employee services	–	–	11,268	–	11,268
Shares issued upon exercise of options (Note 26(a))	31,333	–	–	–	31,333
Transfer of reserve upon exercise of options	8,304	–	(8,304)	–	–
2004/2005 Final and Special dividends paid	–	–	–	(146,059)	(146,059)
2005/2006 Interim dividend paid	–	–	–	(40,280)	(40,280)
2005/2006 Special dividend paid	–	–	–	(40,280)	(40,280)
	39,637	–	2,964	(226,619)	(184,018)
At 31st March 2006	731,906	11,783	22,733	7,290	773,712
Representing:					
Reserves					625,320
Proposed dividends					148,392
At 31st March 2006					773,712

(c) At 31st March 2007, the Company had a distributable reserve of approximately HK$757,268,000 (2006: HK$739,196,000).

28. Cash generated from operations

	2007 HK$'000	2006 HK$'000
Profit for the year	**221,793**	185,171
Adjustments for:		
– Income tax expense	**49,711**	37,439
– Depreciation of property, plant and equipment	**77,426**	63,880
– Amortisation of leasehold land	**428**	401
– Gain on disposal of property, plant and equipment	**–**	(690)
– Write-off of property, plant and equipment	**1,682**	812
– Write-off of other assets	**–**	120
– Fair value changes on forward foreign exchange contracts	**(262)**	262
– Share-based payment	**5,481**	11,268
– Interest income	**(24,216)**	(17,518)
– Fair value gains on investment property and buildings	**(2,600)**	(2,135)
– Reversal of impairment losses on leasehold land	**(12,092)**	(10,766)
Changes in working capital	**317,351**	268,244
– Inventories	**(24,210)**	3,860
– Trade receivables	**(8,733)**	(2,016)
– Other receivables, deposits and prepayments	**(16,026)**	(6,700)
– Trade and bills payable	**(21,715)**	22,275
– Other payables and accrued charges	**2,577**	(13,133)
– Receipts in advance	**15,914**	19,807
– Retirement benefit obligations	**(94)**	624
Cash generated from operations	**265,064**	292,961

In the consolidated cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2007 HK$'000	2006 HK$'000
Net book amount (Note 14)	**416**	25
Gain on disposal of property, plant and equipment	**–**	690
Proceeds from disposal of property, plant and equipment	**416**	715

29. Commitments – Group

(a) Capital commitments in respect of acquisition of property, plant and equipment:

	2007 HK$'000	2006 HK$'000
Contracted but not provided for	**3,900**	14,485
Authorised but not contracted for	**71,153**	74,906
	75,053	89,391

The amount of capital commitments authorised but not contracted for represents the Group's estimated capital expenditure based on the annual budget approved by directors.

(b) Commitments under operating leases

As at 31st March 2007, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2007 HK$'000	2006 HK$'000
Land and buildings		
Within one year	**265,297**	248,811
In the second to fifth year inclusive	**255,862**	257,610
After the fifth year	**447**	524
	521,606	506,945

30. Related party transactions

Key management personnel compensation:

	2007 HK$'000	2006 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**26,359**	22,478
Retirement benefit costs	**1,480**	1,292
Share-based payment	**3,954**	2,483
Compensation for loss of office	**–**	108
	31,793	26,361

31. Principal subsidiaries

Particulars of the principal subsidiaries at 31st March 2007:

Name	Place of incorporation	Principal activities and place of operation (if different from place of incorporation)	Particulars of issued share capital/paid up share capital	Indirect interest held
Alibaster Management Limited	British Virgin Islands	Trading and retailing of cosmetic and skin care products in Taiwan	Ordinary US$6,880,000	100%
Base Sun Investment Limited	Hong Kong	Property holding	Ordinary HK$100 Deferred HK$2	100%
Cyber Colors Limited	British Virgin Islands	Holding of trademarks in Hong Kong	Ordinary US$1	100%
Docile Company Limited	British Virgin Islands	Holding of trademarks in Hong Kong	Ordinary US$2	100%
Gig Limited	Samoa	Holding of trademarks in Hong Kong	Ordinary US$1	100%
Hong Kong Sa Sa (M) Sdn. Bhd.	Malaysia	Trading and retailing of cosmetic and skin care products	Ordinary RM20,000,000	100%
Lea Limited	Samoa	Holding of trademarks in Hong Kong	Ordinary US$1	100%
Matford Trading Limited	Hong Kong	Property holding	Ordinary HK$100 Deferred HK$6	100%
Sa Sa Beauty Plus (Light Therapy) Company Limited	Hong Kong	Provision of beauty services	Ordinary HK$2	100%

31. Principal subsidiaries (continued)

Name	Place of incorporation	Principal activities and place of operation (if different from place of incorporation)	Particulars of issued share capital/paid up share capital	Indirect interest held
Sa Sa Cosmetic Company Limited	Hong Kong	Retailing and wholesaling of cosmetic and skin care products and the provision of beauty services	Ordinary HK$100 Deferred HK$2	100%
Sa Sa Cosmetic Co. (S) Pte Limited	Singapore	Trading and retailing of cosmetic and skin care products	Ordinary S$19,500,000	100%
Sa Sa dot Com Limited	Hong Kong	E-commerce	Ordinary HK$1,000,000	100%
Sa Sa Investment Limited	Hong Kong	Property holding	Ordinary HK$100 Deferred HK$2	100%
Sa Sa Property Limited	Hong Kong	Property holding	Ordinary HK$100	100%
Sa Sa Cosmetic (China) Company Limited (Note)	People's Republic of China	Trading and retailing of cosmetic and skin care products	HK$50,000,000	100%
Suisse Programme Limited	Gibraltar	Holding of trademarks in Hong Kong	Ordinary Gibraltar £100	100%
Vance Trading Limited	Hong Kong	Property holding	Ordinary HK$400,100 Deferred HK$1,600,000	100%

31. Principal subsidiaries (continued)

Name	Place of incorporation	Principal activities and place of operation (if different from place of incorporation)	Particulars of issued share capital/paid up share capital	Indirect interest held
Lisbeth Enterprises Limited	Hong Kong	Provision of beauty and health club services	Ordinary HK$120,000	100%
Phillip Wain International (Singapore) Pte Limited	Singapore	Provision of beauty and health club services	Ordinary S$100,000	100%
Phillip Wain (M) Sdn. Bhd	Malaysia	Provision of beauty and health club services	Ordinary RM300,000	100%
Phillip Wain (Thailand) Limited	Thailand	Provision of beauty and health club services	Ordinary Baht1,960,000 8.5% Preferred Baht160,000 5% Preferred Baht1,880,000	100%

Note:

Sa Sa Cosmetic (China) Company Limited is a wholly foreign owned enterprise for an operating period of 30 years up to 5th February 2035. As at 31st March 2007, its paid up capital was HK$50,000,000.